Final 5200 Project: What value advice? An investigation into the role played by Financial Advisers and written guides in the provision of pensions in the UK

A project submitted to Middlesex University in partial fulfilment of the requirements for the degree of Doctor of Professional Studies (The strategic development of financial planning)

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ABSTRACT

This report describes the learning journey that has taken place and concludes with the final research project. The final project investigates the role played by Financial Advisers and written guides in the provision of pensions in the UK. It also specifically addresses the question “Does advice add value?”

The UK Government is currently embarking on the biggest change to UK pensions in 30 years.

After completing a major simplification of the pension tax regime, the Government is now introducing significant changes to the state pension arrangements, this includes the introduction of "Personal Accounts" in 2012.

Whilst state pension benefits have never been generous, the UK has traditionally benefited from a robust private pension sector but, in recent years, there has been a steady switch out of defined benefit pension schemes and into defined contribution pension schemes, especially Group Personal Pension schemes (GPP).

The new "Personal Accounts” (PAs) will be defined contribution (Money Purchase) arrangements. All employers who do not offer their staff an ‘appropriate’ pension will be obliged to automatically enrol their staff into the new PAs.

This project examines a GPP where the employer was offering membership to all staff, on a basis that was at least comparable with PAs. The employer also promoted the scheme and was genuinely keen that their staff joined the GPP. Despite this, less than 30% of the staff has done so.

The purpose of the research was therefore to see what lessons can be learnt from this experience and to understand what value financial education and ‘advice’ can add. It also examined a number of other topical issues, such as generic advice and certain Retail Distribution Review proposals.

The case study project was carried out in the first half of 2007 and consisted of in-depth interviews and the 'testing' of a simple guide to financial planning subjects.

Analysis and evaluation of the project results has shown that advice can add value.

Key Words: Advice; Pensions; Planning; Trust; Value

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The views expressed in this paper are mine and mine alone and do not represent those of any organisation or individual listed. I have made every effort to quote external sources. Any errors or omissions are mine.

Finally, I dedicate this paper to my father. No one could have had a better friend or mentor in life.

Peter Williams
February 2008

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Glossary

Defined Benefit (Final Salary) pension schemes. These occupational pension schemes provide retirement benefits (pension and lump sum) based on formula, often linked to service and final salary at retirement. For example, an n/60th scheme would provide an employee, with 30 years service, with a pension of half of their final salary (30/60ths).

Defined Contribution (Money Purchase) pension schemes. The retirement benefits are dictated by the size of the retirement fund and what income (annuity) rate can be secured at retirement. The size of fund is determined by the contributions made, the investment performance and charges. These schemes can be either Occupation/Trust based or Contract based (such as GPP).

CAR (Customer Agreed Remuneration). Sometimes called **'factory gate pricing'**, CAR is where the client and adviser discuss and agree the amount of remuneration the adviser will get for the work to be undertaken. The actual remuneration could be paid as a fee or out of any contract using the mechanism of commission.

FPC (Financial Planning Certificate). Now called the Certificate in Financial Planning, this QCA Level 3 qualification is the minimum regulatory qualification for financial advisers.

GPP (Group Personal Pension scheme). Are Personal Pensions that are 'grouped' for administration purposes. GPPs can offer a lower administration burden to an employer and are therefore a very popular form of Defined Contribution arrangement.

ISA (Individual Savings Account). A tax efficient savings contact that can be invested in cash deposits and/or equities (shares) and bonds.

PA (Personal Accounts). Proposed new, Government driven, money purchase pension arrangements, to be funded by contributions from employers and employees. Employers will have to 'auto enrol' their staff into PAs unless the employer offers an appropriate alternative pension or the employee decides not to join. The self-employed will be given access to PAs. Due to start in 2012.

PHI (Permanent Health Insurance). Provides an income if you are unable to work due to illness.

PMI (Private Medical Insurance). Pays for private medical treatment when the state National Health Service (NHS) is unable to provide swift treatment.

PP (Personal Pension). A flexible, individual, Defined Contribution pension arrangement. Available to both to the self-employed and employed.

Stakeholder. A pension scheme that is similar to Personal Pensions but where the charges and features are tightly regulated.

SERPS (State Earnings Related Pension Scheme). A second tier of state pension for those employed. Funded by National Insurance (tax). Now replaced by S2P

S2P (State 'Second' Pension). Replacement for SERPS.

401(k). An American 'employer sponsored' Defined Contribution pension scheme.

List of abbreviations used

ABI. Association of British Insurers (the trade body for insurance companies).

AIFA. Association of Independent Financial Advisers (the trade body for IFAs).

CII. Chartered Insurance Institute. Largest professional body for insurance and financial services in the world.

DWP. Department for Work and Pensions. UK Government department responsible for pensions.

FOS. Financial Ombudsman Service.

FSA. Financial Services Authority. Main regulator of insurers and advisory firms.

FSSC. Financial Services Skills Council.

HMRC. Her Majesty's Revenue and Customs.

HMT. Her Majesty's Treasury.

IFA. Independent Financial Adviser.

IFAP. IFA Promotions. Company formed to promote the advantages of using an IFA.

IFP. Institute of Financial Planning.

IFS. Institute of Financial Services (now trades as the '*ifs* school of finance').

NAPF. National Association of Pension Funds.

NZRC. New Zealand Retirement Commission.

PFS. Personal Finance Society. Main professional body for financial advisers and planners. Part of the CII group.

QCA. Qualification & Curriculum Authority. Examination regulator.

About the Candidate

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Chartered Financial Planner, Chartered Marketer.

Peter is Head of Industry Development at AEGON UK. AEGON is one of the largest financial services companies in the world.

Peter is part of the UK corporate affairs team with direct responsibility for education and advice-related issues. He also contributes to pensions and distribution policy. He has 30 years experience in retail financial services and is the author of two books on retirement planning.

He is also an immediate past Vice President of the Personal Finance Society and is the current Chairman of the Chartered Insurance Institute's Examiners Committee (the CII is the 5th largest examination and awarding body in the UK).

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Chapter 1 - Introduction

1.1 Programme Context

This project is submitted as the final stage in my Professional Doctorate programme at Middlesex University.

The title of my project is:

What value advice? An investigation into the role played by Financial Advisers and written guides in the provision of pensions in the UK.

I have found Work Based Learning to be dynamic, challenging and highly relevant. Work Based Learning also must be flexible and be able to change as the external environment moves on. Whilst some Work Based Learning can be conducted in a relatively static or slowly evolving environment, financial services and especially Government pension policy is fast moving. This has meant that my project has had to be frequently revised to meet either external changes, such as the introduction of personal accounts (Pensions Act 2007. DWP 2007.) and the current FSA Review of Retail Distribution (DP 07/01, issued in the summer of 2007. FSA 2007), or project-specific changes such as the need to write an employee guide to financial planning that is more bespoke to the needs of the project's participants.
Throughout the last two years I have worked to ensure that the project remains relevant to all three of my external stakeholders – Middlesex University, AEGON UK and AIFA and true to its original intent.

It will be noted that I had deliberately based this final project on pension provision but this is still in alignment with the overall composition and focus of the programme.

In this introduction I will cover:

- Programme planning & rationale
- Research and project capability
- Level 5 (Doctorate Level) accreditation claim
- Level 5 Project – comprising this report and supporting appendices

1.2 DPS 4541 Programme Planning

This module proved to be beneficial as it required me to fully reflect on my learning to date and then to set down, in clear and precise terms, what I intend to achieve from my final project. It enabled me to bring together all my prior learning and experience and then apply it to the research project.

Background

The UK has a strong tradition of private pension provision co-existing with a state provided safety net so that the poorest pensioners are not below the "poverty line". The state has also developed an additional tier of benefit (currently called Second State Pension or S2P and previously termed "SERPS" – State Earnings Related Pension Scheme) that is available for employees to build up a higher retirement income.

The self-employed have always been outside the second tier and in consequence, they pay a reduced level of National Insurance.

Both the self-employed and employed are then encouraged, by generous tax relief, to top up their state pension entitlement with private pensions. Many large employers have established generous pension schemes for their employees and the majority of employees have been "contracted–out" of the second tier of state pensions with the National Insurance savings being redirected to the private scheme.

For the "average worker", currently 60% of their pension benefits are provided by the state (source DWP 2002), but since elected, this Government has a stated policy to reverse this ratio so that the private sector becomes the senior partner. Unfortunately, a number of major problems have affected this plan:

- The world stock market crash of 2001 badly affected Private Pensions in the UK as the typical large employer pension schemes had over 70% invested in Equities (source NAPF 2004). To better match investments and liabilities, this led to a shift from Equities to Bonds. Unfortunately, this switch took place before the Equity markets recovered and this created a negative impact on the schemes solvency.

- The Personal Pension mis-selling scandal badly tarnished the reputation of the Life Insurance sector, leading to a lack of confidence and unwillingness to save for retirement.
- Partly in response to this, the Government introduced Stakeholder Pensions as a charged capped alternative to Personal Pensions but the cap was generally too low to pay for reasonable marketing costs and sales of Stakeholder Pensions have been very poor (in response to this, in 2005, the Government increased the cap from 1% to 1.5% for the first 10 years).
- Greater life expectancy (source - Society of Actuaries 2006) has led to New Annuity tables which have increased the cost of securing retirement income.
- To ensure that pensioners are kept out of poverty, the Government has introduced a serious of measures, most of which have been on a means tested basis. These have tended to act as a discouragement to savings as private savings are offset when calculating state (means tested) entitlement.
- The average UK consumer has become addicted to spending and high levels of debt (source - Citizens Advice Bureau 2006).
- In response to all these issues, the Government appointed a Pensions Commission to consider how to tackle the pension crisis facing the UK.

There appears to be a correlation between the provision of advice and the retirement savings ratio. However, as demonstrated by the introduction of Stakeholder Pensions, the Government to date has been inclined to tackle the pension problem by addressing the supply curve rather than the demand curve.

My final project therefore examined what value advisers provide and what value a self-help guide could be in stimulating increased savings for retirement.

The elements of my programme

My programme consists of the following units:

- DPS 4520 - Review of learning

- RAL at Level 4 – Professional learning
- RAL at Level 4 – Research & Development capability
- DPS 4825 – Research & Development for professional practice
- DPS 4541 – Programme planning
- RAL at Level 5 (DPS 5160) – Advanced developments in professional practice
- DPS 5200 – A research project to analyse the value of advice (this report).

There are a total of four stakeholders for my programme:

- Middlesex University
- Steven Cameron on behalf of AEGON UK (my employer)
- Fay Goddard and Chris Cummings on behalf of the Association of Independent Financial Advisers (AIFA) and the general advisory community
- Me.

AEGON UK

Steven Cameron is an Actuary and Head of Business Development at AEGON Scottish Equitable (the insurance company within the AEGON UK group). AEGON Scottish Equitable predominately transacts business via Independent Financial Advisers. The Pension, Protection and Investment contracts produced by AEGON Scottish Equitable are often complex in design with flexibility being a key feature. Because of their sophistication, these plans are ideal for distribution via Independent Financial Advisers (IFAs) who largely deal with High Net Worth individuals who require the additional features offered.

Over the years these plans have progressively become more complex as they change to take advantage of new tax and regulatory opportunities. For this reason it is assumed that (with a few exceptions) these plans are only suited for delivery via advisers who can explain the features and benefits of these complex plans and match their clients requirements to the most appropriate plan. This approach is in sharp contrast to the Government’s drive towards “cheap and simple” stakeholder products. In theory, Stakeholder products are simple enough for consumers to buy with either little or no advice. By reducing the need for an adviser, a substantial cost saving is achieved as typically, an adviser adds between 50 and 100 base points to the distribution costs (100 base points equates to a 1% annual management charge (amc)). (Source ABI & AEGON UK – both 2005.)

According to the Government (DWP 2002) because Stakeholder is cheaper it is better suited to the mass market. However, the original Stakeholder Pension failed to achieve the expected sales volumes (less than 900,000 against the 4m target. Source ABI). Arguably, this was at least partly because of the restriction placed on the financial incentives paid to advisers to recommend Stakeholder and other plans. The reason why "other plans" were affected was because the regulator (Financial Services Authority) issued a Regulatory Update (RU 64), which stated that all advisers were in future to explain why a stakeholder plan was not suitable. As any assessment is somewhat subjective, it left the advisers open to claims of potential "mis-selling" if they recommended a plan other than a Stakeholder. However, the charges under Stakeholder were generally insufficient to allow for full remuneration of the advisers. The result was that advisers have ignored pensions for the mass market and concentrated on other areas of advice.

Following the Government decision to increase the Stakeholder charge and the depolarisation of the market (from 1st June 2005) the FSA consulted on a proposal to remove RU64 but, with the uncertainty created by the introduction of Personal Accounts in 2012, this has not occurred.

From the above it can be seen that there is an identifiable cost for advice, but does advice add any value to the consumer?

My final project therefore concentrated on assessing the value of advice – both written and face-to-face. It was anticipated that the outcome of this research could have an impact on the types of products manufactured by AEGON Scottish Equitable and the way that these products would be distributed in the future. As this research was also being made available to the wider market, it was also expected to influence other providers and distributors. In fact, in November 2007, copies of the research findings were sent to the FSA, HM Treasury, DWP, Thoresen Review, ABI, AIFA, CII, Which?, Axa and a number of MPs. In addition, a summary of the findings was placed on the AEGON UK website with a link to the full research findings. A number of articles have appeared subsequently in the trade press and a summary of the findings was published in *Financial Solutions* (the member magazine of the Personal Finance Society).

AIFA

Fay Goddard is the Deputy Director General of the Association of Independent Financial Advisers (AIFA). She is also specifically responsible for policy at the Association, including pension and advice issues. Prior to joining AIFA, Fay was a practicing IFA. As AIFA represents over 70% of all IFA firms trading in the UK, AIFA was particularly interested in this research project.

Chris Cummings is the Director General of AIFA and Fay's superior. Due to a potential conflict of interest, in 2006 I negotiated for Chris to be the AIFA stakeholder. Prior to taking over as Director General of AIFA, Chris was Director of the Association of Mortgage Intermediaries. Previous roles have included being the marketing director for a large insurer and a management consultant for PWC.

Although the question of advice is important for all my stakeholders (university, employer, trade (and professional) bodies) and myself, the most important group was the consumer. Does advice really help the consumer?

Both Steven Cameron (for AEGON) and Chris Cummings (for AIFA) have provided a testimonial in support of my work. These appear as Appendix 1.

1.3 DPS 4520 – Review of Learning

Reflection on my programme to date

In many ways, DPS 4520 was the most difficult module for me. This was my first introduction to the programme and despite the reflective components of the Certificate in Training Education (Cert T Ed) programme that I undertook at Leeds Metropolitan University, I still found it hard to dig deep into the experiences I have had.

DPS 4520 required me to examine my inner self. To understand what I had done, what I had achieved and why it was significant in my personal development.

Reflection, in my experience, is still underestimated and little used but as Morrison states (Morrison, "Developing reflective practice" 1996) it can be a powerful tool.

Through this reflective practice I was able to see how my journey of discovery had led to the point where I wanted to expand knowledge and give back to the market a tangible asset. My journey had been far from painless. Indeed the inspiration for my early work was borne out of fear and necessity. When in 1982 I had been seriously injured whilst with the Territorial Army, I had few options. Although my legs were saved, I was still expected to be a "cripple" and to cease a normal life.

If nothing else, my fighting spirit was engaged and from this hard awakening, my pursuit of knowledge and higher insurance qualification led to my success as a consultant and manager and eventually champion of self-help and education.

My increased knowledge, when applied, led to increased success. This in turn fuelled my pursuit of more knowledge and thus greater success and this spiralled into a routine that placed me at the top of my company's sales force. Yet without the ability to move locations, it also caused frustration, which was only pacified when I expanded out of the confines of my role. It was at this time that I embarked on my first industry research project. Successful completion of this dissertation saw my elevation to Fellowship of the Chartered Insurance Institute (FCII).

Recognition of my enthusiasm and drive for higher educational standards and enhanced learning, led to my subsequent appointment, as Scottish Equitable's first IFA Training Manager. From this platform I was able to branch out and take a leading position in the industry.

During my next phase of personal growth I developed a close relationship with our Regulator (Personal Investment Authority). This involved not only training their staff but also writing pension regulations for them (Regulatory Update 55). This subsequently led to me writing a book, "Planning for a Flexible Retirement", which became an industry best seller (with over 15,000 copies sold) and it was eventually rewritten as the examination textbook for a new (QCA Level 4) examination in this area.

During this period I had a number of career highs:

- I became the first and only non IFA Chairman of the Society of Financial Advisers (SOFA)
- This was followed by 3 years as Vice President of the CII.
- I became an external examiner for the Financial Services degree at Dundee Business School
- My team won every major IFA Training award and I personally achieved a National Training Award from the DfES.

These successes are demonstrations of the knowledge and skills that I had developed and that have been so beneficial to this programme.

Following six happy and successful years as IFA Training Manager, the wider talents that I had developed led to my promotion out of Scottish Equitable and into a policy role with our parent, AEGON UK. Since 2001, I have been Head of Industry Development at AEGON UK with direct responsibility for AEGON UK policy on educational and advice issues. I also contribute to our pensions and distribution policy development. Outside of AEGON UK, I hold a number of senior positions on committees and groups including being Deputy Chairman of the British Standards Institute's financial services committee and being a Director of the Personal Finance Society (and Vice President for 2006/7). I am also currently the interim Chairman of the CII's Examiners Committee, of which I have been Vice Chairman since 2005 (The CII's Nomination & Remuneration Committee will shortly be inviting applications for the post.)

Looking back, DPS 4520 showed me how all these varied and diverse activities and experiences were actually all leading to a greater understanding of my market and profession and instilled in me a longing to help shape the future.

In December 1982, my priorities had been twofold, a) to walk again, b) to be able to provide for my young family. At that time I did not foresee that the pursuit of knowledge and understanding would lead to professional success or the undertaking of a doctorate. Yet looking back, the steps from one phase of my development to another now seems like a pre-ordained path.

1.4 RAL at Level 4 – Professional Learning

When I was appointed IFA Training Manager I had little formal "teacher training" and only an elementary grasp of how individuals learn. Yet I realised that to succeed in the job and to add real value to my firm and the IFAs we supported, I would need to build a sound understanding of learning.

The Certificate of Training Education (Cert T Ed) that I completed provided a firm academic basis but it was the experimental learning that it fostered in me that had the most profound effect on myself, as a person and trainer, and ultimately on the IFA (and wider) community that I served. Two striking examples of the experimental learning were an exotic pension course that I ran for the regulator and the workbook "Planning for a Flexible Retirement" that I wrote in support of Regulatory Update 55.

Not only did this professional learning have an impact at the time, but also the knowledge and skills that I had acquired proved to be especially useful when I came to undertake the DPS 5200 project. The research project required me to understand how people learnt, how various ways and styles of communicating could produce different results, and how this could be applied to both physical and written guidance. The success of the research project was thus dependent on the level of knowledge I had already acquired from the Cert T Ed and experimental learning.

1.5 RAL at Level 4 – Research & Development Capability

For the research aspect of this DProf, my prior knowledge and experience of research and development was paramount. I was fortunate in that I had completed a postgraduate Diploma in Marketing back in the late 1970s. In 1993 I also took a Market Research module at Sheffield Hallam University. This further strengthened my understanding of research methodologies. This foundation of knowledge was immensely valuable when I came to undertake my dissertation for my FCII (Fellowship of the Chartered Insurance Institute). Yet my FCII claim for Research and Development capability was not only about the pure academic knowledge that I had gained but also how I had applied the Research and Development knowledge and skills.

When selecting my Fellowship dissertation project, I had deliberately chosen a topic that would take me beyond the confines of my own daily experience. I wanted to look outside my limited horizons and explore the macro rather than micro issues. My dissertation examined the distribution strategies adopted in the UK and compared them to continental Europe.

Looking back, it is remarkable that I took the decision to stretch myself beyond the safety of my immediate role. Here I was examining issues on a national and international basis, but the experience that this gave me was both enjoyable at the time and beneficial to my work for the DProf.

1.6 DPS 4825 Research & Development for Professional Practice

In comparison to the above, DPS 4825 allowed me to examine the research methodologies in greater detail. My previous research knowledge had been largely commercial in focus but taking DPS 4825 opened up the world of education research.

The module also introduced me to new methodologies (such as Phenomenology), which previously I had not considered, but perhaps the greatest benefit was the appreciation that size is no substitute for quality and small-scale projects can produce worthwhile results.

DPS 4825 provided me with the tools to undertake DPS 5200.

1.7 RAL for Advanced Development in Professional Practice (160 credits at Level 5, DPS 5160)

To meet the necessary criteria for a RAL claim of 160 credits at Level 5, I had to demonstrate that I had produced work and original thinking that had advanced the interests of my organisation, my profession or the wider community. I also had to demonstrate how this previous work linked with the proposed project and how the two together would enhance original learning and understanding in my field.

My claim met these criteria; indeed I was able to demonstrate that I had had a significant impact on all three audiences (AEGON UK, my profession and the wider community). Three key projects were used to illustrate the work that I had completed and the original thinking that this had entailed.

The first project showed how I shaped the market by providing guidance and support to the then market's regulator, the Personal Investment Authority (PIA). This led to me writing the "rules" for a new area of advice centred on a particular contract (Drawdown). In addition I also wrote the distance learning material that became a compulsory text for those training or engaged in this area. This eventually developed into an examination, set at the level of an honours degree module and I chaired the syllabus development group that created the examination. The impact of this was that greater consumer protection ensued, the profession was safeguarded from another mis-selling scandal and my organisation (Scottish Equitable) was able to profitably transact business in this new area. Indeed Scottish Equitable captured a 40% market share and I was seen as the leading Drawdown 'expert'.

The second project showed how I was able to further international standards so that high quality financial advice and planning would be available across the globe on a universal basis. This new International Standard (ISO 22222) is now complete and I have subsequently chaired the BSi committee set up to develop specific UK guidance on how to assess and accredit the ISO. This guidance was published in November 2007 and it is anticipated that the first ISO Financial Planners in the UK, will be accredited in the spring of 2008.

The Consumers Association (Which?) has already stated their intention to support the new standard and to encourage all consumers to seek out appropriately ISO qualified advisers and planners.

The final project that I reviewed was my work in developing a (graduate) career path for new entrants into the profession. The "Pathways" programme has now been launched; although the work goes on to increase its scope and penetration into the market.

Of these three projects, the first one on Drawdown formed the main part of my submission. Here my work could be directly measured and the impact has been, and continues to be, enormous. However, the two other projects (from several that I could have chosen) went on to demonstrate how far-reaching my work has been and continues to be for the market. Ultimately these will also have positive effects for my organisation, my profession and the wider community (i.e. the consumer). In many ways, the last (the consumer), is the most important.

1.8 Consumer Focus

This focus on the consumer was always one of the reasons for wanting to explore the value of advice. For years the financial services industry has stated that "advice adds value" but there was little evidence provided to support this assertion. Yet providing advice adds a significant cost which the consumer ultimately bears.

In the same measure it is often said that "pensions (and other financial products) are sold and not bought". Ignoring compulsory purchases, where the consumer has no choice as to whether they purchase or not, there is a well-held belief that consumers will not voluntarily purchase financial products even when they are aware of the benefits. They often need guidance or encouragement to buy. I had personal experience of this when I was an insurance inspector in the 1980s. Many individuals took out a mortgage but then had to be 'persuaded' to buy life insurance to safeguard their family and their home.

When reflecting on the experiences that I have had and the personal and professional development that I have undertaken, it is easy to see the final DPS 5200 project as a natural progression of this work. However, it is also true that my unique background, knowledge and experience is the reason why the project has been possible. To fully understand and interpret the 'value of advice', you need to have been an adviser.

As a researcher I also needed to build trust and empathy with the interviewees and then go on, to join together all of the new knowledge and understanding into a conclusion that could be converted into guidance and action points. This analysis of the data and interpretation of its meaning was central to the project. The DPS 5200 project would have failed without the 30 years of experience, knowledge and understanding that I brought to the research.

1.9 Why Concentrate on Pension Advice?

There were two reasons for this concentration. Firstly, the most pressing issue for the nation (and therefore, the Government) is the appallingly low levels of pension provision – both state and private.

A few years ago the UK had an enviable reputation for the quality and quantity of its non-state pensions. Whilst the UK has not had a generous state pension regime, this was largely counteracted by a strong private sector. The UK pension position has progressively worsened and by the end of the 20^{th} century, it became increasingly apparent that action needed to be taken.

In the 1980s, private pension provision was dominated by Defined Benefit schemes (sometimes called Final Salary). Today these are largely confined to the public sector and those final salary schemes that still exist in the private sector are largely closed to new entrants.

The reasons for the demise of private pension schemes are numerous and include: less favourable Advanced Corporation Tax (ACT) treatment, which costs the pension funds £5Bn p.a.; increased regulation; a desire to have 'cost certainty' on the company balance sheet; and a prolonged period of poor equity returns (when schemes were largely invested in equities) followed by significant increases in longevity (and thus the cost of annuitisation).

A number of influential reports were published around this time and by 2002 the Government was recognising the need for change.

The continued decline of private provision, especially the discontinuation of Defined Benefit schemes, and the replacement with less generous defined contribution (sometimes referred to as Money Purchase) schemes and the continual erosion of the value of state pensions led the government to appoint a special pensions commission under Adair (now Lord) Turner.

Turner was an acknowledged investment specialist (although not a pensions expert) and former Director General of the CBI (Confederation of British Industry). Turner was assisted by Professor John Hills of the London School of Economics and Jeannie Drake, Deputy Director General of the Communication Workers Union.

In their first report (*Pensions Commission: Challenges and Choices*, 2004) the Pension Commission concluded that the previous estimate (£27 billion) of the pension 'shortfall' facing the UK was too low. They suggested that the true figures could be as high as £57 billion. They went on to say that unless government policy changed, over 50% of current pensioners would be eligible for some form of means-tested benefits within the next 15 years and this would increase to 80% in the next 40 years. There was therefore a pressing need to take action.

It is perhaps significant that the Pension Commission reported in two stages. Stage 1 was a background report. This report provided an excellent 316-page analysis of the pension problems that the UK faced. The report stated that the options available would be limited to:

- Increasing the retirement age (the current state retirement age is 65, but with increasing life expectancy this is too low)
- Increase savings (this is where advice could play a part)
- Make pension savings compulsory (which in fact they already are for most of us as we already pay National Insurance, which is supposed to provide health and retirement benefits but in reality, the scheme is run on a "pay as you go" basis)
- Acceptance of pensioner poverty
- A combination of the above.

Clearly none of the above alternatives was a vote winner, hence perhaps the political relief (from all parties) when it was announced that the second report would not be published until after the next election.

The second report (*A New Settlement for the Twenty-first Century.* Pensions Commission 2005) was finally published in November 2005. This second report recommended the action that we (both individuals and state) would need to take.

The issues facing "retirement planning" are not confined to just building up pension funds. Although the single major failing of individual pensions was the lack of (or lack of enough) pension savings, those at retirement also need to take advantage of the best annuity rates (or alternative income options) available at retirement. This requires individuals to shop around for the best rate or most appropriate option – yet few do. When you consider that up to 40% of retirees are eligible for some form of uplifted annuity rate (for example, on grounds of poor health) and even the average retiree could gain up to a 10-15% increase in income by selecting the top annuity rate, it is easy to see why this is a critical issue. Here again advice – or better guidance (possibly offered by a book), could play an important part in improving retiree's incomes in retirement. But how important or helpful would advice be in this area? And would a simple guide (book)[1] be helpful and what should it cover?

These challenging questions formed the basis of my initial reflections on the project aims and objectives. Yet clearly, the number of questions that could be investigated within the proposed project were vast, especially as I had originally considered looking at the design of retirement options. This would have continued the work I started when I wrote Regulatory Update 55 for the PIA (Personal Investment Authority – forerunner of the FSA) and the guidance I gave in my two books "Planning for a Flexible Retirement" and the examination textbook for "K10: Retirement Options". However, I decided against this for two reasons:

[1] The Government and Regulator are currently placing great faith in consumer education being a means to persuade individuals to save more. They hope that greater understanding of pensions and the need to save (or the need to shop around for the best terms) will go a long way to satisfying the savings gap. This hope is as yet unproven. However, this did also provide the project with the opportunity to develop and test a user-friendly guide.

1. The wider scope would have created a project that was significantly beyond the 200 credit rating required.
2. Through successful lobbying (some of which I have conducted) the Government has already moved some way along the lines of improving retirement flexibility. With an 18-month research horizon, it was always possible that events such as Government policy would leapfrog the research.

But why be interested in proving – or disproving that advice has any value? There were a number of reasons for this.

- By understanding the value of "advice", it would be possible to lobby Government and the regulator to create a supportive environment. However, if the research demonstrates that there is in fact little or no value provided by advisers (or by self-help guide books) then this in itself will then allow the Government and regulator to concentrate their resources in other directions. In either case, the consumer would benefit as resources would, in future, be correctly targeted (although I recognised that the small scale of my project meant that at best, it might only provide a good indication of the value of advice and where further research should be concentrated).
- The consumer groups would be able to point "Joe Public" towards appropriate sources of information, guidance and/or advice.
- In turn this would put pressure on manufacturers and distributors to change their business models to increase pension take-up.
- Finally, the professional and educational bodies would be able to better target their resources. For universities, this could see a shift in the provision of Financial Service and Business Studies courses to meet the required demand.

Obviously both AEGON UK and AIFA would benefit from the above knowledge, as an understanding of the value of advice would impact on the long-term planning of AEGON's business model, whilst AIFA would be able to use the information to help their members to develop their future strategy in a profitable way. The profession (CII and PFS) would also be able to align their own resources.

At the outset of the project there were already a number of issues facing the market, which could have implications for the research project. By far the most significant was depolarisation.

1.10 Depolarisation and the Retail Distribution Review

‘Polarisation’ was created as a result of Professor Gower’s report on the investment market which led to the Financial Services Act 1986. In simple terms, advisers were polarised into either Independent Financial Advisers (IFA) who acted as agents for their clients or Tied Advisers who were agents (usually employees) of an insurer. Whilst IFAs could (and do) choose the best products from across the market, tied agents are restricted to the product of their host insurer.

Despite the relative success of the IFA distribution channel over the last 20 years, the FSA decided that the overall market was not working efficiently. This was partly due to the massive reduction in tied advice available as many direct sales-forces and industrial life office agencies were closed. This created an increasingly large ‘class’ of consumer who had no contact with the financial services market as the IFA channel had been unable (and to some degree unwilling) to service these orphan clients.

At the end of 2004, polarisation ceased with a six months transitional widow applying and since 1st June 2005, the market has been “depolarised”. There is no longer a clear distinction between tied (to one provider) or independent (of any insurer and able to place business anywhere in the market). We now have a range of advisers. IFA, Whole of Market, Multi-tied, and Tied, plus an unlimited combination is possible. In addition, a “limited range” adviser was introduced. This latter group included “Basic Advisers” who would only be able to “advise” on Stakeholder products. Advice was perhaps too strong a term as this group requires less formal training and are restricted to using a script that they cannot deviate from (for information, I wrote the first script that the Financial Services Authority tested). The aim was that simple products with simple guidance could help to dramatically reduce the savings gap in a cost-effective way.

Before selecting my project, I had considered a number of alternatives, one of which could have been to identify if one form of adviser (say a fully qualified adviser) offered better value than another category of adviser (say Basic Adviser). However, I decided that until an understanding of the value of advice is known, it was difficult to see how this distinction (based on qualifications, experience and knowledge) would significantly move the debate forward. In addition the Basic Advice route was then untested in the real world, although the FSA had conducted a series of research exercises as they developed the basic advice proposition. In fact, few firms adopted Basic Advice. In 2005 *Money Marketing* reported that only three banks and one IFA firm said that they would offer Basic Advice and although one Friendly Society subsequently adopted this approach for all its regulated sales, the Basic Advice concept has never taken off.

There are a number of possible reasons for the failure of Basic Advice but key amongst these was the perceived over regulation of the Basic Advice process. This added to costs.

As part of a new Review of Retail Distribution (FSA Discussion Paper 07/1 June 2007) the FSA are now proposing a further change to the types of advisers. In future there could be four types of adviser, three of which would be regulated advisers.

- Generic Advisers - who will only give unregulated guidance (that will include pointing consumers to the appropriate type of regulated product or adviser to use)
- Primary Adviser – who will offer a restricted range of products but will be required to hold qualifications at the current minimum level for regulated advisers (IFAs, Multi-Tied and Tied). This could be seen as a revised form of Basic Advice
- General Financial Adviser – who could be required to be qualified at Diploma level (QCA Level 4)
- Professional Financial Planners – who could be required to be qualified to Chartered Financial Planner level (QCA Level 6).

Another consequence of depolarisation was that all IFAs had to give their clients the option of payment by fees. The impact of this change would also take some time to come through. I therefore concluded that until the market settles down and a pattern of status (Tied, Multi-Tied, Independent) was established, it would be difficult to complete research on the types of adviser (postscript, in fact almost no IFAs have moved over to a multi-tied environment, December 2007).

In the same vein, there would be some merit in examining whether advisers with high professional qualifications provide better advice than those with only the benchmark qualification. All advisers, operating without supervision, are required to hold the CII's Financial Planning Certificate or its equivalent. This is a (QCA) Level 3 qualification equivalent to 2 A Levels. However, many advisers voluntarily go on to do Advanced Financial Planning papers (AFPC[2], QCA Level 4). To do justice to this question, I would have needed to use a large sample size measured across all levels of adviser, in all regions and all age and gender groups. This would represent too large a project.

1.11 Project Development

The following section describes the project development, from original thinking and initial Board approval, through to the amended proposal and the eventual research.

Whilst the research project undertaken maintained the key aims of the original proposal, the final research concentrated on one employer who offered a contributory pension scheme. This change, from two employers to one, was necessary as it proved impossible to secure the co-operation of two similar employers. However, the end result was still a worthwhile project that met all the Level 5 descriptors and, more importantly, answered a number of important topical questions and provided clear evidence that advice does have a value.

The employer chosen for the project displayed a genuine interest in their employees and the employee benefits that they should provide for them. Whilst this was partly driven by commercial factors (the need to match or better the terms of employment offered by competitors), their participation in the scheme demonstrated their wider social commitment.

[2] The AFPC was replaced at the end of 2006 with the Diploma in Financial Planning (QCA Level 4) and Advanced Diploma in Financial Planning (QCA Level 6). The FSA's Review of Retail Distribution (DP 07/01, June 2007) is proposing new categories of adviser which will require most advisers to 'upskill' to the Diploma with some going on to the Advanced Diploma and Chartered status.

Despite the employer's enthusiasm for pensions and other staff benefits, the pension scheme's participation rate was very low. Significantly, the pension scheme had been established by an IFA and whilst the IFA was "available" it was unclear how much contact they had with the staff or what the effect was of that contact, if any.

The research project consisted of interviews with both members and non-members of the pension scheme. A simple 'self-help' guide was then developed and tested on the non-joiners. This process enabled the research to fulfil the original aims and objectives.

Context of the Research

In 2005 I had originally considered conducting a large project that would have consisted of two phases and four parts. Not only would this have included sampling a significant number of individuals, by both questionnaire and by interview, it would also have involved a substantial case study and experiment.

Not only was this proposal a little cumbersome, it was also over ambitious. Having reflected on the feedback that I had received, I developed a more streamlined proposal that was:

- More manageable
- Provides a robust outcome
- Is beneficial to all my stakeholders
- Satisfies the Panel's requirements.

The project focused on the value of advice.

1.12 What is Value?

A key issue for the project was "what is value and how will it be measured?". There was not (nor is there today) a simple answer to this question as "value" has numerous definitions. Even dictionaries list a variety of alternatives. For example, *Collins Dictionary and Thesaurus* gives twelve definitions, three of which were potentially useful in establishing the scope of my research:

- The desirability of a thing, often in respect of some property such as usefulness or exchangeability
- An amount, especially a material or monetary one, considered to be a fair exchange in return for a thing
- To assess or estimate the worth, merit or desirability.

(McLeod (Collins) 1989)

Whilst useful, these definitions did not go far enough in establishing either the meaning of 'value' or the method of evaluation but they did point to the variety of "values" that exist.

In marketing, the value of a product is the relationship between the customers' expectations of the product or service and the price paid. However, "expectation" can be a poor yardstick as a customer's expectation may bear little resemblance to the cost of producing the product or service. Thus a manufacturer will endeavour to create an image for his product that exceeds the basic cost and thus generates substantial profit, hence the drive for a strong brand image. IBM desktop computers were produced in the Far East by a factory that supplies their "own brand" at a fraction of the price but IBM were still able to trade due to their strong brand image.

Through the ages, economists from Adam Smith (Smith 1776) to Karl Marx (Marx 1867) have attempted to define value and John Ruskin went as far as to link value with morality (Ruskin 1860).

A general economic definition would be to say how much a product or service is worth in relationship to other things – although this is usually a monetary measurement.

Mathematics and Law also have their own definitions of value but for the purposes of this research, I used the concept of value defined by the Institute of Value Management (IVM). According to the IVM:

"The concept of value relies on the relationship between satisfaction of many differing needs and the resources used in doing so. The fewer the resources used or the greater the satisfaction of needs, the greater the value. Stakeholders, internal and external customers may all hold differing views of what represents value. The aim of Value Management is to reconcile these differences and enable an organisation to achieve the greatest progress towards its stated goals with the use of minimum resources.

It is important to realise that Value may be improved by increasing the satisfaction of need even if the resources used in doing so increase, provided that the satisfaction of need increases more than the increase in the use of resources" (IVM 2005).

Taking the above definition, it was possible to substitute the "customer" with "contact" and the "organisation" with the "consumer". Thus in establishing the value provided by an adviser, it is necessary to measure not only in monetary terms (either real gain or restriction of loss) but to also measure the consumers' satisfaction.

So it can be said that an IFA adds value either by increasing the monetary worth of the consumer and/or by giving the consumer satisfaction and peace of mind. This latter point is particularly important if previous American studies are replicated here. During the dot.com boom in the USA in the late 1990s, many financial service companies invested millions of dollars in establishing online financial planning tools and trading operations. These allowed the consumer to complete his or her own financial plan including online investment. Whilst the initial take up of the facility was high, it was found that only 12% of consumers who went through all stages of the planning actually ended up investing. Subsequent research showed that the majority of consumers were unwilling to commit to the investments without the added "support" of a financial planner (adviser) (Diversified Investment Advisors. 2001). Consumers were uncomfortable with depending on their own decisions when investing in intangible products that were costly and were unlikely to pay out for many years. The one exception to this was straight Life Insurance (called Term Insurance in the UK), which only paid out a Lump Sum on death. Financial Planners were providing "peace of mind" and reassurance.

My research therefore had to ensure that these "soft factors" were considered, measured and recorded. This also meant that I had also to tackle what constitutes "advice". Was it only (targeted) information or did it include persuasion and if so what is meant by persuasion? These days, advisers operate in an environment that discourages "hard selling" techniques, but where is the line drawn? It is often said that pensions are sold and not bought yet what motivated consumers to buy? Providing (emotional) support is a huge step beyond providing mere facts and information. For some consumers, there may be a need to be "guided" ("many people in your situation would…") but for others, this could be a step too far. This also leads onto how to measure the success of the advice. The regulatory framework would also have to be considered as it is easy to 'drift' out of unregulated 'guidance' into advice.

This issue was brought into stark contrast in July 2007 when a High Court judge, Mr Justice Henderson, ruled that a broker consultant had incorrectly given advice when answering "if you were me, what would you do?". This ruling was despite the fact that the IFA was present at the meeting and assumed full responsibility for the advice given to Mr Walker. ('Michael Walker v Inter Alliance and Scottish Equitable', High Court, 31st July 2007) *Financial Times* 1/8/07 (Financial Times 2007).

For the case study, I decided that I would compare the value of face-to-face contact with no contact. I would also write a consumer guidebook which would aim to fill some of the 'advice gap' and endeavour to provide trust, confidence and peace of mind.

1.13 Evaluation Methods

The original project proposal approved by the Board consisted of a two-phase project:

Phase 1

- Desk research

Phase 2

- Case Study
- Action Research on a draft guidebook.

Phase 1 – Desk Research

There already existed a wealth of research material that had been published by a wide range of organisations. However, to date, these research projects had been focused on fairly narrow issues and little attempt had been made to bring together the various strands.

I had already started to carry out a full literature research, which was then ongoing (in line with market developments). I sought access to various unpublished reports (and their methodologies) to gain a greater insight into these areas. My position as Head of Industry Development at AEGON UK, together with my position as a Director of the Personal Finance Society and Chairman of the CII's Examiners Committee placed me in an enviable situation where I was able to gain wide access to material.

The purpose of this phase was to clearly establish what is already known about consumers' attitudes to financial services, the savings gap and advice. It was intended that this background research would then enable me to design and implement my own primary research. Desk research was also required for both of the sub projects – face-to-face advice and the guidebook.

Phase 2

Case Study – Face-to-Face Advice

To establish if the advice given by an adviser (IFA) adds value to the consumer, I initially intended to compare two similar Group Stakeholder or Group Personal Pension Schemes, one where advice was provided by an IFA to the workforce and the other where no advice was given.

This would allow me to compare the different participation levels of each scheme and the level of any additional contributions paid and this would be followed by interviews with a sample of the scheme members.

For those members who receive face-to-face advice, I intended to concentrate on the benefits that they received from the advice. This would include both any monetary advantages arising from the advice and any other benefits such as "peace of mind". In particular, I hoped to answer the question as to whether having face-to-face advice makes consumers feel more relaxed and confident about pensions planning.

For the other group, I intended to test the benefits of the guidebook (see below).

Action Research - a consumer guidebook

Based on the desk research and my own experience (the advantage of work-based learning) I would then write a user-friendly pensions guide for the consumer. This would aim to provide clear information and "advice" with the intention of:

a) Educating the consumer
b) Motivating them to take action.

The guide would be piloted through the second Group Pension Scheme (see above) and its impact would be measured via interviews and actual increases in activity (savings via the Pension Scheme or elsewhere).

For both schemes, I intended to interview ten to twenty members, although the actual size of the sample would depend on the size of the schemes and the willingness of individuals to participate (the average size of Group Pension Scheme administered by Scottish Equitable is less than 40 – (Source: Scottish Equitable, 2005)).

Access to the schemes would be dependent on the support of a friendly IFA firm that has a large exposure to the Group Pension market. As virtually 100% of small to medium-size employers rely on advisers (principally IFAs) for their Pension Scheme, this was the most logical route (Source: ABI 2004). Ideally, I would use Origen, a national IFA firm that is part of the AEGON UK Group. An alternative option was to use a local Yorkshire IFA firm (I had contacts with several).

Finally, I anticipated that the use of case study, interviews and action research would also provide valuable triangulation**.**

1.14 Research Context Background

The Financial Services market is continually changing and evolving. Government strategy, supported by regulatory intervention has been designed to stimulate savings and arguably, the depolarisation of the market and introduction of Stakeholder products are an indication of this. Financial literacy and capability is also high on the agenda and the national curriculum has now been extended to introduce these into schools.

Yet there is some recognition that education is a long-term solution and in the short term, "advice" will be necessary to encourage (persuade?) individuals to save more and to take greater responsibility, especially for their own retirement provision.

Against this is a concern that advisers are too expensive (Turner, June 2005) and that the average consumer, with simple needs, should be able to access a low-cost alternative. The new Stakeholder products, together with Basic Advice were attempts to solve this problem. But the Basic Advisers have not been required to hold formal qualifications and their training has been centred on the need to follow a set script. The regulatory regime imposed on Basic Advice was also relatively severe. By 2006 it was clear that Basic Advice had failed to achieve its objectives and further action would be required[3].

Increasingly, there was recognition that something below regulated advice would be needed to guide individuals to either self-help or towards an appropriate adviser or provider. This led the then Secretary to the Treasury to announce the creation of a taskforce to examine how (note it is 'how' not 'if') to set up a generic advice service. AEGON UK has played a significant role in raising awareness of this issue and therefore it was gratifying that the CEO of AEGON UK was asked to lead the taskforce.

The FSA's Review of Retail Distribution is also extending the Basic Advice concept by suggesting that a new category of adviser, 'Primary Advisers' is introduced. It is proposed that Primary Advisers will be FPC qualified but that they will be restricted to a range of 'simple products'.

In response to the need for greater financial capability and support, the FSA, in conjunction with the BBC, introduced a financial health check

[3] I would also argue that charges should not be the driving factor if they are funding advice and advice adds value. In the AEGON response to the Pension Regulator's Consultation Paper on DC Risks, we demonstrate that charges are less significant than other issues. Pages 12 and 15 of the AEGON response is attached as Appendix 8.

(www.moneymadeclear.fsa.gov.uk). At the beginning of my project, the DWP also started to develop a self-help computer-based tool but this was subsequently shelved.

Whilst all of these initiatives (which have been introduced whilst my project was being developed) were welcome, they did little to remove the fact that advisers are “expensive” because they require high levels of training and support. Even at the lowest level of unsupervised investment advice, advisers are required to hold a minimum of the Financial Planning Certificate (FPC), which is a QCA Level 3 qualification. Many advisers go on to take higher qualifications and the greatest influx of new entrants is now graduates (Financial Adviser, May 2005). In addition to the examinations, the advisers need to have many months of experience (typically 18) before they are deemed competent and even then are subject to a stringent CPD requirement. All of these training and competence requirements costs money and are reflected in the costs of advice.

Would initiatives such as the FSA/BBC financial health check or generic advice be enough on their own to stimulate savings or would advice still be needed and if so, what is the value of ‘advice’?

Whilst the costs of advice are readily identified there has been little research on the value that advisers provide. One notable exception is the regular research conducted for IFA Promotions (IFAP) but it was only during Phase 2 of my project that other UK research became available. One of the most interesting has been research conducted by another major insurer, AXA. They commissioned a year-long research project that measured the benefits that an IFA could give to a sample group. I refer to this ‘AXA Avenue’ research in the literature review.

The second major source of new research has originated from the Resolution Foundation who have now produced a series of reports (some of which I have been involved in).

As the Government, regulator and others have continued to commission research in specific areas, my literature research continued throughout the second phase and at the outset of the project, I realised that such research would lead to modifications of my research proposals, in the light of the outcomes of such work.

1.15 Who Would Be Affected By My Research?

The number of interested parties included:

- Government (HM Treasury, DWP – Department for Work & Pensions)
- Regulators (FSA, The Pension Regulator – previously known as OPRA)
- Industry – Manufacturers of financial products (ABI - Association of British Insurers) and the Distributors (ABI, AIFA)
- My own employer (AEGON UK / AEGON Scottish Equitable)
- Professional bodies (including the PFS, CII, Securities & Investments Institute, Institute of Financial Services and Institute of Financial Planning)
- Education and Examination Groups (FSSC – Financial Services Skills Council, universities, schools)
- Consumer Groups (FSA Consumer Panel, Which?, Citizens Advice, etc)
- Press
- Consumers.

Of these, the most important was (and remains) the CONSUMER. The consumer was central to my project and was the focus of the research and outcomes.

1.16 My Position As Researcher

On reflecting on my position as a researcher, I found that I was extremely well placed to undertake this project. Firstly, my background and experience meant that I had an understanding of the key issues and how, when and why advice could have an impact. Secondly, the issues under investigation are related to policy and as Head of Industry Development at AEGON UK, my role is ‘policy’. Not only is this in relation to establishing our own corporate policy position but also to influence the wider policy arena so that a robust and commercially attractive environment exists.

The project was also relevant to my professional activities and interests. I am a former Chairman of SOFA, a former Vice President of the CII, a former Director of the LIA and during the research phase, I was a Vice President of the Personal Finance Society[4] and Chairman of the CII's Examination Committee. As a Chartered Financial Planner and Fellow of both the CII and PFS, I am bound (and proud to be bound) by a strict professional code of conduct. I am steeped in the high standards necessary to safeguard the consumer whilst promoting the profession.

In short, because of my flexible and wide-ranging role (and previous advisory experience) I was ideally suited to carry out this work.

1.17 Methodology

In both DPS 4825 and the second phase of my diary, I had explored the various research methodologies available. Having set my aims and objectives, I was able to select the most appropriate methods of data collection.

For my project I intended to use a combination of three research methods:

- Interviews
- Case Study
- Action Research.

The methodology and research processes used are covered in Chapter 3.

Constraints on the research

- **Time**

  By the time I started preparing for my DPS 5200 project. I had already discovered that undertaking the doctorate was not a part-time activity!

[4] The PFS was formed by a merger of the LIA and SOFA. I am the only person to have served on the Board of all three bodies.

The literature search on its own could have taken years and potentially was never ending; however, by focusing on my aims and objectives, I expected to complete the project in the allocated time (which at the time was expected to be October 2005 to October 2006). This would, however, require early success in securing the sample schemes and having a disciplined approach.

- **Costs**

  I did not have an unlimited budget for this project but my employer was willing to provide business support and I had hoped to access the two Pension Schemes via AEGON UK connections.

  I intended to produce the guidebooks using desk-top publishing and therefore the costs would be low.

  Additional costs would be travel, the purchase of some reports (although I expected most reports to be provided without charge and I intended to make extensive use of the libraries at the CII and Middlesex University). I estimated the entire project would cost £5,000, excluding the cost of my time.

  In the end, the research came in under the monetary budget, although the project took far longer than I originally planned.

- **Distance**

  Partly due to cost constraints but more specifically due to the need for "hands on" involvement and the time restrictions, I hoped to arrange for all the Interviews, Case Study and Action Research to be undertaken in my home county, Yorkshire. In reality, all the work was undertaken in London as will be explained later.

- **Commercial concerns**

  Although I was undertaking this research in a professional (Chartered Financial Planner) capacity, I knew that there were still commercial implications and that this could cause some anxiety. However, AEGON UK had accepted that this project was for the benefit of the entire market and that it would be published as such. I expected that this approach would allay fears.

1.18 Ethical Issues

Ethical considerations were crucially important for this project. I recognised that I needed to treat each stakeholder and respondent with respect. All information received had to be kept confidential. I also needed to be sympathetic to the beliefs of the various respondents. In particular, I needed to be sensitive to any issues that they had.

I also needed to ensure that I did not prejudge outcomes and that my research was fair and unbiased. I understood that all commercial advantages had to be neutralised so that the work would be seen as being for the benefit of all the stakeholders. At all times I needed to act, and I did act, in a respectful and dignified manner.

Throughout the project, I intended to follow (and I did follow) the British Psychological Society's principle that "the investigation should be considered from the standpoint of all participants". However, as the consumer was less likely to be familiar with research projects, I did take particular care with this group. I am fortunate in that I work for an organisation that places the customer first. Within Corporate Development (Lobby Group) at AEGON UK, I am responsible for all educational and, ethical issues of policy.

I was also guided by the Code of Ethics and Conduct that applies to all Chartered Financial Planners and members of the CII (including the PFS). In summary, the Code encourages the highest professional and ethical standards in insurance and financial services worldwide.

The Code gives a set of key values that must be followed and then specifically lists the duties of members in relation to the following five headings:

– Relations with customers
– Relations in employment
– Relations with Regulators and the Law

- Relations with the community and the public
- Relations with the CII.

The key values include behaving with responsibility and integrity and upholding professional standards. It is also hardly surprising that the Customer heads the relationship list (a copy of the code is included as Appendix 7).

These days, Fellows of the CII are also required to complete a Business Ethics Programme as part of their Fellowship qualification. Although my FCII predated this requirement, I voluntarily undertook the Business Ethics Programme.

Based on the above, the Board approved my research proposal as they recognised that I could satisfy the Level 5 descriptors.

<u>Initial research proposal – anticipated impact</u>

> I anticipated that the report, would answer the question "is there value provided by Advice" and that I would be able to suggest how current practices could be improved.
>
> I also expected that the guidebook that I intended to write would also be a useful tool for the consumer.
>
> Finally, I intended to publish my findings in a leading professional journal.
>
> (In reality, the findings have been published on the AEGON website. Copies have been circulated to all interested parties (FSA, HM Treasury, DWP, ABI, all Stakeholders, etc) and *Financial Solutions* (the journal of the Personal Finance Society) published a 2,000 word article. A 5,000 word summary of the research was published on the Middlesex WBL e-journal at the beginning of February 2008. In addition, a number of trade publications have printed articles on the research findings.)

Overall conclusions for the original project proposal

This was a worthwhile project that could offer real insight into the role and effectiveness of advisers and answer the question “is there any value in advice”. The guidebook would also provide a starting point for further work in the provision of “self help”. As will be seen, the project was modified but the aims and objectives remained the same and the project fulfilled the criteria set.

1.19 Revised Project 2007

The joy and frustration of work-based learning is that it is real and vibrant and subject to outside pressures and changes. My project is testimony to this.

At the end of 2005, I started the process of selecting the two pension schemes necessary for my research project. I anticipated no problems with this as I had a wide range of IFA (Independent Financial Advisers) contacts, including firms within the AEGON UK plc group.

After several months of work with a number of different IFAs, I was still no nearer to finding two schemes that could meet the criteria.

At that stage (summer 2006), I re-evaluated the project and concluded that the research proposal would not materially suffer if I dropped the requirement for the schemes to be from “manufacturing” firms. I therefore re-approached one of the Leeds-based IFA firms, to see if their clients were still willing to be involved. Because of the summer holidays, this was not confirmed until the end of September. However, on further examination of the two pension schemes, it transpired that they also failed the criteria.

At this stage I was getting very despondent. Almost one year had elapsed since I had received Board approval for my final project. Whilst I had kept my programme supervisor informed of developments and she remained supportive and optimistic, I was increasingly becoming depressed by the lack of progress.

Having failed to secure the necessary schemes in the north of England, I once more contacted Origen and after several weeks, two potentially suitable schemes were identified in London. However, when these two firms were presented with the research proposal, one immediately withdrew (citing confidentiality as the reason). As an alternative, Origen suggested another major client which was not a law firm but where the profile (age, sex, earnings, educational levels, etc) might be similar. This firm specialised in providing “outsourcing” solutions for human resource management.

This “outsourcing” firm was also intriguing as in many ways it was offering the type of pension cover that the Government’s new National Pension Scheme (NPSS) would provide. The NPSS is now called *Personal Accounts* and an Act of Parliament has already been enacted to establish the infrastructure for *Personal Accounts* to be introduced in 2012 and the Pension Bill is currently going through the ‘House’ (February 2008).

However, although the workforce appeared to be above average intelligence and they worked in an environment where the value of staff benefits such as pensions was well known, the “take-up” rate of the scheme was very poor and the firm’s management were keen to know why.

On closer examination of the law firm and the outsourcing firm, it became apparent that there were a number of differences between the two employers and the two schemes. Therefore I decided to have one final attempt at securing two schemes on the original criteria.

As a member and Director of the Personal Finance Society (and Vice President for 2006/7) I had access to 23,000 advisers, many of whom are corporate IFAs. Some 17,000 of these members are also on an email register with the PFS and with the permission of the PFS Board, I emailed these members to seek assistance with my project.

Out of 17,000 emails (and additional conversations I had with members I knew well, including members of the Board) I obtained half a dozen possibilities. This percentage was disappointing. The following quotation was typical of the negative responses I received: “Sorry, Pete, I have tried several of my clients but all are either too shy or will not give it the time.” Unfortunately on examination, the six “possibles” failed to meet my research criteria.

When I had originally drawn up the research plan, I had wrongly assumed that my interest in the subject would be shared by firms from outside financial services. This was not the case. Whilst I had genuine support from many individual IFA firms, in almost every case they were unable to gain the necessary support and commitment from their clients.

On reflection, this should not have come as a surprise. I was limiting my search to a narrow range of employers and the support and commitment that I was seeking was high. The outcome of my research was also not of immediate interest to the firms and any decision to support the research would come at a cost. In addition, several IFAs reported back that some of their clients who offered pension schemes (often schemes without advice) were conscious that the research could expose weaknesses in their scheme.

Since the summer of 2006 I had started to consider what changes I would make to my project proposal if I was unable to secure two schemes on the criteria agreed. This “plan B” had merely been a contingency plan but now it came into its own.

During 2006 I was heavily involved in AEGON UK’s work on the Turner Report and the Government’s evolving pension policy, in particular, the removal of the second tier of state pension (Second State Pension), and its replacement by individual money purchase (sometimes called ‘defined contribution’) pension arrangements. What was becoming clear was that the distinction between ‘advised’ and ‘non advised’ would be less significant in the new ‘Personal Account’ world where a compulsory employer contribution was envisaged. With the failure of the PFS initiative, I now looked afresh at the research proposal and the London outsourcing firm.

It seemed to me that the London outsourcing firm could prove an interesting variation on my original project proposal but without removing the core aspects. I therefore made arrangements with Origen to meet the firm, Alexander Mann Solutions (AMS).

I met AMS's head of Human Resources in November 2006 and I found that the scheme would provide a good basis for research. I therefore worked up a revised project proposal that kept all the main aspects of the original but with changes sufficient to enable research to be concentrated on one scheme and the employees of one firm.

In summary, AMS offers a Group Personal Pension scheme to their staff. This type of 'money purchase' arrangement is becoming increasingly popular as it allows employers to provide pension provision with the minimum of internal administration. Instead the scheme is administered by an insurance company with (in this case, limited) advice provided by Origen. The insurance company was not AEGON Scottish Equitable.

The Group Personal Pension scheme offered three categories of membership depending on the seniority of staff. All staff were also provided with other ancillary benefits such as Life Insurance and Permanent Health insurance.

The bottom tier of the Group Pension Scheme was available to the majority of the staff. For this category, AMS staff receive a pension contribution, from the firm, of 3% of their basic salary providing that they also personally contribute a minimum of 3% of basic salary. This category is thus on a '3%+3%' basis. Managers were offered '5%+5%' and Executives of AMS were on '7.5%+7.5%'.

Although AMS operates in the human resources (recruitment) environment, where the benefits of pension scheme membership, etc are heavily recognised, they have never had more than 50% of their employees join the scheme and the current membership was less than 30%. Had I been asked to predict the rate, I would have expected the participation rate to be above 80%.

My original proposal was to examine two pension schemes – one where an adviser had given advice and one scheme that had no face-to-face advice provided. It was expected that the non-advised scheme would have a lower take-up rate of membership.

A further part of my proposal was to develop a consumer booklet to stimulate interest in joining the pension scheme and to consider other financial planning needs.

However, by the end of 2006, the Government was proposing to introduce a new Pensions Bill that would fundamentally alter the pension landscape (although not the reason for the research). This enabling piece of legislation was to allow the Government to establish a new Personal Account Delivery Authority (PADA) and a Personal Accounts Board, to oversee the introduction of the new Personal Accounts in 2012. Personal Accounts were to be targeted at the "great un-pensioned" and employers who do not provide a suitable private pension scheme would be required to enrol their employees into Personal Accounts.

The employer was also going to be required to contribute (3% of band earnings) into Personal Accounts with a matching 5% (4% plus 1% tax relief) from the employees. Employees would have the right to 'opt out' of Personal Accounts but they would then lose their employer's contributions.

The details of the Personal Accounts were still being finalised at the end of 2006 but there was already a number of key issues identified, including a concern about how many employees might opt out of joining (especially if they had no access to advice).

I believed that the experience of AMS could be relevant to this debate. Here was an employer with a well-educated workforce that was aware of the benefits of pension provision and yet less than a third of employees had joined the pension scheme. Why?

I concluded that instead of examining two different pension schemes, it would be possible to use one and that AMS would be an excellent choice.

At the end of our meeting, the Head of Human Resources at AMS agreed to recommend to his Board that they support my research by allowing me access to their scheme details and to their employees – both those who were in the scheme and those who were not. This access would enable me to evaluate why employees have joined / not joined and also the impact (if any) that contact with an adviser from Origen had had. It would also allow me to test the simple financial planning book on those who had not joined the scheme and to see if such simple written information could stimulate pension (or other) savings.

A major issue for me was that if I did proceed on this basis, and if the booklet did stimulate interest, would the firm be comfortable with the increased pension scheme take up (and thus extra employer costs). The answer was yes.

Following this meeting, I wrote a revised project proposal and discussed the new proposal with my internal stakeholder (Steven Cameron, AEGON UK plc) and external stakeholder (Fay Goddard, Deputy Director General of AIFA and Chris Cummings, Director General of AIFA). All three of them stated that this revision was worthwhile, relevant and important and they all supported the revised proposal and my request to the university.

Following their agreement, I wrote to Dr Pauline Armsby and Professor Ian Cunningham (my Consultant) and outlined my proposed amendments. I explained how the amended proposal would continue to satisfy the Level 5 learning objectives and descriptors. In addition, the new proposal would meet the original research aims and more importantly, this revised proposal would provide useful and timely evidence of the reasons for low pension scheme participation.

Both Dr Armsby and Professor Cunningham approved my proposal and a formal submission was made to the Board (the Board subsequently accepted the amendments).

During 2006 I had already done some preparatory work such as developing a general outline for the interview questionnaires and other relevant documents (such as the consent form) that I would use.

On Friday 19th January 2007, I had a further meeting with the Head of Human Resources at AMS. At this meeting it was confirmed that his CEO and Board had agreed to my request and that they would be delighted to assist. This extended to permitting me to interview their staff during office hours and to use their premises (they even offered to make available a dedicated interview room).

At the end of this meeting, the Head of Human Resources signed, on behalf of AMS, a copy of the "Informed Consent Form" for this project. A blank copy of the form is attached as Appendix 1. All participants have signed a form.

The monetary cost to AMS of this decision should not be underestimated. By agreeing to support my research, the AMS Board were opening up the possibility of increased membership of their pension scheme and thus increased pension contributions. In addition, they provided me with meeting room facilities to see their staff during 'office hours' and they granted staff 'time off' to attend.

However, against this cost must be set the value that they expected the research to deliver to them. One of their aims was to identify the changes that they would need to make to improve the pension scheme participation rate. Although such an improvement would increase their employment costs, it would also help fulfil their desire to be a caring and responsible employer. This was their "value judgement".

During the end of 2006 and early months of 2007, I undertook the primary research for this project, I also reflected on the difficulties I had encountered in setting up the research. In hindsight, it is easy to see how difficult it was going to be to find two "identical" pension schemes that offered the right blend of joiners and non-joiners, etc. I was also naive in thinking that my passion for this project was going to be shared by the outside world. Luckily, the development of Government policy has enabled me to modify the original proposal so that a more realistic project could be undertaken. Yet the new project was to be no less demanding, or of any less importance or interest. Indeed there was (and remains) a serious concern about the number of individuals that will "opt out" of Personal Accounts.

On 31st July 2007, the Head of Pensions at Scottish Life was quoted in *Money Observer*, as predicting that millions of individuals would opt out of Personal Accounts unless the current means-tested benefit structure was amended. Such opting out would be against the overall national good as their dependency on the state will be a severe drain on future taxpayers. But if engaged employers such as AMS are struggling to sign up employees into their pension scheme, what chance will there be for Personal Accounts where many employers will have no interest in promoting membership of Personal Accounts for their staff?

I also recognised that I was fortunate that AMS is a benevolent employer which genuinely wants to see their employees benefit from scheme membership. Their enthusiasm and support was greatly appreciated.

I recognise that this last (frustrating) year is all part of what a DProf is about. I have been researching real practical issues that could have major implications for future pension provision. I therefore believe that this research will be of interest to many and that it will be a good indicator of what action the Government may need to take to ensure the successful introduction of Personal Accounts. It has also proved that advice can add value.

I completed the final interviews at AMS on 30th May 2007. One week later, the *Economist* printed an article "Saving the day", which re-enforced the need for employee engagement. The article quoted from the latest OECD report that showed that by 2050, the average British citizen will retire on a state/compulsory pension of only 31% of their earnings at retirement. This compares with an OECD average of 41% and a staggering (and probably unsustainable) 96% in Greece. However, if contributions are paid into Personal Accounts for the full term of 45 years then the UK average would go up to 59%. The stand-first to the report was: "Young workers will be poor when they retire unless they save" (*Economist* 2007).

Figure 1. OECD pension promises.

Epilogue

On 7th August 2007, I had a follow-up meeting with the Head of Human Resources at AMS.

Following my research he received feedback from his staff that the experience had opened their eyes to their financial needs and made them question their financial position and the action that they needed to take.

The research and the feedback also reinforced AMS's determination to provide their employees with a first-class package of flexible benefits that the employees could understand and value.

AMS is now embarking on a review and upgrading of their employee benefits. Amongst the decisions already taken have been:

- better communication of the benefits on offer – this would include "face-to-face" advice
- greater range and choice of benefits
- access to a web-based 'flexpack' that would

a) allow employees to choose the benefits that they received beyond a 'core' level
b) provide a pension aggregation facility so that each employee could better appreciate the pension benefits that they were building up at retirement and see how additional pension contributions would increase these figures (my research had given them access to such a facility – *mymoneypal*).

There was also recognition that "cheap" didn't mean "good" and that charges were less of an issue than outcomes. If greater pension (and other benefits) take up meant that fees or charges under the contracts increased, this could be a price worth paying. As part of their staff commitment, the firm was also looking at increasing the employer pension contributions – but still on a matching basis.

Whilst the purpose of this research was to provide academically valid evidence as to the value of advice, it was, never the less gratifying to find that the employer (AMS) and their staff had benefited from the research experience.

Chapter 2 - Aims, Objectives and the Literature Review

Many years ago at the Royal Military Academy, Sandhurst, I was taught that a clear 'mission' was crucial to the success of an operation. The aims and objectives were my 'mission' for this project.

2.1 Aims and Objectives

What did I aim to achieve?

Within the confines of pension provision in the UK, I aimed to establish what value can be placed on advice – both that provided by a self-help guide and that provided, "face to face", by a Financial Adviser.

What were my objectives?

- **To provide my employer, the advisory community, the profession and wider stakeholders with an awareness of advice – its advantages and limitations. This understanding would enable the various Stakeholders to redesign their products, systems, processes and requirements so that a more efficient market can develop. This would increase confidence and improve the savings ratio and retirement provision in the UK**
- **Establish what value was provided by advice and advisers**
- **Establish what motivates consumers to save and what information or guidance they would find useful**
- **Develop a self-help consumer guide to pensions (this was expected to be in a booklet format as recent research has shown that this is the most popular and user-friendly method of communication – interactive software has certain advantages but is not widely accepted by all consumers).**

By any standard of measurement, the above was a tall order, especially as the size and nature of this project meant that the number of participants was relatively small but what this project lacked in size, I hoped it would be made up by its depth and quality.

For this scheme and this sample of employees, the research findings were powerful and informative. However, it is unrealistic to believe that this project can claim to be representative of the whole UK economy or even a section of the economy that operates defined contribution schemes with (or without) financial advice.

What it does do is to explain what is happening to one employer and to their staff. It looked, in depth, at what motivates the participants and how an adviser or a written guide can assist them. From the interviews and analysis, it points towards conclusions that *may* have wider implications. It therefore would provide future researchers with firm evidence which they can take forward in their research so that over time a better understanding of the value of advice can be ascertained.

2.2 Literature Review

The primary aim of any literature review is to put the research in context (Denscombe 2002). By understanding what has gone on before, it is possible to see trends, theories and approaches that have already been developed. By studying these, I would then be able to identify where my own research should be focused. This could involve 'filling gaps' in current knowledge and understanding or taking the thinking further.

In 2005, when this project was first approved by the university, I discovered that there was little research in the UK on "advice". The USA had a slightly better engagement in these issues but their research was largely related to fund selection by individuals and on auto-enrolment techniques to obtain greater participation in 401(k) retirement plans. However, in the last 18 months there has been a comparative explosion of research in this field. Whilst still not vast, it does at least enable some comparisons to be made and valuable triangulation to take place.

Through the literature review I have been able to build on the existing body of knowledge to create my own unique research which has challenged some existing beliefs and allowed me to test new ideas. The central purpose of my research was to understand what value, if any, financial 'advice' could provide.

The term “advice” can have many meanings. Microsoft’s Thesaurus offers a number of alternatives including: ‘recommendation, counsel, guidance, opinion, warning, instruction and assistance’.

For the UK Financial Services market ‘advice’ also has a regulatory meaning. Advice is more than information or guidance. By “advising a client to do X”, a fiduciary responsibility is being taken on and when the client follows the advice, the adviser is liable for any errors or omissions made.

This has led to a situation where ‘advice’ is a commodity that requires high levels of competence from those who supply it. The associated ‘compliance’ and training costs lead to a high price being levied for the service. Yet the ‘service’ of advice is often little understood and difficult to evaluate by the general public. Those advisers who charge fees for their services therefore tend to operate in the corporate environment (where firms and employers are used to paying legal, accountancy and other professional fees) or to high net worth individuals who are often corporate owners (or past owners) and thus are used to fees.

‘Advice’ is provided to other groups by the payment of “commission” to the adviser from the provider whose product is used. This opaque arrangement suits the client’s unwillingness to pay fees but where the commission is seen as high, it does nothing to enhance the reputation of the adviser or the industry. Also as commission is dependent on the sale of a (financial) product, there is a constant anxiety that products are being sold for the wrong reasons. However, there is a general acceptance that ‘advice’ has a value. But what value? As explained in Chapter 1, value can be measured in a variety of ways.

Throughout my professional doctorate programme I have been undertaking a literature review on these topics, partly for the doctorate and partly because it is part of my ‘day job’. For this literature review I have looked in great depth at some of the key research that has taken place. Many others have been read (and some are noted in this review), but to enable the reader to gain the maximum from this part of the project report, I have summarised some of these key research findings so that my Stakeholders and other readers (principally those from the industry) of this paper can have a better understanding of the issues without having to refer to other texts.

One way of improving the understanding of advice is by enabling more individuals to understand their own finances and have greater confidence in making financial decisions. This has led to a near boom in learning material to help financial literacy and capability. For example, pfeg, the Open University and the FSA all produce good material. Whilst these initiatives are well intended and often very good, without adequate central control and direction, they are probably not as effective as they could be.

The FSA has improved financial capability as one of its objectives and in recent years it has dramatically increased its Fin Cap budget and started to attempt to co-ordinate Fin Cap activity. This is needed as demonstrated in the FSA paper 'Consumer Research 47' (March 2006). That was prepared by the Personal Finance Research Centre at Bristol University. This colossal research aimed to measure the financial capability of the nation and to project a platform against which future work could be measured (Levels of Financial Capability in the UK: Results of a Baseline Survey. FSA 2006).

For me, one of the most striking findings was under 'Attitudes to planning ahead'. After ignoring those already retired, the survey found that 42% of respondents agreed with the statement "I would rather have a good standard of living than plan for retirement". As will be seen, this 'manyana' attitude is a theme that appears in other research. This was also evident in my own study, as will be seen in Chapter 4.

One of the main conclusions from the development work on the FSA baseline survey was that financial capability could be seen as encompassing four different areas or 'domains'. The research found that individuals may be particularly capable in one or more of these areas of financial capability but lack skills or experience in others. It classified these areas as 'managing money', 'planning ahead', 'choosing products' and 'staying informed'. Overall, the survey demonstrated a nation that lacks financial capability.

Both Government departments and individual financial service companies regularly produce research which adds to our understanding of these issues and often reinforces the perception of a nation that is not financially capable although there are pockets of success.

In March 2007 the DWP published Research report 413: *Needs and preferences of moderate to low earners for retirement information online: small scale qualitative research.* This report was based on the outcomes from ten focus groups held with individuals aged between 21 and 55 and earning between £10,000 and £30,000. All were internet users.

It was found that respondents generally had a poor level of pension knowledge, especially private and stakeholder pensions and there was also little evidence of retirement planning. Retirement strategies mentioned ranged from having a private pension, downsizing property, working longer, relying on the state and emigrating.

The participants generally welcomed the concept of an internet-based retirement planning service but there was little desire for the service to automatically collect external sources of information such as details of any private pensions (this conclusion is different from the findings of my research). They would, however, welcome a checklist to establish desired retirement income, a way of calculating how much they needed to save to meet those aspirations and a way to factor in inflation.

It is probable that this (and other research) contributed to the DWP's decision to suspend development of a full online pension planning tool ('retirement planner'). The DWP's initial thinking had included a pension aggregation service which would have created technological challenges and which, from this research, appears to have been relatively unattractive to the respondents.

It is a pity that the 'retirement planner' concept was not continued as the experience from New Zealand is that a web-based facility can be successful in raising awareness, understanding and activity, and that when established, the functionality of the service is expanded. The New Zealand model (as analysed by PPI) is reviewed later.

The question of financial capability is central to the ‘advice’ issue. Financially capable individuals are more likely to feel confident in making decisions or seeking out information and advice. They are certainly likely to be more financially secure.

In 2006 Norwich Union commissioned ippr (the consultancy arm of the Institute for Public Policy Research) to undertake research on compulsory financial education in schools. The report examined experiences in the USA which showed that compulsory education for school children could lead to people being, on average, richer by a year’s earnings between the ages of 39-49. Translating this into the UK environment could mean that a couple with no children could be better off by about £22,000.

The report went on to conclude that the most common reasons for not engaging in financial planning are complexity, lack of low-cost advice and the desire for short-term gain over long-term security.

There is already a vast and varied amount of financial education in the UK but there has been (and arguably still is) a distinct lack of central co-ordination.

The Personal Finance Education Group (pfeg) have for many years provided support to schools. A registered charity, pfeg provides learning material for use in schools and recently they have benefited from additional funding from the FSA (they also receive funding from the private sector, including AEGON UK). The FSA support is providing funding for a five-year initiative to increase the quality and visibility of personal finance in schools. By 2011 it is expected that 4,000 secondary schools will be offering 1.8m pupils the opportunity to learn about personal finance through the ‘Learning Money Matters’ toolkit.

The Qualification & Curriculum Authority (QCA) has now placed finance within the national curriculum, although it will not be a compulsory subject. Both of these initiatives apply to England but similar work is taking place throughout the UK.

Financial Education is not, however, restricted to children. ‘Life Academy’ is an education charity and an associate institute of the University of Surrey. It has developed a generic financial education programme called ‘Learn about Money’. This was developed after Life Academy was asked to conduct research in major companies to find out why employees did not join the (good) company pension schemes that were on offer. This research revealed a fundamental lack of understanding of money matters amongst individuals.

'Learn about Money' was launched in 2005 and is delivered by CD Rom and a workbook. It aims to increase the knowledge and understanding of individuals so that they have both competence and confidence in financial maters and will be better placed to engage with the financial services industry.

The FSA are also active with a range of useful factsheets and a good introductory book, *Make the most of your money* which covers most of the financial topics. They also have a web-based facility that was developed in conjunction with the BBC and are extending a pilot exercise on student finance to a wider (national) range of universities.

All of the above educational tools were useful to review and they assisted me in my own thinking in this area. The guide 'How to make your dreams come to true', that I wrote for the second phase of the project, is a result of the lessons learnt from elsewhere and my own experience and knowledge.

The Government is also committed to this drive for financial capability, partly because of a policy desire to remove 'financial exclusion'. Speaking at a Resolution Foundation conference in March 2007, the then Economic Secretary to the Treasury said: "Last autumn the Treasury and the FSA held our first national conference on financial capability, leading to the publication of the Government's long-term strategy for financial capability in January. It was as part of this strategy that I asked 'the CEO of AEGON UK' to look to establish a national approach to generic advice…"

The minister went on to say "… last week we held the first meeting of our new ministerial group that will prepare our Government plan for financial capability. This group will look across the piece at how public services can be used to build financial capability…Meanwhile, advised and spurred on by the Financial Inclusion taskforce, the Government's £120m Financial Inclusion Fund is supporting money advice, credit unions and tackling illegal loans sharks…"

The minister ended by saying: “The Government wants to see everyone have access to appropriate financial products, and the confidence and capability to use them to make a positive difference to their lives. Our aim is for a society in which everyone can plan for the future…And we want everyone to have the information, capability and confidence they need to prevent financial difficulty, and to know where to turn if they do find themselves in distress.”

It is argued that increasing the financial capability of the nation will benefit all – Government, individuals and the financial services industry. Pension provision is a perfect example of this where individuals can improve their standard of living in retirement by savings. Such savings are often via the industry and by saving, the individuals become less dependent on the state. A win-win situation. But education takes time and the need for advice isn’t reduced but is merely changed.

The level of financial capability and its significance was one of the topics that I included in the final project.

The need for action, especially pension action, is acute. In June 2006 research by Scottish Widows (Scottish Widows 2006) showed that the percentage of people saving adequately for their retirement dropped from 55% in 2005 to 46% in 2006. Most alarmingly, the numbers not saving at all in any form of pension rose from 17% to 28%. Significantly, they also reported that the ‘typical’ non-saver was most likely to be female, a parent and in debt.

The same conclusion was reached in a research report produced by RAKM for IFAP in May 2007, ‘The *Get Saving! 2007’* report (IFAP 2007). This showed that fewer consumers are actively saving and over one quarter “admit that their saving plans are curtailed by the desire to consume, rather than save”. ‘Generation spend’ is most likely to be female, aged between 25 and 44 and living in the South East of England.

Information on its own is unlikely to be sufficient. In November 2006 a report from the Prudential (Prudential 2006) showed that whilst many of today’s older consumers recognise what the internet can offer in terms of financial information, they still prefer face-to-face advice.

2.3 Lessons from Overseas

Britain may be an island but in financial services, we are just one mature economy amongst many and the issues that we are facing are, to different levels and extent, being faced elsewhere. It is therefore worth reflecting on the experience of other countries to see what lessons can be learnt. This is especially important as many current initiatives in the UK have their origins overseas.

New Zealand

I first came across the New Zealand ‘experience’ when I visited Australia in 2003 and then again in 2004 when I heard the NZ Retirement Commissioner speak at a London Conference. In 2006 the Pension Policy Institute (PPI) undertook a research project for the Resolution Foundation. It was titled *Lessons from New Zealand’s Retirement Commission for UK policy on financial awareness and advice***.**

This research confirmed many of the points that I had picked up and it is a good analysis of the work of the NZ Retirement Commission (NZRC).

NZRC was established by legislation in 1993 as an ‘autonomous Crown entity’ with funding from both the Government and industry although the voluntary industry funding was difficult to maintain and since 2000/1 the Government has provided all the core funding.

New Zealand is unusual in so far as it has a scattered population but with a high percentage (80%) having access to the internet, 64% at home. The internet was thus a logical method of delivery for the NZRC but recently they have extended beyond the internet and have tried telephone support lines (with poor success), working with a sponsor to teach personal money management in schools, and, most recently it is developing links with professional advisers such as accountants, lawyers and financial advisers.

The introduction of the New Zealand KiwiSaver scheme (this auto enrolment product based on the workplace, is similar to Personal Accounts) is now seeing the NZRC introduce financial education 'champions' into the workplace to run seminars for employees and help them to think through the options. In the UK the FSA are piloting similar 'champions' and the NAPF are working with the unions to introduce similar facilities for occupational schemes.

NZRC's main communication tool remains the Sorted website: www.sorted.org.nz . The brand centres around the mouse icon and the strap-line: '*When you want to get sorted on money matters, use your mouse'*.

The site offers a range of games (including nine for children) and 22 calculators, the five most popular of which are:

- Get out of debt calculator
- Net worth calculator
- Regular savings calculator
- Quick retirement calculator
- Budget calculator.

It is interesting to reflect on the NZRC experience and to consider the activities being either considered in the UK or undertaken in the UK. There are, however, two central differences. Firstly, the NZRC is providing a leadership role and because of this centralist approach, a relatively modest advertising budget has been able to dramatically raise the profile of savings. Over 20% of the New Zealand population has visited the 'sorted' website. Since inception to 2005 there have been over 1.59m unique users and 75% of non-retired people say that they have heard of the sorted by-line.

In 2005, 72% of people surveyed said that they (or someone else on their behalf) are saving for retirement compared with 56% in 2001.

In summary, the NZRC educational programme is now an established part of New Zealand life with high awareness and usage. Reasons for its success include its limited scope – it provides guidance to help people make financial decisions but it does not give 'advice' and it is about lifetime financial planning – not just retirement or product promotion. It is also user friendly and trusted.

For several years I have admired the NZRC and this report from the PPI has reinforced this view. Although the NZRC avoids giving advice, its success in financial capability appears to directly lead to an increase in financial planning, though there is little evidence as to how much of this is subsequently ‘advised’.

The New Zealand experience provides a powerful example of how effective generic advice and education can be, if properly organised and resourced. The ‘sorted’ website and tools also influenced the way that I developed the project and especially the introduction of a web-based facility in the second phase.

As a final thought, it is worth noting that New Zealand was the first part of the British Empire to introduce old-age pensions – in 1898. Pioneers then…and now.

USA

Each year there is a wealth of research pouring out from the USA but in the main it is ‘American centric’ with particular US issues addressed. Retirement planning and investment decision-making feature widely and the university sector is particularly strong in support work in the field of behavioural science. Yet there is little developed work on ‘advice’ as such. In this section I am reviewing six pieces of research that I feel have the most to give when used as supporting evidence and information for my own project.

Literacy, Trust and 401(k) Savings Behavior (Agnew et al 2007)

This research was carried out using administrative and survey data drawn from three large employer sponsored 401(k) plans[5], two offering automatic enrolment and one offering a voluntary plan. The three plans were selected because they offered similar features and they were in similar industries.

[5] 401(k) plans are employer sponsored personal pensions but unlike their UK equivalent, they are extremely flexible, with participants often able to draw down funds for house purchase, children’s college fees and medical expenses. In some cases an employer’s tax relief is restricted if 401(k) participation rates are insufficiently high.

Literacy was measured using a seven question quiz that included three basic financial knowledge questions and four based on the plan.

The key finding was that financial literacy played a crucial role in improving the 401(k) savings behaviour. It reduced both the percentage of ‘opt-outs’ in the auto enrolment schemes and the percentage of non-joiners in the voluntary plan. In fact the impact of financial literacy (or capability as we refer to it in the UK) is more important than either the educational attainment level of the staff or their salaries.

If this pattern was repeated in UK schemes, it would reinforce the Government’s drive for financial capability and would be especially important for Personal Accounts. This research is also interesting as this experience in the USA is supported by the findings of my research project in which education and salary were not the key indicators of high plan participation. From this it is possible to conclude that enhanced financial capability is required across all groups.

Explaining Why So Many People Do Not Save (Lusardi, A 2001)

This report is interesting as it throws up a further possible explanation for differences in retirement provision (or wealth holdings as the paper calls it).

The research is based on data from the Health and Retirement Study (HRS) to examine savings in older families. It ‘shows that approximately 30% of households whose head is close to retirement have done little or no planning for retirement’. This figure is not dissimilar to the UK experience although the average retiree in the UK does have the advantage of greater state benefits, but being taken out of poverty is hardly the same as having a comfortable retirement.

The paper then goes on to show that planning is shaped by the experience of other individuals, either siblings or parents. This is particularly interesting as my project also identified a tendency for parents to influence the behaviour of the interviewees I saw. Witnessing unpleasant events such as poverty or inability to pay for medical care are also major influences.

Unsurprisingly, the USA research also found that those who did not plan for their retirement are most likely to face financial hardship in retirement and that those educated beyond high school are more likely to use the services of financial planners and brokers. Although the report made no reference to a relationship between education and higher net worth, experience in the UK would suggest that those educated beyond high school (i.e. university educated) are more likely to earn more throughout their working lives and to have built up greater financial resources. It is therefore probable that there is a correlation between fund size and the use of a planner.

However, both high and low-educated groups rely on friends and relatives when making investment decisions. This is a crucial finding. If there is a cultural acceptance that 'saving is good' then it is more likely to succeed. In several of AEGON UK's submissions to the Government (or regulatory) consultations, we have argued that a savings campaign must be organised on similar lines to the 'drink driving' campaign so that just as it eventually became the social norm not to drink and drive, it should equally be possible to create a similar norm for savings and retirement planning (AEGON UK 2007).

Again my own project results support these findings. Relatives were the most influential group. This indicates that change is only likely to be brought about by a mixture of financial education and a cultural change leading to different behaviours.

Motivating Retirement Planning: Problems and Solutions (Selnow 2003)

This is an excellent study that builds on the work of several prominent researchers including Choi, Thaler and Benartzi.

Selnow argues that investing for retirement is different to almost anything else that we ask people to do. In the paper Selnow shows the impact on people's health if they follow (or do not) a healthy diet and brush their teeth; in a UK context, I would add the anti-smoking campaign. If we encourage people to give up smoking or to adopt a healthy diet, there are real tangible benefits. Being slimmer will improve their health and giving up smoking will improve their health and increase their income. Yet if we ask someone to save for their retirement, it immediately attracts a cost with no immediate benefit to the individual.

Selnow identifies seven unique features which are listed below:

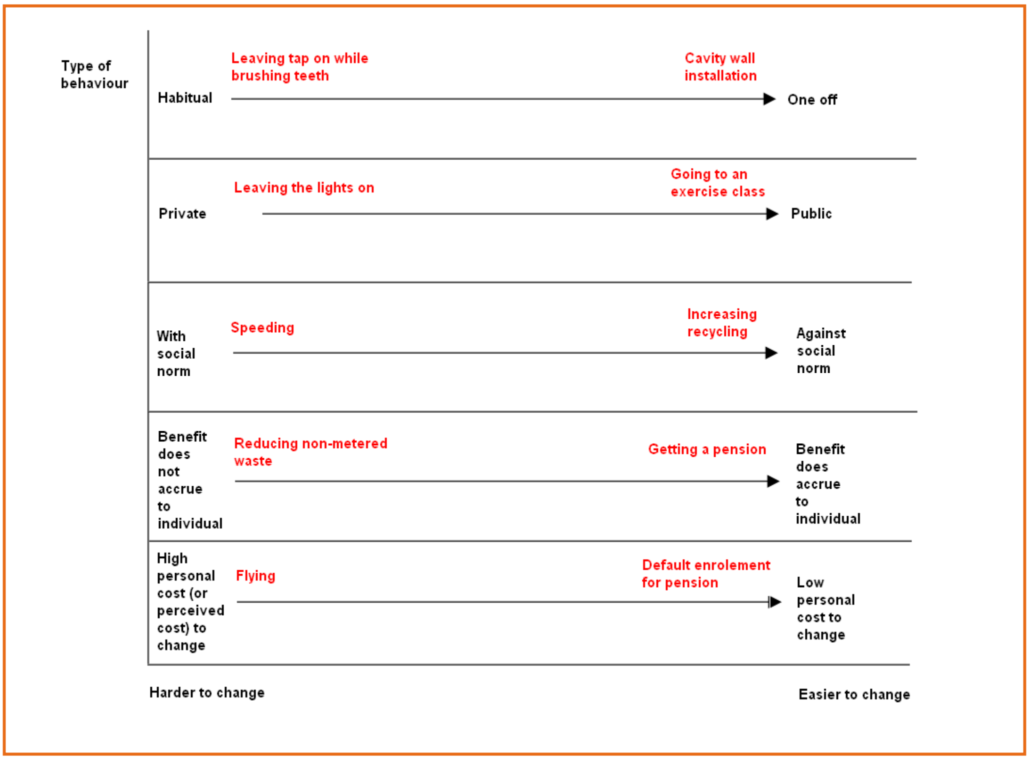
- *The payoff for behavioural change is quite uncertain*. Saving for retirement is a gamble, we may die or markets may crash
- *Workers don't easily buy the idea of payoffs in the distance future*. We are, in both the UK and USA, a society driven by instant gratification and in the UK our faith in pension provision has been badly shaken by Maxwell and Equitable Life.
- *The promise of pleasure tomorrow means pain today*
- *The wrong decision means instant gain today.* The amount we do not save can be spent.
- *There is no immediate tangible reward.*
- *The saving decision can be postponed without immediate penalty*
- *There are no functional deadlines.*

Added to this is the complexity of retirement plans which are off putting. On top of this, people are firmly convinced that they will remain young and in any event, the state is there to support them in old age. I came across all these points in my project and when challenged, all my interviewees acknowledged that the state benefits would be insufficient when they retired but this on its own did not motivate them to reduce their consumption and to increase savings.

Selnow accepted that some people did save and that education could inspire a rational person to act. He also argues that Daryl Bem in his book *Beliefs, Attitudes, and Human Affairs* (1970) was right in suggesting that it is possible for behaviours to come first. So instead of the normal pattern of acquiring knowledge, which then forms attitudes from which flows behaviour, it is possible to impose behavioural changes. The smoking ban is an example of this where people's attitudes are changed by legislation (and supporting education).

For me a clearer example was given in 2003 when I was judging a National Training Award entry from the army. As part of the judging I had to visit the infantry training battalion at Catterick. My last experience of Catterick was as a TA Company Commander in the 1980s. In those days it was usual for orders to be screamed at new recruits with some choice swear words thrown in for good measure. On my visit in 2003 there was no swearing. Why? Because the brigadier in charge of training felt that it conveyed the wrong message to civilians and so he ordered that it should be banned and it was.

This leads to the conclusion that some behaviours are harder to change than others. At a recent workshop I attended at the Resolution Foundation, on ‘Influencing Financial Behaviours’, Miranda Lewis from ippr gave a short presentation on ‘personal responsibility and financial capability’. One slide particularly struck me and this is reproduced here.



www.ippr.org

Figure 2. IPPR – Types of behaviour.

This chart neatly demonstrates the various degrees of resistance that some necessary behavioural changes may face. (Although the central bar (‘speeding, with social norm’ and ‘increasing recycling, against social norm) appears to have the ‘norms’ the wrong way round.

My project results support Selnow's hypothesis. Clearly there needs to be some state intervention to change the behaviour of individuals. So far, with PAs, the Government has decided to rely on inertia by automatically enrolling individuals into PAs, although individuals do have a right to opt out. However, compulsory remains an option if auto enrolment fails. Advertising will also form part of the marketing of PAs. However, in the wider financial educational arena, the Government seems firmly wedded to encouragement rather than enforcement.

'For better or for worse' and 'Defined Contribution Pensions' (Choi et al 2001)

In this research it is argued that it was possible for automatic enrolment to dramatically increase savings as employees would follow the path of least resistance and Selnow backs this approach. This is now an accepted philosophy in the UK and the new Personal Accounts will be utilising this feature to enhance take up. The Government has also effectively accepted the automatic upgrade proposals laid out in 'Save more Tomorrow' (Thaler & Benartzi 2001) as the full contribution rates for personal accounts will be phased in.

In all, Selnow provides some strong evidence of the problems facing those advocating pension savings and some possible measures to combat them. At this point it is also worth mentioning some recent research developments in the UK on 'Decision by sampling' (Stewart et al 2006). This argues that for individuals, losses loom larger than gains and that they tend to overestimate small probabilities and underestimate large ones. This is particularly important when considering why people think that they can live for today and not worry about tomorrow. It also accounts for our addiction to the national lottery when better odds are available elsewhere.

In my research I specifically cover how interviewees would react to auto enrolment and auto upgrades.

What makes retirees happy? (Bender & Jivan 2005)

This study is a good balance to the other papers reviewed as it concentrates on those who have reached retirement.

Most studies only consider economic wellbeing but this study examines a broader definition. This is especially important as my project also seeks to look beyond the mere financial gain that may be obtained by the use of an adviser and to look at the psychological impact.

Surprisingly, Bender & Jivan found that whilst economic wellbeing, as measured by income and wealth, did improve overall wellbeing, the impact is relatively small.
Instead two other factors stood out.

1. The first is the reason for retirement. If an individual voluntarily retires they are mentally and financially better placed to retire. To them it is not a shock and often something that is planned and welcomed, thus raising their (emotional?) wellbeing. Conversely, those forced to retire are often financially less secure (probably because any planning that they have been making) has been curtailed. In addition, they are less psychologically prepared.
2. The second factor is health. Those in poor health show lower levels of wellbeing.

The paper also notes that those retiring from a defined benefit scheme show higher levels of wellbeing than those who are reliant on a defined contribution plan or no plan at all. This is to be expected as (assuming the financial stability of the defined benefit scheme) the pension is steady and secure, often with built in increases for inflation. However, those in a defined contribution scheme are dependent on good investment returns or favourable annuity rates at retirement.

Bridging the Trust Divide: The Financial Advisor - Client Relationship (State Street, 2007)

In many ways, this is the most interesting of the American papers being reviewed as it relates to the adviser. Whilst the UK & USA share many commonalities, financial services in the two countries are different. Arguably, the UK is more highly regulated and certainly there is more prescription such as disclosure of remuneration. The UK also has higher benchmark educational requirements although at the top end of financial planning, there is more similarity. But the USA has the edge on university-based postgraduate qualifications.

However, until recently there has been little research on the value of ‘advice’ in either the USA or the UK. Previous American studies have often compared the (monetary) outcomes of using an adviser or ‘doing it on your own’ but there the research has stopped. Equally the UK research has been in a similar vein with some excellent work being commissioned by IFAP (IFAP 2007). This study, therefore, is particularly welcome although some of the issues that it addresses (such as being open about fees[6] and putting them in writing) are regulatory requirements in the UK and are not a ‘problem’ although many firms are struggling to fully move their operations onto a fee basis and this issue is shared with the USA.

The key finding of the research conducted for State Street by Wharton, was that TRUST is the foundation of the adviser / client relationship. Without trust there is no (real) relationship.

Wharton identified three levels of trust.

1. **Trust in Technical Competence and Know How**. This is the biggest requirement for clients. They want someone who is knowledgeable and experienced. Someone who can help them make difficult financial or personal decisions. Surprisingly, advisers in the USA often play down their expertise yet this is highly prized by clients (see Figure 3). Highly qualified advisers (Chartered Financial Planners in the UK sense) should therefore be encouraged to emphasise their credentials. However, advisers often rate their performance higher than the clients do.
2. **Trust in Ethical Conduct and Character**. Most advisers in the USA think of trustworthiness as simply a matter of industry codes and personal ethics but for most clients it is a simple matter of “do I trust you not to steal money from me?” Clients in the USA tend to look most favourably on advisory firms that they have heard of. Put into a UK context, this would explain why most UK consumers state a preference for Independent Financial Advice but are then happy to deal with a tied adviser operating in their local bank branch. This phenomenon occurred in my research project.

[6] In the USA, remuneration is referred to as ‘compensation’

3. **Trust in Empathic Skills and Maturity**. Put simply, this is giving the client confidence that the very personal information that they disclose about themselves (and their family or business) will be treated with respect.

Several times in this paper the researchers mention the link between the doctor-patient relationship and the adviser-client relationship. For someone undertaking a professional doctorate, this is a sobering thought.

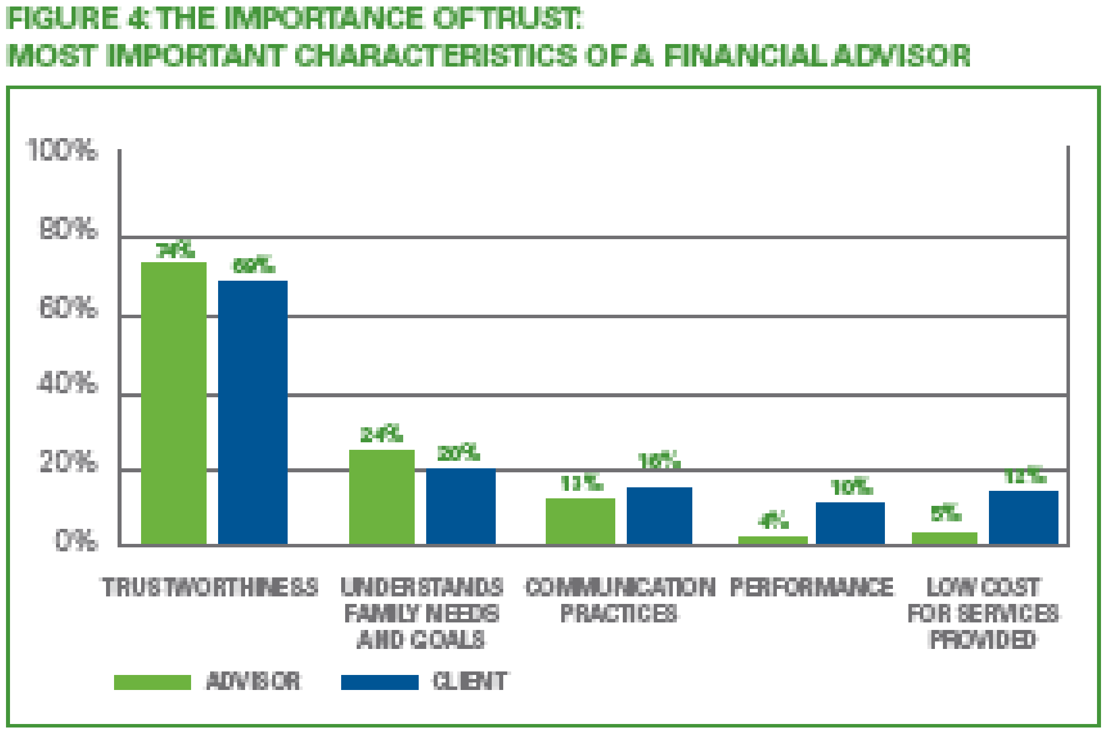


Figure 3. Wharton/State Street. The importance of trust.

2.4 Further UK Research

As we have seen from the last American paper, trust is a key component in the client-adviser relationship and this can apply on an industry level. Whilst many individual advisers and advisory firms have a strong reputation with their clients, the overall perception is of an industry that cannot be trusted and that is motivated by its own greed.

In 2002 Ron Sandler identified some of the offending features of the industry in his report ‘Medium and Long-term retail savings in the UK’ as “opaque and inconsistent terminology; lack of clarity and consistency in the reporting of product charges; proliferation of products; and product differentiation that does not reflect true differences in what is offered" (Sandler 2002).

At the Gleneagles conference in September 2006, Callum McCarthy (Chairman, FSA) also raised the potential harm that commission could play. He gave a vivid example of how commission could create the wrong environment by incentivising bad practices. The example he used was from the late 18th century. When the British Government originally sent convicts to Australia, they paid the ship owners on the number of convicts that boarded the ship in England. However, a high percentage (on average 12%) of the convicts failed to reach Australia. So in 1792 the Government changed the basis of payment to the number of convicts who were safely delivered to Australia and the mortality rates fell to almost zero. (It is therefore easy to see why in DP07/1 the FSA are so keen to move the market from commissions to Customer Agreed Remuneration (FSA, 2007).

The UK has certainly been plagued with more than its fair share of financial scandals including Maxwell, Barlow Clowes, Barings, Pension mis-selling and Endowment mis-selling. Yet comparatively few consumers have suffered financially (due to compensation payments being made) and the vast majority of individuals who seek advice are well treated and obtain a good service.

An adviser can make a tremendous difference to the net worth of an individual as frequently demonstrated by the reports issued by IFAP. Yet the perception remains poor and with some justification. A small number of 'bad apples' continue to pollute the industry's image. This was clearly stated in research conducted for Age Concern. Under sources of advice it was stated: "There was general cynicism about financial advisers, although few people used them" (Age Concern 2007). Significantly the report went on to say, at great length, why older people do need advice.

Clearly there is a need for engagement and this is why the concept of 'generic advice' is gaining ground. As previously mentioned, the Government has appointed my Chief Executive Officer to lead a review on HOW (not if) generic advice should be delivered and the FSA DP07/1 assumes that such a service will be in place. Some elements of parliament have already stated a preference for a ‘free service’ for those on low incomes (DWP 2006).

Apart from the trust issue facing advisers, there is also an increasing lack of trust of pensions in general. Apart from the pension mis-selling scandal and ‘Maxwell’ in recent years, many good quality Defined Benefit (Final Salary) pension schemes have been closed. These closures have been driven by economic considerations. Falling investment yields, volatility of equities, increased longevity and the accountants (and shareholder) drive for cost certainty has led this shift. However, this withdrawal from Defined Benefit, even when accompanied by the introduction of Defined Contribution schemes (although usually on less favourable terms) has also added to a sense of unease with pensions.

The NatCen and School of Social Sciences, University of Birmingham, has produced an excellent report for the DWP and HMRC on ‘Attitudes to pensions’ (DWP Report No 434). It is particularly interesting to reflect on these findings when looking at my own research. (The employees of AMS are generally young, female, well educated and well paid.)

According to the survey, a third of respondents had never contributed to a private pension (including occupation schemes) and although over half of employees with access to an employer sponsored pension arrangement joined, one in twenty did not.
29% of respondents prioritised a good standard of living today over savings for retirement and this was particularly true of younger respondents and those with low incomes and perceived poor life expectancy.

Knowledge of pensions was also generally low. However, 60% identified Financial Advisers as the most popular source of information and advice. It is interesting to note the similarities in this (UK) research with the American experience. A clear pattern emerges, especially amongst the young, of “Live for today”. It will be seen that this attitude is evident in my project.

This theme of living for today was reinforced in a further DWP survey conducted by MORI (DWP Research Report 438). Aptly entitled, *Live now, save later? Young* *people, saving and pensions* this report provides further evidence of the difficulties to be faced.

Whilst amongst the young there is a broad consensus that savings is a good thing, this view clashed with their negative perception of savers being ‘misers’ who lived an austere life. It also clashed with the general belief that young people should be out enjoying life whilst they were still young and able.

However, as the participants get older, this attitude changes, often spurred on by changes to their lifestyle (regular relationship/marriage, desire for their own home, etc). It is possible that what we are seeing is a general shift in age profiles. For children born in the 1950s, leaving school at 15 or 16 was common with few (less than 10%) going onto university. This age group also tended to marry young. Today’s youth are likely to stay in school or education until at least 18, with almost half expected to go onto university. This group leave with a degree and debts and their attitude is a reflection of this ‘upbringing’. They are also more likely to delay entering into marriage and to have children later.

With an ever increasing life expectancy and delayed (state) retirement ages, it is easy to have some sympathy with this approach especially considering the seven ‘obstacles’ listed by Selnow in the American review. But this group are also influenced by others and by developing behavioural changes, attitudes could follow.

Many of the statements quoted in this report have a striking similarity to the responses that I received in my project. This degree of ‘agreement’ is important evidence of the validity of my research.

Some evidence of this attitude is available from an IFAP Omnibus Report that was presented to member firms (AEGON UK is one) as a PowerPoint presentation. Appendix 9 includes two of the slides from this presentation. The research was based on a number of IFAP questions placed on the MORI Financial Services Omnibus and supported by interviews conducted face to face (IFAP 2006).

As previously explained, little research has been undertaken on advice or the value that advice may have. However, since the inception of my programme, three useful developments have taken place. The Resolution Foundation was established as an independent research and policy organisation to look specifically at how low and moderate earners fare in our mixed economy. The Resolution Foundation has been one of the main drivers of the call for 'generic' advice and it has produced a mountain of research work including an analysis of the advice gap and how to influence financial behaviours.

It is their work on the "advice gain" (Resolution Foundation 2007) that is of most significance to my research project. In 2006 the Foundation commissioned Deloitte to model the potential impact of providing advice to people on low to moderate incomes. Using the Monte Carlo technique, 1,000 iterations were run for each of five different clusters within the group to account for the different life stage events that may occur.

The outcome is quite staggering. Assuming that only 10% of the target groups acted on advice (the report actually models two scenarios, partial and full advice), within four years the UK would see:

- New contributions to medium-term savings increase by £1.5Bn
- Pension premiums would increase by £560m
- Annuity payments would increase by £58m (rising to £300m in 2060 as people retire with larger pension funds)
- Life assurance premiums increase by £225m
- Credit card debt falls from £2.5Bn to £830m
- Unsecured debts fall by £2.2Bn.

Apart from the benefits to the industry in new business, individuals would be more financially secure and the wider economy would benefit, with individuals wealthier, able to increase consumption and better able to meet short-term financial pressures.

The following two charts are taken from the report.

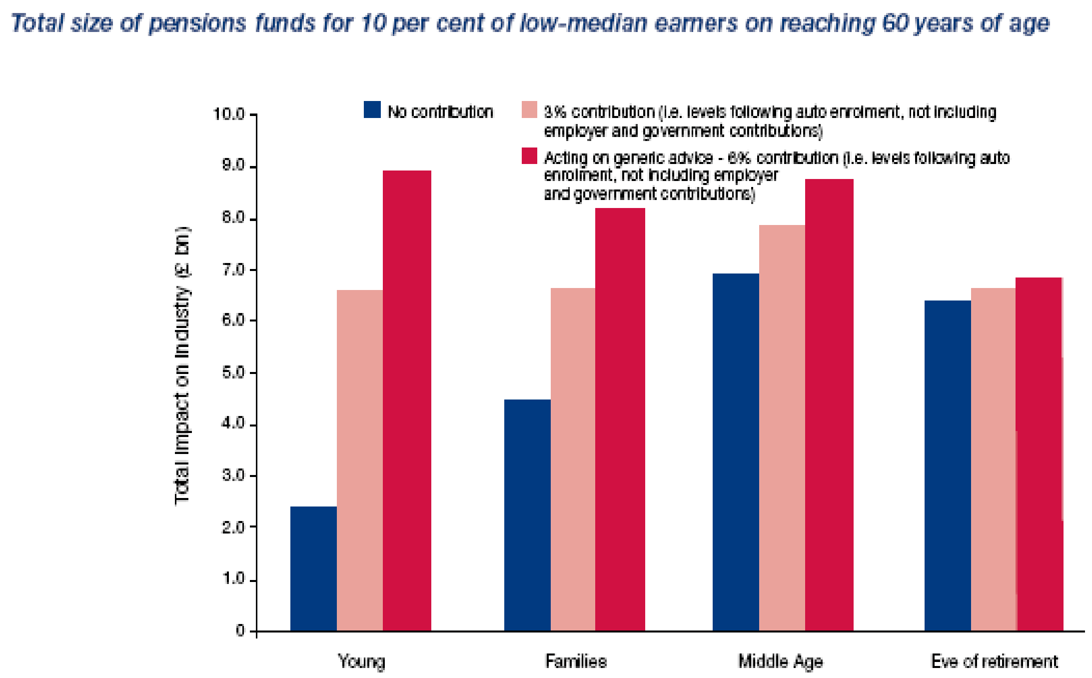


Figure 4. The Resolution Foundation. The impact of advice on pensions.

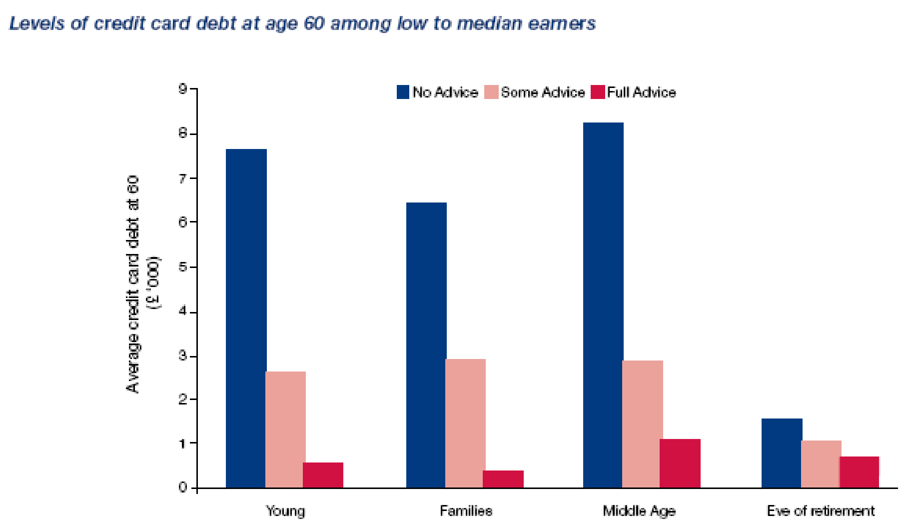


Figure 5. The Resolution Foundation. The impact of advice on credit card debt.

A further report by the Resolution Foundation *A national dividend: the economic impact of financial advice* (Resolution Foundation 2006) demonstrated how advice could impact on the individual and the state. Again based on research by Deloitte & Touche, it showed that young people in the target income group could increase their financial assets at age 60 by an average of £60,000. It also identified potential public expenditure savings of £100m rising to £800m as more individuals were taken off pension credit. Clearly advice has a value, but what is the demand?

There has been virtually no research done on this question in the UK. Some research has touched on the subject, principally by the FSA, and McKechie and Devlin produced a very good paper for the Financial Services Research Forum at Nottingham University. In this paper they recorded that 75% of regulated financial products were purchased after some form of financial advice had been given but there was no indication of why advice had been taken (or sought). However, in their summary they were able to state that " …it is apparent that the vast majority …take advice…and this advice is seen as necessary due to a lack of knowledge, a lack of up to date knowledge and the need for specialist guidance" (McKechie & Devlin 2005). They go on to say that complexity is an issue but not to the degree that outside observers often think and that whilst consumers are sceptical about true independent advice existing in a commission model, they remain reluctant to pay fees.

My own experience of the market over the last 30 years bears this out. There are four reasons why people seek or take advice:

1. They know that they need something and want to do it but they lack the knowledge and confidence to 'do it themselves' (self-employed individual taking out a pension)
2. The product is seen as part of a package and may even be seen as a condition of another purchase (e.g. life insurance taken out with a mortgage)
3. They are offered an employer-sponsored benefit (such as a pension) and the 'advice' is part of the package
4. They vaguely know they should be doing something but they lack knowledge and motivation until a salesman or adviser approaches them and persuades them to invest or buy.

The ABI has done some useful work in this area. In 2007 the Director of Research & Chief Economist, ABI, gave a very informative presentation to the Thoresen Review team). A copy of some of her presentation slides are attached as Appendix 10.

The ABI's recent 2006/7 Customer Impact Survey (ABI 2007) also asked questions about issues covered in this research project and is therefore a useful reference.

AEGON UK is also currently in the middle of two research projects to understand consumers feelings towards finance and what type of financial advice they would welcome. The first research is being conducted with Opinion Leader and is designed to identify what is a 'customer-centric model'

The initial research was conducted in February 2007 and a second stage of work is now under way. Participants have been selected to represent a cross section of the population and the format is a 'consumer forum' that is deliberative in scope. The research is forward looking and geared to what 'good' should look like in the future. This may include enhanced financial capability, some form of generic advice and improvements to the current advice offering.

Recently one of my colleagues was asked to give a presentation on the work to date. A selection of the slides used in this presentation, are reproduced in Appendix 11. These slides give a flavour of the consumer's view. The second research is workshop based and is focused on consumers approaching retirement or within 15-20 years of retirement.

Preliminary analysis of the first stage of the Opinion Leader research, and the retirement research has shown that the concerns, aims, outlooks and fears that have been recorded in other surveys and research are also evident here. Consumers look for trusted advisers, offering good products and services that place the customers need before the adviser (or provider). They also want more general help with their own knowledge (and thus confidence).

Whilst the Opinion Leader research could have a significant impact on our understanding of what customers want, and thus the future shape of the market, it does not set out to value current advisers or advice.

Both sets of research are still ‘works-in-progress’ but an interim report on the AEGON/OLR research is now available on the AEGON website, alongside my ‘market report’.

This literature review would be incomplete without coverage of the AXA Avenue project.

2.5 AXA Avenue

AXA are a major UK financial services group (part of the French AXA group) that includes both distribution firms (such as Thinc) as well as conventional Life Insurance companies.

At the end of 2005 they launched a unique financial social experiment. Over a period of 12 months they have tracked the finances of 20 households in the Brighton area. For half of these households they provided free financial advice provided by one of the best IFAs in the country. The IFA is a former winner of the Woman IFA of the Year Award and I can vouch for the quality of her advice as I was one of her judges for the award.

AXA met the IFA’s costs so that the advice was free at the point of delivery. As she is normally a fee-based financial adviser (planner) and she is a highly knowledgeable and competent adviser, it was excellent value for those households. However, she only provided ‘generic’ advice and execution was arranged by the participants on a local basis.

The other half of the sample group had no advisory support. Both groups were then tracked over the 12 month period.

I have watched the development of the experiment with interest and it was the subject of one of my monthly columns in *Financial Adviser* (a trade paper that is part of the *Financial Times* group). The economic results were very impressive.

Over the 12 months, the ten households who received advice were collectively £50,000 better off. This was calculated by a mixture of increased savings and debt reduction.

The group that received no advice were poorer. Active participants collectively saw personal debt reduce by 22.6%, savings increase by 41.16% and net wealth increased by 4.75%.

What was shocking was that despite being provided (free) with high quality advice not all of the households followed it. Indeed they sometimes went against the advice, and one who accepted the advice went on to execute the business with a tied agent even though his firm was unable to match the investment features suggested by the IFA. At the end of the exercise, it was sobering to learn that:

- Only one participant would now seek financial advice, the rest didn't know.
- 25% would be happy to pay for financial advice
- 100% believed that financial advice should be made available to all UK adults with 75% believing that the Government should provide it
- 88% wished that they had been given financial education at school, college or university
- 25% would like to receive financial advice through their workplace, although 38% would not and 37% didn't know *(Note: this is probably a strong reflection on their places of work).*

The AXA researchers identified four themes from analysing the data:

1. TRUST. Whilst the participants 'warmed' to the IFA, trust in financial advice and advisers was generally weak *(note: this is a common theme in many other research projects 'financial advisers are bad/cannot be trusted , apart from mine')*
2. CONCERN ABOUT CREDIT CARD USE. The participants were partly worried that the impact that credit and debit cards would have on the young and their financial education *(which I have taken to mean the ease in which credit and debit cards can be taken out and run into debt to satisfy immediate consumption – again this is in tune with other research including my own project).*
3. MOTIVATION. Participants were motivated to take part in the exercise because they got something for nothing. However, in the real world, the cost of using an adviser is often an upfront cost with no certainty of any eventual gain although the researcher felt that there was a 'tipping point' *(one of Selnow's seven points and highly relevant in the*

UK where the virtues of "fees" are at odds with consumers unwilling to pay – and hence the reliance on commission).
4. FORM FILLING was a turn-off. Unless there is some tangible gain or help, there "are too many distractions in life" *(a point that also appears in my research).*

The overall impression gained is of a group that wants something for nothing and although they recognise that they have received sound advice, it was not always enough to motivate them to take action.

Although my project is 'work based' and run over a shorter timescale, there are a number of similarities with my project results and indeed the other research outcomes listed in this literature review. However, if nothing else, AXA Avenue has demonstrated that a financial 'gain' can be secured by taking advice. So it appears that it does have some value. My research report will take this forward.

Lessons learnt from the literature review

The literature review was crucial to the success of this project. Not only did it provide important information that assisted me in planning, constructing and carrying out my own research, it also provided invaluable triangulation.

Key lessons from the literature review are:

"You can take a horse to water but you cannot make it drink"

It doesn't matter how well educated an individual is, or the amount of information that they are given, people will only buy a pension or join a scheme if they are either conditioned to do so or they are persuaded to do so.

For advisers to be effective in this area, they must instil confidence and trust. Their knowledge must be good and they must place the interests of their clients first.

Chapter 3 - Methodology and Research Process

In this chapter I will describe what research methods I used, why I selected these and what difficulties I encountered.

General overview

One of the purposes of the literature review was to gain an understanding of the research that had already taken place in this area and to then help formulate the questions that I would need to ask. As part of my planning for this project, I had already identified that I would use Case Study, Interviews and Action research (see Chapter 1, section 1.13).

The use of qualitative research techniques was necessary as I would be investigating a relatively small sample in depth. However, I was aware that additional care would be needed to achieve the desired outcome and the emphasis would have to be on creating a robust process (Denizen and Lincoln 1994).

As the outcome was to be descriptive and thus open to unintentional bias (Strauss and Corbin 1998), I recognised that I would need to guard against unintended bias and eliminate this as much as possible. However, I also realised that I had to be aware that the participants may themselves inadvertently give answers that were not free from bias.

3.1 Background to AMS and their Employee Benefit Package

Alexander Mann Solutions (AMS) are a large international firm and recognised leader in recruitment process outsourcing. They employ approximately 550 staff in the UK spread amongst three principal offices in London, the Thames valley and the North West of England.

AMS are a goal focused, high standard setting organisation that appears to be good to work for. They are dynamic and fast moving. Mediocrity is not accepted. There is a genuine “buzz” in the office and staff appear friendly and hard working. Staff turn over was relatively high, but according to AMS, this was no more than the sector average.

AMS aims to provide their staff with a high quality benefit package. Apart from a desire to ‘do the right thing’, they recognise that this should help staff recruitment and retention.

AMS agreed to assist me with my research as it was expected that I would be able to identify why the take-up rate of benefits (particularly the pension scheme) was so low. One concern I had was that the research would probably stimulate interest in the benefits available and lead to an increase in the take-up rates. This could have a significant cost implication. For example, only 20 of the staff in the London office were members of the pension scheme. Even if this increased to just 40, it would still lead to the doubling of the firm’s pension costs for this site.

I was assured, by the company, that this was not an issue. Their concern was not the cost but why the benefits were not being taken. This commitment to employee welfare speaks volumes. AMS fully accepted that my research was looking at other issues beyond their own needs. They appreciated that it was an academic project and in many ways, this increased their willingness to participate. This also proved to be the case for the staff who participated.

AMS provides the following benefits to staff

Three main employee benefits are provided - life assurance, private medical insurance and a contributory pension scheme.

Life Assurance

This benefit is provided immediately on joining AMS. On death, it pays out a lump sum of four times the employee’s basic salary, as measured on the 1st April prior to death. All the cost for this scheme are paid by AMS.

Private Medical Insurance

This provides for the cost of private medical treatment. Although the premiums are paid for by AMS they are treated as a ‘benefit-in-kind’ by HMRC (Her Majesty’s Revenue & Customs) and thus there is tax to pay on the premium. For this reason this benefit is voluntary and employees are required to complete an application form.

Employees are also able to extend membership of the scheme to include their spouse and/or children. The cost of including a spouse and/or children is met by the employee. Employees have to work for AMS for six months before they are eligible to join.

Group Personal Pension Scheme

The pension scheme is a standard Group Personal Pension (GPP) arrangement written by a major Edinburgh-based insurer, Standard Life. The scheme commenced in 2000 and was established on a fee basis, which meant that as there was no loading for commission: The annual management charge (amc) on the GPP was very low at 0.65%. This compares well to a stakeholder pension that has an initial amc for the first ten years of up to 1.5%, falling to 1% thereafter. The new Personal Accounts are expected to have an initial amc of 0.5- 0.7% (although a longer term target of less than this may be set).

In addition to overseeing the scheme and providing support to the employer, the IFA firm, Origen, had also agreed to run induction events for new staff and provide telephone support to the individual staff and the HR function. When the scheme was originally established, these group presentations saw high initial take-up levels but as staff left and were replaced in ones and twos, there was less incentive (or demand from AMS) for worksite presentations and the scheme participation rate has steadily fallen. In recent years the membership has not exceeded 50% and currently it is in the mid 20%s.

Most new employees now receive brief details of the benefit package at the recruitment stage. This is repeated at the induction day (although these are not always held) and in the case of the pension scheme, details are mailed to them, at their home address, by the insurer. The GPP pack sent is very comprehensive with extensive information on the scheme, fund choices, etc.

Origen receives an additional fee of £100 for each employee who joins the scheme.
The London office of AMS had 70 staff but only 20 of these were members of the pension scheme. This represented 29% of the total.

Membership of the GPP is available to all staff, including part-time and fixed-term contract staff. However, there is a three month waiting period before staff can join.

Three levels of membership are offered. Initially I was led to understand that these were 'seniority' related, however, some individuals had negotiated pension contributions above their grade as part of their recruitment terms. Others had been protected by TUPE[7] regulations. Therefore, whilst the three membership levels usually follow the five staff grades, this is not always the case.

The GPP is run on a matching contribution basis. This means that the employer is willing to pay a contribution, provided that the employee is willing to invest at least the same amount. Employees are able to pay a higher percentage than the employer and this is both tax and cost effective (because of the low charges). In this report I refer to such additional employee contributions as 'AVCs' (Additional Voluntary Contributions) although technically, the term AVC only applies to occupational schemes.

The three levels of contribution (based on basic salary only) are as follows:

Executive grades	7.5% employer / 7.5% employee
Manager grades	5% employer / 5 % employee
Other grades	3% employer / 3% employee

AMS operates five employee grades ranging down from Executive (Grade 1) to Junior (Grade 5).

3.2 Research Outline

When Alexander Mann Solutions (AMS) agreed to my research request, I had initially considered interviewing staff at all three of their UK locations (London, M4 corridor and the North West) as there were some differences in the pension scheme participation rates between the locations. However, I concluded that this would only be sensible if I could interview a representative sample of staff at each location. Apart from significantly increasing the numbers to be interviewed, there was the added issue of travel and accommodation and the subsequent increase in the time commitment.

[7] Transfer Undertaking for Permanent Employees. These regulations can be used to safeguard an employee's entitlements when there are changed to the structure or ownership of a business.

Whilst AMS were ‘comfortable’ with me seeing (up to) 20 of their staff, they were less keen on extending this number and had I split the interviews between the three sites, I was certain that I would not get a representative spread. I therefore decided to concentrate on the London office as this would give a controlled environment and would reduce disruption to AMS and contain the research costs.

In an ideal world, I would have liked to have seen all 70 staff located at the London office. Instead, I had access to 20, but with the freedom to select the 20 that I wanted. This was, however, subject to the agreement of the proposed interviewees. Although AMS encouraged all their staff to assist me with my research (see Appendix 6), every employee had the right to refuse. I am pleased to say that none did, although for operational reasons, I ended up only seeing 18 employees.

Ethical considerations were forefront in my planning. To fulfil the research aims and objectives, I needed to explore all aspects of their personal lives. I needed to understand their financial circumstances, their health and their family and social situation. I also needed to include their beliefs, fears and hopes. This required the interviewees to provide me with very personal information and it was thus important that they trusted me and that this trust was not broken.

My research therefore consists of a case study conducted at the London office of Alexander Mann Solutions (AMS). Membership of the Group Personal Pension Scheme (GPP) is subject to the employee contributing, but the employer (AMS) matches contributions up to certain defined levels as detailed above.

As explained in Chapter 1, Project Development, the take-up rate (percentage of employees joining the scheme) was extremely low and the employer was keen to understand why so that remedial action, if appropriate, could be taken. In addition whilst AMS’s financial adviser was available to support the scheme, it was uncertain what effect this facility was having.

The case-study approach used was to select a sample of employees who had joined the scheme and to compare them with a sample of non-joiners.

As well as analysing the data to establish if there were any trends, the next stage involved interviewing both sample sets. These individual interviews were in-depth and sought to understand a range of issues (including attitudes to advice and advisers).

Based on the outcomes of these interviews, a simple guide to financial matters was to be written and distributed to the non-joiners. This group would then be subsequently re-interviewed to see what effect (if any) the guide had had. This action research would complete the project.

3.3 Research Timeline

January 2007
Preparation of the research material including checklist, ethical codes, consent forms, etc.
Purchase and testing of digital audio recorder.

February
Employer and pension scheme research
Interviews with Origen
Preparation of questionnaire
Pilot of questionnaire and interviews (see Appendix 3)
Revisions to questionnaire and retest.

March – beginning of April
First-round interviews held. A total of five days with four interviews per day scheduled.
Discussions with AEGON Benefit Solutions on providing access (for the research participants) to ‘mymoneypal’ an internet-based financial planning information and guidance tool.
April – early May
Initial analysis of the interviews so that the simple guide to financial matters could be targeted to their needs
Writing the guide “How to make your dreams come true”
Piloting of “How to make your dreams come true”
Re-writing of and production of the guide.

May

Issue of “How to make your dreams come true” and access to ‘mymoneypal’ provided to the second-round interviewees (all non-joiners)

Second-round interviews.

June

Issue of “How to make your dreams come true” and access to ‘mymoneypal’ given to the scheme members who participated in the case study

Initial feedback to Origen and AMS

Thanks sent to all participants and AMS.

June – end of August

Commenced analysis of data and preparation of report

Full debrief with AMS.

3.4 Research Approach – Case Study

Using the framework of a case study, I used interviews and action research to develop an understanding of the issues under investigation.

Why a case study? Case studies are often seen as ideally suited to work-based research and because of this they are frequently used in the Financial Services market. For me it was always a logical choice to use a case study as it permitted me to study the issues in detail. I expected that lessons learnt might well carry over to other schemes but I realised that the case-study approach would also present challenges. In analysing the pros and cons, I recalled that according to Nisbet and Watts (1984), case studies had the following strengths and weaknesses:

Strengths

1. The results are more easily understood by a wide audience (including non-academics) as they are frequently written in everyday, non-professional language.
2. They are immediately intelligible; they speak for themselves.

3. They catch unique features that may otherwise be lost in larger scale data (e.g. surveys); these unique features might hold the key to understand the situation.
4. They are strong on reality.
5. They provide insights into other, similar situations and cases, thereby assisting interpretation of other similar cases.
6. They can embrace and build in unanticipated events and uncontrolled variables.

Weaknesses

1. The results may not be generalised except where other readers / researchers see their application.
2. They are not easily open to cross checking; hence they may be selective, biased, personal and subjective.
3. They are prone to problems of observer bias, despite attempts made to address this by reflectability.

Despite these weaknesses, the case study did offer the best overall approach with the added advantage that a number of research techniques could be used.

In many ways, the ‘case study’ is not a method but rather it is a research strategy (Hammersley 1992) and case studies have the additional advantage of being based in a natural setting so removing the artificial issues that plague experiments. A case study can also focus on the relationships and processes that are interlinked so that it gives a holistic outcome. This enables the research to look beyond “what happened” to “why it happened”.

The case study has allowed me to concentrate on the circumstances of one employer and their pension scheme and to explore from this single root an understanding of why individuals are motivated to join pension schemes or to seek the services of a financial adviser. The former would be valuable evidence for the Government as it wrestles with Personal Accounts and how to maximise take-up rates. The latter will take forward the debate on the value of advice.

Because of the way that case studies are focused on one area rather than a wider spectrum, they are completely opposite to the mass study approach that I was familiar with in market research. But this single focus did offer the prospect of gaining an in-depth insight that would otherwise be lost. As stated by Denscombe in *The Good Research Guide*, “What a case study can do that a survey normally cannot is to study things in detail” (Denscombe 2003).

Because of this depth and the additional understanding provided by the literature review and my own financial planning experience, I was able to uncover a very rich vein of knowledge. Case studies also allow the researcher to examine a range of interrelated and interconnected topics, each of which can have a bearing on the other. Thus my project was able to examine social issues as well as spending patterns and savings habits and other financial behaviours. As will be seen in Chapters 4 and 5, this in turn enabled the project to answer a number of questions from a range of different reviews (Personal Accounts, the FSA Retail Distribution Review and Generic Advice, etc).

In selecting one scheme as the basis of my case study, I was aware that whilst it would present a unique experience, it never the less could still be an example for the broader class (of similar schemes, similar employers, etc). It is this ‘one of a type’ approach (Ragin and Becker 1992) and thus the lessons learnt would be, to a greater or lesser extent, repeated across the market.

However, unlike commercial market research where ‘representative samples’ are required (Kent 1993), small-scale social research projects such as this are not dependent on the degree to which they represent the whole population (Lincoln and Guba 1985). This ‘generalisation’ is a feature of much research and whilst I have aimed to select a representative sample of employees for interview, I remained aware that “interpretive researchers inevitably engage in some form of generalization, whether or not they like to admit it” (Williams 2000).

The case-study framework also encourages the use of other methods of research and in this project I have used both a questionnaire and action research to enrich the findings.

Yin (1984; 2003) identified three types of case study defined by their outcomes:

a) Exploratory (as a pilot to other studies or research questions)
b) Descriptive (providing narrative accounts)
c) Explanatory (testing theories).

In the context of my project, the case-study approach appeared to be ideally positioned to consider the value of "face-to-face" advice. They were comparatively easy to arrange and they were also reality based, with results that can easily be understood – a key requirement with such a diverse group of Stakeholders. However, I recognised that I would need to take care to avoid bias. Of the three types of case study identified by Yin, a descriptive case study was the most relevant to my project and was thus the basis used.

Effectively, the case study lasted from the day that the Head of Human Resources at AMS formally signed the consent form on the 19th January 2007 until the completion of the final interviews on 30th May 2007. However, preparatory work had taken place before and following the last interviews, all participants had to be contacted (some with copies of the guides, etc) and all to be 'thanked'. In addition, debriefing sessions were held with the IFA (Origen) and with AMS.

3.4.1 Interviews

I chose interviews because they allow the researcher to probe and gain a more in-depth insight into the interviewees' beliefs and opinions. I recognised that by going for depth I was limiting the number of interviews that I could complete and sacrificing an element of breadth, but I believed that this was necessary as I was researching emotions and experiences, together with personal and potentially sensitive subjects and issues.

I also recognised that whilst the interview would potentially allow a detailed exploration of the issues, it also depended on the skills of the interviewer (Baines and Chansarkar 2002). Although I am a good communicator (it is part of my job), I realised that I would need to hone my interview skills. In *The Good Research Guide*, amongst the list of attributes that an interviewer requires is a reminder that the interviewer needs to be “sensitive to the feelings of the informant” and to be able to empathise with the informant if the best results are to be obtained (Denscombe 2003).

I particularly needed to find out why individuals were making certain choices, why had they joined or not joined the pension scheme. What barriers had prevented them or what underlying reason or cause was there? Even non-joiners had made a choice and as this involved the foregoing of any employer contribution, this was almost like declining a pay increase (although it was a pay increase with ties). However, these questions could not be simply answered if I was to get to the root causes and to provide a meaningful outcome. To understand ‘why?’, I would therefore need to empathise with the interviewees and see things from their eyes.

Never the less, interviews are an efficient and economic method of data collection and by careful sampling, I hoped to represent the entire AMS ‘population’. Obviously I needed to get willing participants. Had this proved difficult, it could have placed a question on the validity of the research. In fact, only two individuals declined to be interviewed at the first round, one through pressure of work and the other because they were about to leave the firm (and would have done so by the time of their interview).

As you will see in Chapter 4, I was able to establish empathy with the interviewees and they spoke openly and ‘on the record’, but in the knowledge that they would not be directly quoted.

As part of the process, I undertook an extensive review of guidance for interviewers and the construction of interview questionnaires and I was particularly drawn to a number of web-based guides (Burgess 2003, Leung 2005, Mohr 2004, Wilson 2002). I developed an interviewer’s questionnaire based on the semi-structured interview approach (Bell 2003). This would allow some freedom whilst still ensuring that all the key issues were covered.

Initially I had planned to interview twenty employees of AMS. Of these, ten were members of the pension scheme and ten were not. In the end, I actually interviewed eighteen, nine from each group. Whilst the interviews proved to be very exhausting, the action research was fun to do. This does not mean that it was any less challenging, especially as my preconception of what would be required was wrong.

3.4.2 Action Research – a guidebook.

The Action Research part of the project consisted of the writing of a user-friendly guide that would enable the employees of AMS to understand a little more about financial products and services. However, the guide was not restricted to 'education', the aim was for the guide to assist the interviewees in understanding financial matters and then to take action.

I was using Action Research as it is ideally suited for use in work-based projects as it is pragmatic in its approach. The opportunity of introducing changes, which are monitored and modified as required following observation and reflection, means that this is a living programme. It is an excellent example of development through critical examination of theory and practice and indeed the case study itself was fashioned around this premise. Action Research is:

- Educative
- Deals with individuals as members of social groups
- Is problem focused and future orientated
- Involves change intervention
- Aims at improvements and involvement
- Invokes a process in which research, action <u>and</u> evaluation are interlinked
- Is founded on a research relationship in which those involved are participants to the change.

(Blaxter, Hughes and Tight. 2001)

Action research also challenges traditional social science research by moving beyond reflective practice to 'moment-to-moment theorising' (Torbet 2004). This flexibility proved to be beneficial as during the first set of interviews it became apparent that I would need to change the scope and structure of my proposed guide.

I was already familiar with the "action" process. I had come across and used Action Learning whilst studying for my Cert T Ed from Leeds Metropolitan University. It is a well-established technique used in business and is an appropriate learning tool for managers (Honey and Mumford 1982). 'The 'father' of action learning, Reginald Revans argues that learning involves two aspects 'P' and 'Q'. 'P' refers to knowledge that already exists in existing research, books, lecturers, personal experiences. This is 'programmed' knowledge. The second aspect is 'Q' which is 'questioning' and the insight that it can provide (Revans 1983). It is through this questioning that the precise issue or problem can be identified. This proved to be accurate in this research as whilst P learning had pointed towards one type of guide, through Q it became apparent that a different basis needed to be used. I found Revans' 'P' and 'Q' approach to be particularly helpful.

For this part of the project I decided to use the six stages Action Research Cycle as defined by McNiff (McNiff et al 2003) to design, write, trial and publish a consumer-friendly guide to pension planning. This 'guidebook' would then be tested in the field using the members of the Group Pension Scheme that did not have access to face-to-face advice.

Although the book was to be trialled on this group, I originally intended to write it for the general consumer so that it would have wider appeal when made available after the research had been completed. (Because of the bespoke nature of the final 'guide' this was not possible although it provides a useful template. A copy of the final guide 'How to make your dreams come true' is attached as Appendix 12).

At each stage of the research, I intended to evaluate the process and redesign as necessary. This included piloting the draft of the guidebook so that obvious problems (such as the use of complex jargon and language, etc) would be eliminated. The final research version would then be able to concentrate on the content.

Action research is normally seen as 'hands-on' and in this project it certainly was.
The guide – 'How to make your dreams come true' was designed to be practical and to encourage participation. Using McNiff's six-stage model (see Figure 6 below), I developed a draft guide which I piloted on a group of individuals (similar age,

employment, education, etc). Several drafts were tested before the final version was used on the interviewees.

The Action Research Cycle (McNiff 2003)

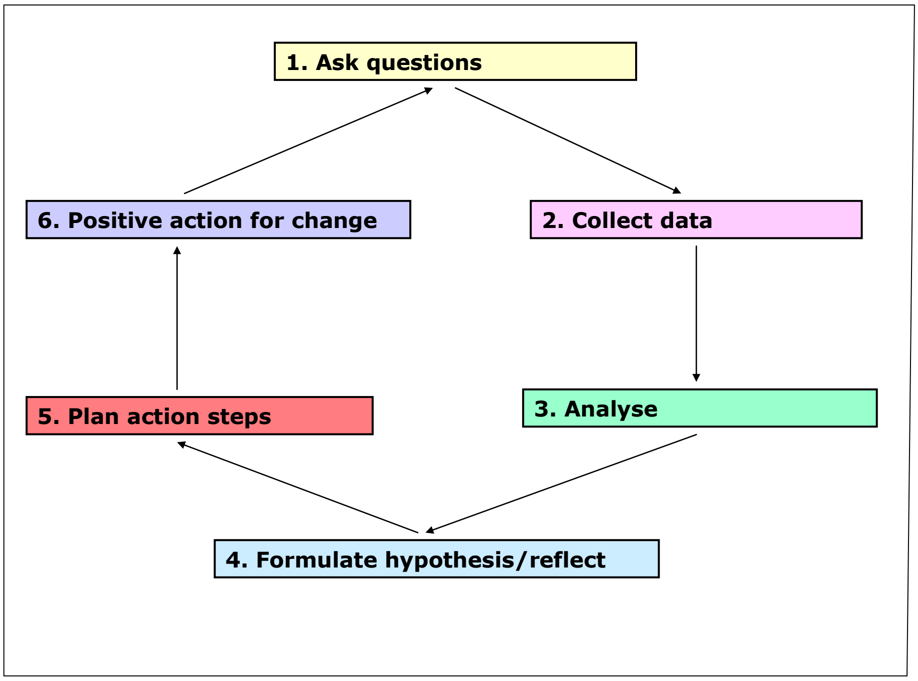


Figure 6. Action Research: McNiff template

Following McNiff's template, I then developed my own action research cycle.

My Action Research Cycle (first phase)

Prior to the first phase, I developed a mock questionnaire from experience, the literature review and scheme details. This was fully tested before being used as the first stage of the Action Research Cycle (see No1, Fig 7(a) below).

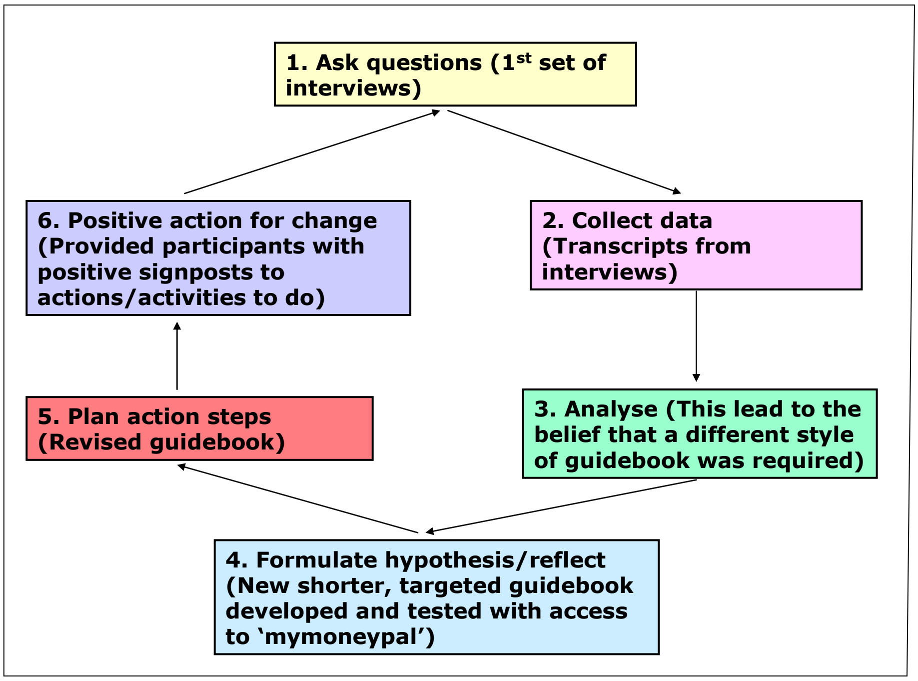


Figure 7(a). Action Research Cycle: My First Phase

As can be seen in the above charts, the six stages were as follows:

Stage 1 - Ask questions

I had already developed a general awareness of consumers' understanding of financial matters. This was partly achieved through the literature research, partly by my own knowledge and experience and partly by reviewing the leading consumer material in the market. Prior to commencing the interviews at AMS, I held a series of preliminary interviews with a similar group. These meetings enabled me to develop the draft interview questionnaire (which I subsequently piloted) and to then develop a draft version of the guide 'How to make your dreams come true', which was refined following the first round of interviews at AMS.

Stage 2 - Collect data

For the actual guide, this took place as part of the first round of interviews. I was surprised by some of the answers given and this did lead me to rethink the guide. I had originally assumed that the guide should be a reference tool that covered a wide area of financial planning. It should also be sufficiently comprehensive so that many day-to-day financial issues could be resolved by referring to the guide. In fact I discovered that the participants wanted a short sharp guide that either, quickly and easily gave them the answers that they required, or that guided them to where to go. In essence, they wanted instant gratification with the minimum effort on their part. They also had a low threshold of boredom.

These initial interviews provided the data on what information, guidance and support the interviewees would want or expect from a guide.

Stage 3 – Analysis

The analysis of this feedback led me to consider a radical change in the size, style and scope of the guide, plus I could see the advantages (for this group) of offering access to a web-based financial planning resource tool. This analysis was based on the feedback from all the interviewees, however, the emphasis was on the non-joiners as this was the group that I needed the guide to influence.

Based on the interviews, I was also able to identify what information, guidance and support they would welcome and which particular financial planning issues were of most concern. For example, it was evident that 'wills' were an important subject for many and one participant was currently looking at establishing 'wills' but he had been quoted a highly inflated price.

Stage 4 - Formulating hypothesis/reflection

From the analysis, I was able to identify what information and guidance would be needed in the guide. This included 'wills' which I ensured, therefore, was one of the topics covered by the guide.

Stage 5 - Plan action steps

The analysis and reflection generated three significant changes to the development of the written guide.

Firstly, I decided that to be effective, the guide had to be 'bespoke'. Therefore, instead of being written in general terms, for wide distribution at a later date, the guide was written specifically for employees of AMS and addressed the critical issues for that they had raised in interviews with me.

Secondly, the guide was kept 'short and sharp'. It did not attempt to cover every issue but focused on being simple and easy to use. It was thus less of a reference work and more of an interactive tool.

Thirdly, I decided to issue the guide in conjunction with access to a financial planning website. Whilst the literature review had indicated that 'web-based' solutions were still unpopular, the staff at AMS were highly IT literate and frequent and enthusiastic users of the web. By including access to *mymoneypal* I was able to focus the guide on delivering simple messages and then to refer the reader onto the website where necessary.

Stage 6 – Positive action for change

The development of the guide included testing the text, language and layout, together with gaining free access to *mymoneypal* for a limited period.

The development process proved very interesting and was itself structured around a further Action Research Cycle (see Appendix 14). Having written the guide in a simple and consumer-friendly style, I tested the guide out on a variety of individuals who I had selected as being similar to the AMS staff profile. Although the guide was written to 'answer' the questions that AMS staff had raised in the first interview, they were all general financial planning subjects that would be of interest to most individuals. Having finalised the text, I then asked my Head Office to produce the guide in a PDF format. I had to explain that the guide was not subject to compliance 'sign off' as it was written as generic guidance and was part of a university project. This was accepted, but my marketing department went wider than my brief to them and redrafted the layout and style. This included the addition of 'white space' and production in font size 8 as an A5 document.

I was not happy. When I questioned the change, I was assured that this fitted the (AEGON) house style and was the most appropriate layout. I personally doubted that it was the right style and format. I therefore carried out an experiment and asked my original 'guinea pigs' to compare the new version with the old. In all cases, the original format was preferred. A key comment was the larger font size of the original draft.

On the basis of these findings, I arranged for my Head Office to PDF the original document (without changes) and this was the version subsequently issued. Whilst I was dealing with the printing of the guide, I also worked with AEGON Benefit Solutions (a specialist IT firm within AEGON UK) to grant the interviewees access to *mymoneypal. Mymoneypal* is an interactive financial planning website that gives the user a range of comparison sites, information, calculators and budgeting tools. In this context, the ‘pension calculator’ was particularly useful. *Mymoneypal* is normally provided (at a cost) to large corporate clients or to employers who place substantial pension schemes with AEGON Scottish Equitable. It is one of a number of “added value” services that AEGON can provide. This access required each employee to be given a personal password and access to the site for a limited period (up to four weeks).

(Second) Stage 6 - Positive action for change

The guides were finally issued and access to the website given (free) for a trial period.

Stage 7 – Original Stage 1 repeated (Ask questions)

The second round of interviews then took place to see what impact the guide and *mymoneypal* had had and to explore some further topics.

Stage 8 – Second interviews

The second interviews produced some interesting answers which are reviewed later. In effect, the cycle continued (analysis, etc) thus allowing me to reach some firm conclusions. At the end of Stage 8, I issued copies of the guides and access to *mymoneypal*, to all the remaining AMS staff who had participated in the research.

A copy of the guide “How to make your dreams come true” that was actually issued is included as Appendix 12.

As explained above, Stage 7 was a repeat of Stage 1 of the process and this led through the second interviews (Stage 8) to further analysis (Stage 9), which enabled reflection to take place and a hypothesis/conclusions to be developed (Stage 10). I ceased the process at this stage.

The following diagram (Figure 7(b)) shows the original phase and this final phase (stages 7-10) of my Action Research Cycle.

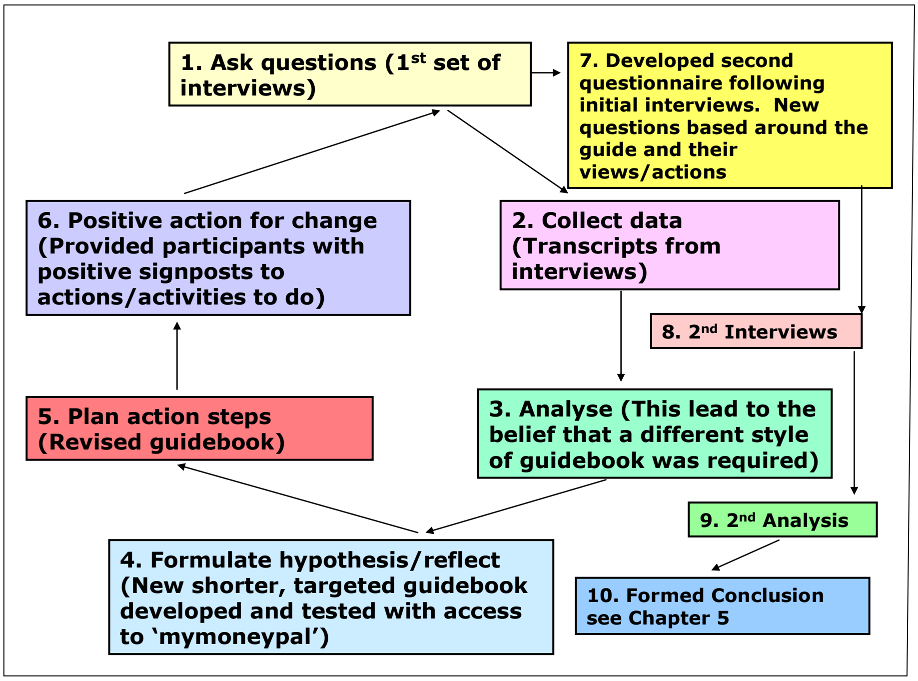


Figure 7(b). Action Research Cycle: The final phase (stages 7-10)

3.5 When Did the Research Take Place?

The overall timeline has already been covered in 3.3 above. Below are details of the interview schedule.

The initial (first round) interviews took place on the 5th, 12th, 21st and 29th March and the 4th April. All the interviews were held at the AMS offices in London. AMS kindly provided me with a meeting room and refreshments. Each of the interviews was scheduled to last up to a maximum of 1.5 hours although the average interview was actually just under this.

The second round of interviews took place on the 30th May at AMS offices. Again I was provided with a room. Each interview was scheduled to last for one hour. Due to redundancies, leavers (AMS has a relatively high staff turn over, although this is less than the average for their sector) and work pressures, I only saw four participants at the second meeting.

3.6 Selecting the Interviewees

Prior to the interviews I had been given access to the pension scheme details. This included the structure of the scheme and the contribution bands. This was provided by a mixture of AMS and Origen. In addition, AMS provided details of salary, grades and service. At this stage, the information provided was ‘statistical’ and permitted under standard financial terms of consent and covered by the employers signed consent.

At the commencement of each interview, each employee was given a full briefing on the nature of the research, the use of the information collected and the strict code of ethics enforced by the university and my professional bodies (CII and PFS). Each interviewee was then asked to sign an ‘Informed consent form” before the interview commenced. All the interviewees signed the consent. A blank copy of the form is reproduced as Appendix 2.

The pension scheme is a standard Group Personal Pension arrangement written by a major Edinburgh-based insurer, Standard Life. It does, however, have a very low charging structure. The employer also provides a range of other benefits (see Chapter 4 for details). When provided with the pension scheme details, I was told that there were three membership categories: executive, manager and staff. This was the case but the payroll is run with five grades. In addition, 70% of the staff are female.

In an ideal world I would have had access to all 70 staff at the London office of AMS. However, this was not practical for the following reasons:

- I had insufficient time available to interview all the staff to the necessary depth. I therefore had to create a representative sample.
- Staff turnover was relatively high, although less than the sector average. There was therefore a real possibility that staff changes would restrict the interviews (in fact, one of the first-round interviewees was in the process of completing her notice period).
- Whilst AMS were generous in their support, including granting staff time off to attend interview, this was on the basis that the disruption was restricted to a reasonable number (20).

When selecting the participants I therefore had to take into account the sex, age and grades of staff to ensure that I had a representative sample, both for the scheme members and non-members. For the scheme member group, I also had to allow for eight of the 20 paying ‘additional contributions’ (AVCs). An added complication was that there was only three pension membership grades but five salary grades. During interview it also became apparent that some staff had been TUPE’d[8] and others had negotiated membership of a higher pension band as part of their package.

The following is the breakdown of the London staff by grade.

Grade	Number in grade	Number in scheme	% in scheme	Number interviewed (Scheme membership in brackets)
1 (Executive)	5	3	60	2 (0)
2	4	1	25	2 (2)
3	12	6	50	3 (1)
4	28	9	32	7 (5)
5	21	1	5	4 (1)

Table 1. Breakdown of London staff by grade.

This breakdown, especially the small percentage of Grade 5s (the Personal Account target market) that are members of the GPP, is interesting.

To select the participants I had hoped to use a random sample technique (Kent 1993), but the small size of the sample forced me to adopt a semi-random (stratified sampling) (Baines and Chansarkar 2002) selection, weighted to give the correct balance of male/female, scheme membership, age and AVC payments. I also had to make interventions.

This decision was not unexpected as according to Denscombe, “(Whilst) there is nothing to stop researchers using …random sampling… selection is most likely to be

[8] Transfer of Undertaking (Protection of Employment) Regulations

based on non-probability sampling. People tend to be chosen deliberately…because of the position that they hold" (Denscombe 2003).

There are 70 staff based in London and 20 were members of the pension scheme. This represented 29% of the total. This was slightly higher than the Thames valley office and below the office in the North West. Eight of the staff in London were paying AVCs. I was given total freedom to select who I wanted to interview. All staff were notified about my research and were encouraged by AMS to take part (see Appendix 6).

I used stratified sampling to select the staff who would be interviewed. Because of the relatively small numbers, I had to combine Grades 1 and 2 to get a representative balance. I also had to select for interview the one Grade 5 who was in the pension scheme (luckily, she said yes) and I increased the weighting of Grade 4s to ensure a balance of lower grades. I maintained a 70/30 female: male split and ensured that all ages bands were covered.

Analysis of the staff and GPP records produced the following breakdown:

- 31% of staff were in Grade 5 and 40% were in Grade 4.
- 70% of the staff were female
- Seven out of the 20 GPP members were male (at 35% this is not far from the 30/70% male: female staff split)
- The average age of non-members of the GPP was 30
- The average age of members of the GPP was 40 and it was also 40 for those paying AVCs
- Table 1 above shows the percentage of staff at each grade in the GPP.

There are a number of surprising conclusions and questions that can be drawn from even this basic data.

- Pension scheme membership seems to be age rather than sex driven
- The lowest scheme participation rate is at the lowest grade (and thus lowest salary). This is a key Personal Account target area.
- Surprisingly, the second lowest category is Grade 2.

- Every one of the employees who has not joined the GPP has effectively given up a ‘remuneration increase’ ranging between 3% and 7.5% of basic salary. Whilst this is ‘deferred pay’ and there is a cost today (employee contribution, NET of tax relief) it is still astonishing that so few (29%) have joined.

The question is, why?

The first round of interviews took place on the 5th, 12th, 27th, 29th March and 4th April 2007. Each interview was scheduled to last no more than one and a half hours. I held four interviews per day on the 5th, 12th and 27th. Three interviews per day were held on the 29th March and 4th April. For the interviews I was given use of a meeting room at the AMS offices. Interviews were digitally recorded and all participants agreed to be recorded.

The invitations to attend for interview were issued on my behalf by one of the team leaders in the HR department. She also controlled the timetable and chased up interviewees and was the central point of contact for AMS staff and myself. Because of the nature of their business, with staff required to attend client locations at relatively short notice, there were frequent amendments to the timetable. However, the actual dates were not changed. Due to these pressures and a staff member leaving at the end of this round of interviews, I only managed to see a total of eighteen staff. As this only took place towards the end of the series, it was not possible to substitute staff.

The interviewer’s questionnaire had taken several months to develop and pilot. It also had to be refined as I gained more awareness of AMS and their GPP arrangement. I also took the opportunity to discuss some topical issues that were being debated in the market, such as the role of ‘generic advice’ and the educational level of advisers. A copy of the actual questionnaire used is attached as Appendix 4.

I interviewed representatives from all grades (Grades 1 and 2 were combined). Service with AMS ranged from seven weeks to nine years. The youngest interviewed was 23 years old and the eldest was 50. The average age of interviewees was just under 36, which was consistent with the average for the London office. In total I saw 13 females and five males. This meant that the percentage of males was 28% which (allowing for rounding – it being impossible to split individuals) was the 70/30 % split of the workforce. The average employee is aged 31.

The table below lists the participants. The 5 employment grades have been simplified into 3 levels (Junior, Middle and Senior) and the names of the participants have been changed to ensure anonymity. The levels are a reflection of their salary grade and not their job title.

Pseudonym	**Level** **(Junior/Middle/Senior)**	**Age**	**Member of GPP**	**Paying AVC**
Amanda Brown	M	42	Y	N
Beverley Burton	M	41	Y	N
Christine Crow	J	24	N	-
Debbie Duke	J	49	Y	N
Francesca Field	M	27	N	-
Jane Fullerton	M	36	N	-
Kath Green	S	33	Y	N
Lyn Hamilton	J	23	N	-
Mary Jenkins	M	35	Y	Y
Maureen Keele	M	50	Y	Y
Pauline Lomax	S	37	Y	Y
Rachel Mason	M	45	Y	N
Stephanie Owen	M	27	N	-
Adam Atkins	M	35	Y	N
Brian Curry	J	25	N	-
David Evans	S	36	N	-
Edward Foxton	S	44	N	-
Fred Hughes	M	36	Y	N

Table 2. List of Participants (anonymised) with details of age, employment grade, scheme membership and AVC contribution.

The offices in London are centrally located in a fashionable area and are modern, state of the art. The building itself maintains the original grand Victorian exterior.

For the interviews I was given use of either a meeting room or ‘pod’. The ‘pods’ are small meeting rooms located near the reception. They can seat between four to six people and were thus adequate for my one-to-one interviews. However, being located so close to the reception (and other ‘pods’), there was, on occasion, some background noise. This was most noticeable during the interviews although it did not affect the ‘playing back’ on the digital recorder.

I had purchased a digital recorder specifically for this research. It operated perfectly. Because I was not used to using this equipment and conducting semi-structured interviews, I spent many hours practising. This included a number of pilot interviews.
All participants agreed to be recorded.

In each room or pod there was a desk and several chairs. Lighting was good and each interviewee was encouraged by me to bring a drink (tea, coffee, water). I adopted an informal approach so that they would feel more relaxed.

3. 7 Analysis of the Data

This consisted of two phases. Firstly, I had received a wealth of information from AMS on their structure, scheme details, employment patterns and general employee information. This enabled me to compile various statistics such as employment grades, gender, age, etc. I was able to analyse this statistical evidence and develop views on the profile of each AMS office and the type of individuals employed.

Having taken the decision to concentrate on the London office, I was then able to drill down to what this meant for London. Knowing the London area (and the cost of housing, etc) I was able to structure the questionnaire so that it was relevant to the participants.

The second phase consisted of analysing the first set of interviews. Immediately after the completion of the first interviews, I carried out a quick analysis to help develop the guidebook and the second questionnaire and interview. However, following the second set of interviews, I then went through each individual recording and captured the key outcomes from each. In Chapter 4 I have provided a synthesis of the responses received to each question.

Were these research methods appropriate to this project?

I have carefully reflected on the aim, objectives, scope and size of this project and how well the research methods fitted in. Without doubt, the task was challenging and took more time and energy than I had anticipated.
However, each of the methods was appropriate for its part of the project. The case study set the context, the interviews provided the detail and the action research allowed a guide to be tested in a controlled environment. Together with the literature review (and especially the key lessons learnt from the highlighted studies), a good level of triangulation was also possible.

I believe that they have enabled me to address the issues in a rigorous and professional way. They have ensured that the project meets both my aims and objectives and the Level 5 descriptors necessary for work at the doctoral level. Significantly, the research is also highly relevant, not only to the main question of 'does advice add value' but also for the number of other reviews that this research will feed into (Retail Distribution Review, Generic Advice, etc). Importantly, these research methods have also enabled the research to be conducted to the highest standards of integrity, professionalism and ethical practice.

What weaknesses were there with this research?

Whilst I am happy with the outcome, it would be inaccurate to say that everything went as well as expected.

Firstly, I found that the time required was greater than I had originally planned. This was largely because of the additional work I had to do for the interview and questionnaires. I realised that for the interviews to be a success, I had to carefully stage manage the interview, to ensure that the participants would be comfortable and willing to speak freely. Apart from the fact that I was going to pry into some personal aspects of their life, I was also considerably older than many of the participants and most were female.

In the end, the results were better than I anticipated with no resistance. I quickly built a rapport with all of the participants. I am sure this is largely a reflection of my experience and current role but I still needed to do the extra work for it to succeed. Interestingly, several asked if I would be their financial adviser!

The second issue was the guide book. I had expected to write a fairly comprehensive book covering most financial issues. Indeed I had already done some preparation on this basis. I also expected that the 'big book' would have a life outside of the research. In fact I discovered (an advantage of action research) that this was not what was wanted. Basically, what the participants required was a very simple and easy guide. Indeed the ideal would have been for me to have told them what to do, something neither I nor the guide can do without, in effect, giving regulated financial advice.

Thirdly, the staff turnover at AMS meant that I only managed to see four out of the nine individuals I expected to interview for a second time. This was largely outside of my control, although, in hindsight, if I could have written and produced the guide 'How to make your dreams come true' more quickly, it would have kept the numbers up.

The final disappointment was that at the second interview I found that the individuals had not taken the action that I had expected. There were clear financial planning improvements to be made but none had been dealt with even though the guide specifically mentioned them. The AXA Avenue research and my project have something in common here and the old saying "You can take a horse to water but you cannot make it drink" is certainly true. That said, I do not believe that the methodology affected this.

Overall, I am satisfied that the methodology used and the project overall has been a success. Improvements that I could have made, such as timing, have not reduced the effectiveness of the research.

Chapter 4 - Research Activity and Results

4.1 Research Activity – What Did I Find?

The first round of interviews was based around 43 questions. The interviews were semi structured thus allowing the participants (interviewees) some freedom in the answers they gave but over the one and a half hours, all the questions were covered. Some questions related to specific UK issues and proposed changes to the UK regulatory or pension regimes.

It will be seen from the questionnaire (reproduced in Appendix 4) that the initial part of the interview was to get the interviewees relaxed, to build a rapport, and to gain a little more understanding of their background. I have analysed each interview recording and a synthesis of responses to each question is reproduced here.

The aim of the interviews was to use my knowledge and experience to gain an in-depth understanding of the participants and to form a ‘naturalistic generalisation’. However, for a few questions, a qualitative outcome was more relevant. Of course, some questions were neither designed nor intended to offer either outcome; they were there simply to relax the interviewees and to put them at their ease, or to provide simple data for use in the overall analysis and synthesis.

The information gained from these interviews has enabled me to have a good understanding of the participants’ attitudes, beliefs and views on the AMS benefit package, general financial matters and a number of current government and regulatory proposals. This insight has enabled me to draw conclusions and recommendations on these issues. It has also allowed me to answer the question ‘does advice add value’.

4.2 First Round of Interviews

Questions 1 and 2

Question 1 asked about the interviewee's background, job role and period with AMS, etc. Question 2 focused on the induction process they went through when they joined AMS.

As expected, there was a wide variety of backgrounds. Some had substantial international experience with several being foreign nationals. Apart from periods away at university, the majority had lived and worked predominately in London and the surrounding area.
All appeared to enjoy working for AMS and they all see it as a dynamic organisation. As one participant said about the firm: "Excellent. Very professional, very client focused. Lots of opportunities. Fast paced, lives its values" (Jane Fullerton).

Induction

Not all staff had had an induction day or session. Reasons ranged from "I was ill on the day it was held" (Christine Crow) to "I started before we did them" (Beverley Burton). The content of the sessions seemed to be varied and many of the participants were unclear about what was covered although one participant who attended the very first scheme induction meeting (in 2000) said that it was "quite well implemented" (Debbie Duke).

Others who did attend an induction presentation on the scheme and could recall details of the presentation had mixed views. One participant who joined AMS a few months before the scheme was introduced said: "I wasn't prepared to join the company unless it had a pension…very important to me" (Kath Green).

Another participant who did not join the scheme was "quite disappointed, at my last employer someone met me from the (pension) company and explained the scheme and made it easy. Here it is so fast paced that I didn't have time to read all the information and fill in the forms" (Jane Fullerton).

Nearly everyone said that the pension scheme (and other benefits) was not a motivator to join AMS. They were attracted by the job and the company although one participant (who had joined the pension scheme) added: “you would be crazy to turn it down” (Amanda Brown).

Unsurprisingly older employees were generally more attracted to the pension scheme as were those who had left employers who had provided a good (often Defined Benefit) pension scheme. They said that they understood the need to join a pension scheme.

A number felt that the matching contribution rates on offer were not good and should be higher; this included participants who had not even joined. Another commented that the contribution rate “didn’t matter”, it just meant that they had to negotiate a higher salary before joining (Francesca Field).

Most participants recalled receiving a pack on the GPP and for many this had been posted to their home address. A few admitted that they had barely opened it, with one admitting that it was still in their desk at work and unread. Most felt that the information was comprehensive although some felt it was “too much” and just confusing.

These two opening questions were designed to open up the dialogue and to put the interviewee at ease.

Question 3. How knowledgeable do you feel about financial matters?

When asked how knowledgeable they felt about financial matters, half felt that they were ‘knowledgeable’ with the balance either ‘neither knowledgeable or not’ or ‘not very’. None of the participants felt that they were ‘very knowledgeable’ or ‘not at all’.

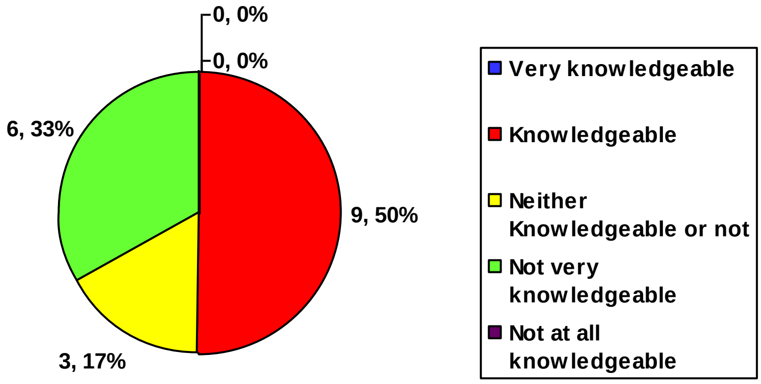


Figure 8. Question 3. How knowledgeable do you feel about financial matters?

You will see from the above that half of the participants felt that they were 'knowledgeable'.

When probed, there was a general feeling that their knowledge depended on the subject or the amount of research they could do. One of the foreign nationals felt very knowledgeable about financial matters in her home country and only 'knowledgeable' about the UK but she actually appeared to understand UK financial products better than many others. This may be a reflection on the need to take greater responsibility for one's own finances in other countries.

Those aged 36 and above also felt more knowledgeable than the younger participants, possibly a by-product of experience. Interestingly their age was also more relevant than their seniority in the organisation or their personal level of academic achievement.

Question 4. How confident are you about making financial decisions?

A similar pattern emerged in answer to this question, although there was noticeably less confidence. Interestingly, some who had classed themselves as 'knowledgeable' were less confident than others with a lower knowledge score.

Age did not appear to have a material impact on the level of financial confidence and whilst senior grades had more confidence this was not universal and was probably more a reflection of their general confidence.

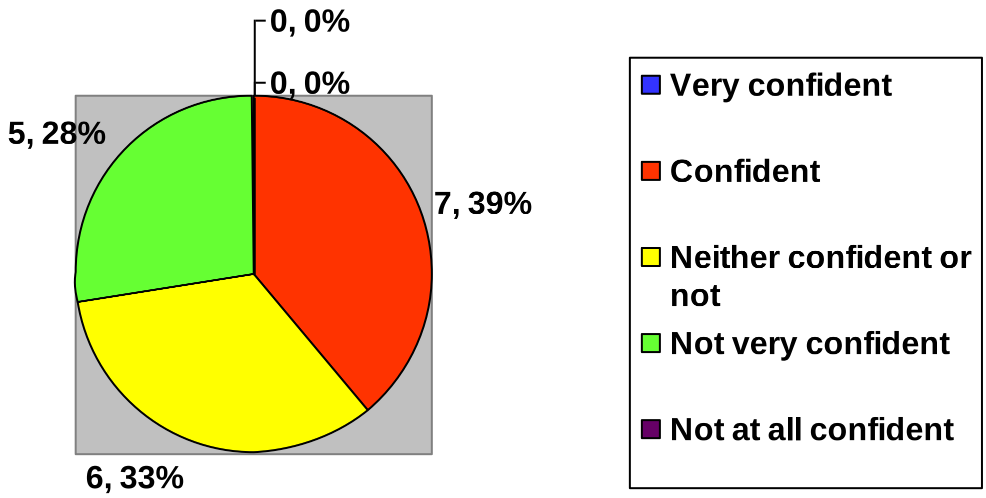


Figure 9. Question 4. How confident are you about making financial decisions?

Questions 5, 6 & 7. Savings and investment products held and how and why obtained

90% of the participants had some form of savings account with a bank or building society. Of these, 50% were opened via a local branch. 12.5% were taken out over the phone and 37.5% were internet based.

When asked why these accounts were opened, the answers ranged from: "It was started by my grandparents for me" (Mary Jenkins), to the following comment from a male participant: "I needed to discipline myself…always buying things like new clothes…" (Brian Curry).

Several participants were also using a savings account to build up a deposit on a house or flat. Only 40% had an ISA and these were predominately cash based through a local bank or building society branch. Some had been established for them by parents or grandparents. Surprisingly, only one of the four senior participants interviewed had an

ISA and that was only a Cash ISA. As all four are high net worth individuals (and thus higher rate taxpayers) this was an unexpected finding.

Just under 30% held National Savings products, mainly Premium Bonds. Many were gifts but in one case the participant had deliberately switched from playing the national lottery. The purchases were all via the Post Office.

Shares were held by almost half of the participants. Nearly all were the result of employer share schemes or ‘privatisation’ stocks. One participant did, however, make regular share purchases. Neither sex nor seniority (by job function/grade) was an indicator, although younger staff had less exposure, partly due to the dates of the ‘privatisation’ issues.

A third of participants had endowment policies. Apart from one participant who had been recommended (by a Tied Adviser) to take one out as a savings plan, the others were mortgage related. They had been sold by banks (all Tied Advisers) or mortgage brokers.

Two thirds of the participants had life insurance in addition to the cover provided by AMS. The most popular method of purchase was via the internet with ‘advisers’ coming a close second. The life insurance from the advisers was usually mortgage related.

The internet-purchased life cover was purchased on a ‘DIY’ basis after the need for the cover had been identified by the individuals. One participant (who actually purchased life cover via the bank) explained that the reason for taking out the life insurance was “the bigger mortgage and having the children”.

Clearly the accepted need for adequate protection for loved ones is the driver of these purchases. The fact that a high percentage of the purchases were through the internet shows a degree of confidence and knowledge about what was needed. To cover a mortgage, the sum assured is known but for other protection, the need for some guide or baseline leads towards an advised route.

Critical illness was only taken out by three participants, two via a Tied Adviser and one via a bank. Only one participant had taken out PHI. This was through a bank. Bank-advised sales are mostly tied to one provider, although multi ties are starting to develop.

PMI (Private Medical Insurance) is one of the employee benefits offered by AMS. However, because it is treated as a benefit-in-kind and tax is payable on the premium, employees have to agree to participate. The AMS scheme can also be extended to cover the spouse or children of the employee, but the full cost of this is payable by the employee.

Almost a third of participants had additional PMI cover, either via AMS or because their spouse was separately covered via their own (or their employer's) scheme. However, one AMS employee had privately taken out a personal PMI policy. When discussed it transpired that the PMI policy with Pru Health had come "with six months free gym membership" (Lyn Hamilton). The participant had not remembered that this product was provided by AMS and therefore she had not compared the two.

In an earlier part of the interview, we had discussed the induction process where the PMI (and the pension scheme) had been covered but she had seen no need for either and ignored the option to join. It is highly likely that the tax charge on the AMS sponsored PMI and the separate cost of gym membership would be less than the participant is now paying. Because the sale of the Pru Health was non-advised (she arranged it over the phone), no one warned her that she had an employer alternative to consider.

Three participants had investment properties. One was a flat in London which she managed to keep on (and rent out) when she moved up the housing ladder with her partner. Another was a holiday home abroad. The final participant was actively buying (and renting out) properties as an investment. Not unexpectedly, two of the three were middle ranking staff and the third was a senior member of staff. All had financial resources at their disposal.

Considering the incomes of some of the participants, I was surprised by the relatively low level of investments and savings. I was also surprised by the low level of contact with the financial services market, especially IFAs. I had half-expected investment properties to feature more widely as this is a frequently talked about investment, but again it hardly featured. This might partly be explained by the relative youth of the participants and the high cost of property in and around London.

Question 8. Sources of information on investments and savings

When discussing this question with the participants, I allowed more than one source to be chosen as earlier research had shown that many individuals consider several sources before reaching a decision.

The most popular information source is the internet, with newspapers coming second and banks third. The internet was popular with young (35 and under) and old (36 and above) alike, however, banks scored higher with the older (36+) participants. Interestingly, all four of the senior staff interviewed used the internet. A few participants in discussing this question went on to say that they "distrusted" Financial Advisers.

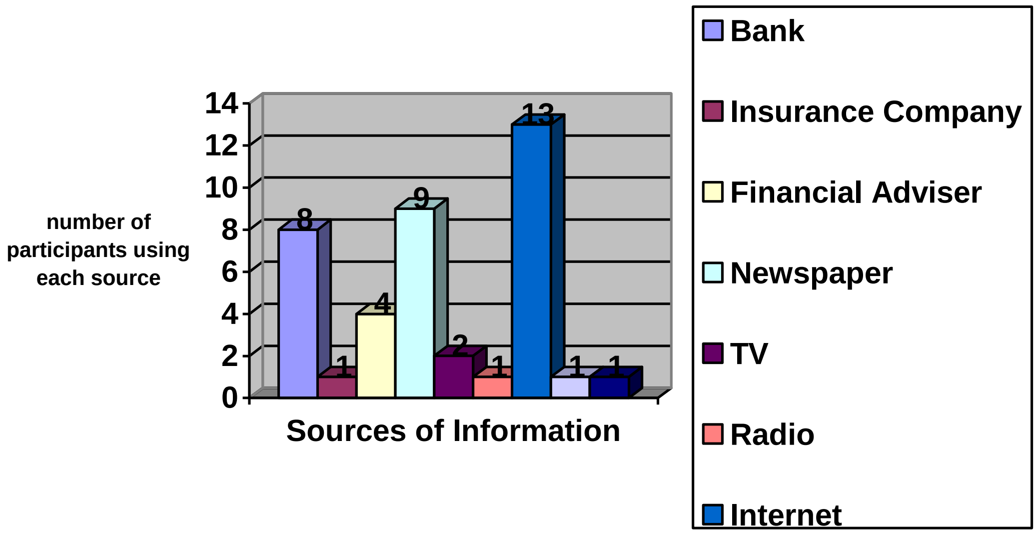


Figure 10. Question 8. Sources of information on investments and savings.

Question 9. If you were considering making an investment in the next two weeks, who would you discuss it with?

Again, I gave the participants the opportunity of naming more than one choice. Overall, members of the family came top, with 'Mum' and (especially) 'Dad' being quoted and this comment applied across all salary grades. The second favourite was Financial Advisers with this group being particularly strong with those aged 36 and over. Third was Banks.

Of the four senior staff (by grade), two used an IFA as their first choice, one would use a bank and the fourth said that she would 'do it herself' (Pauline Lomax). The reason given by one 'senior' for using an IFA was "speed and simplicity is key" (Edward Foxton).

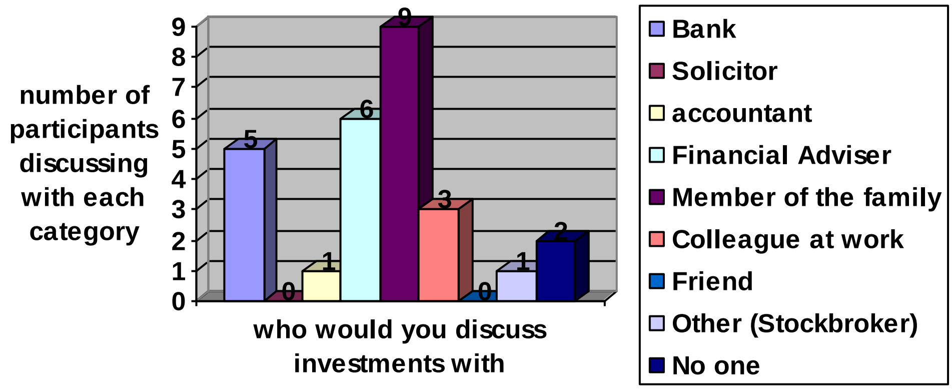


Figure 11. Question 9. Who do you discuss investments with?

Question 10. Have you ever received "face-to-face" advice from any of the following?

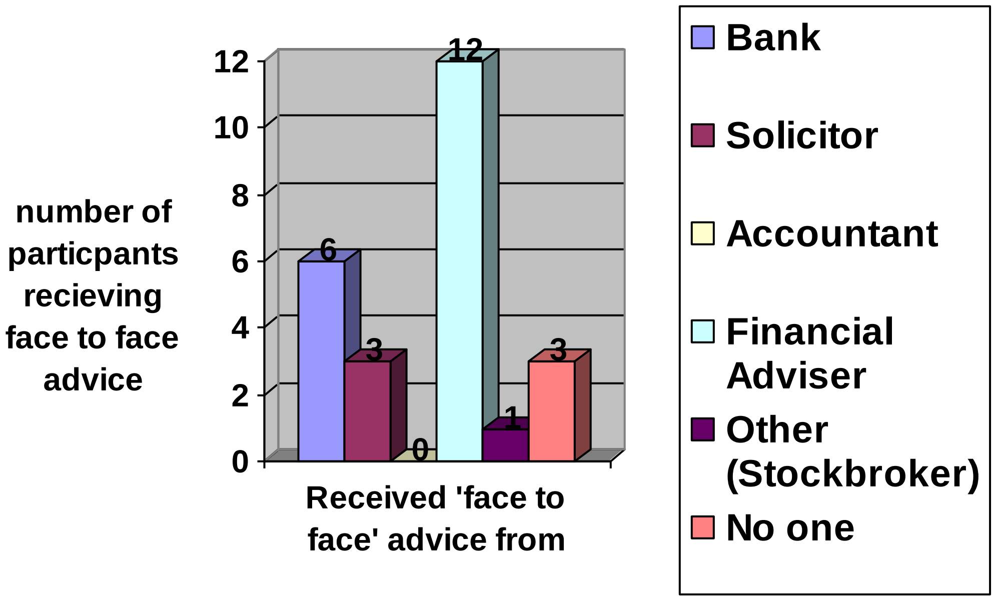


Figure 12. Question 10. Sources of "face-to-face" advice used by interviewees.

Most contact recorded was 'event driven' such as advice on a mortgage. A few had discussed pensions or life insurance. Most of the financial advisers seen were tied (or potentially multi tied). Some of the financial advisers listed were from advisers employed or recommended by a bank and one was employed by an accountant. There was little contact with Independent Financial Advisers.

The solicitors quoted were for mortgage or divorce-related advice. The experience wasn't always good. One participant had felt pressurised in a bank and had walked out "My bank regularly calls me, telling me I have a personal banker and pestering me to meet them. About a year ago I had a session but I felt that I was just being sold to, it wasn't advice…" (Pauline Lomax, Senior grade).

Another said: "(The) first time I went through a mortgage broker, last time I did it myself…researched via the internet and newspapers. I was over confident that I could do it better myself, brokers do it for themselves" (Stephanie Owen, Middle grade). She went on to say that the information is there if you look, it just takes time and effort.

Several of the participants had had contact with the Financial Ombudsman Scheme (FOS) because of mis-selling.

Question 11. The last time you saw someone for financial advice, how did you rate their (a) knowledge (b) the advice (c) value of the advice (d) products recommended?

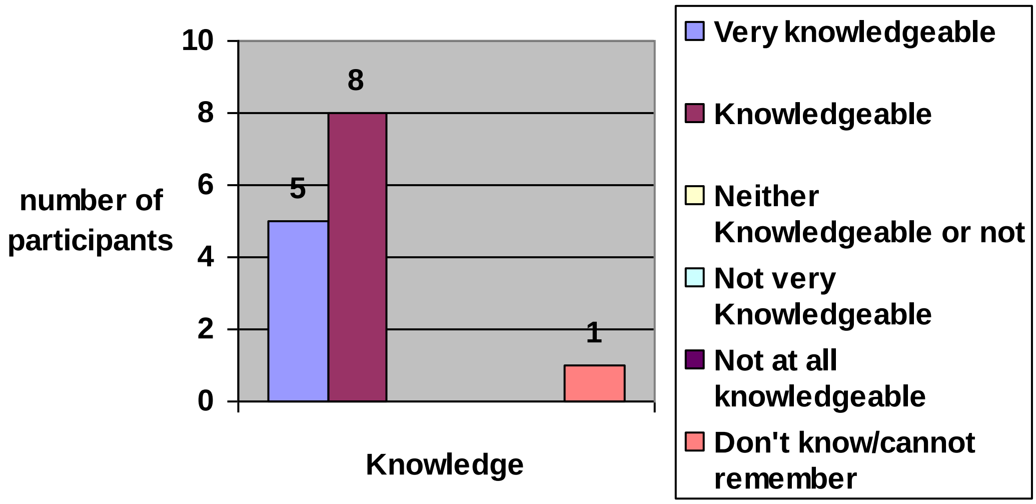


Figure 13. Question 11(a). Adviser Knowledge.

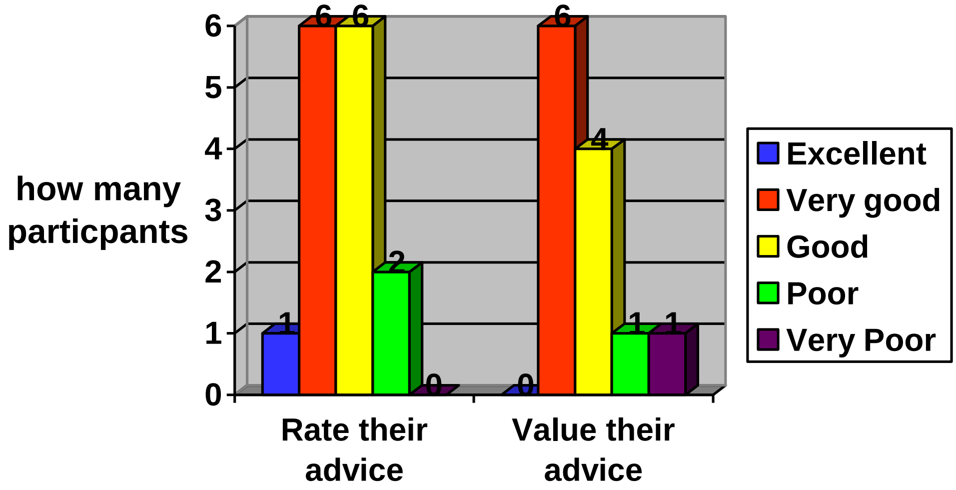


Figure 14. Questions 11(b)+(c). Rate and value of advice received.

Interestingly, one participant who rated the advice ‘very good’ had recently complained to FOS and won a case of mis-selling against the same insurance company that the current (and previous) adviser were tied to. This was because he “trusted” (Adam Atkins) the second adviser who had even assisted him with his claim (and sold him a replacement policy).

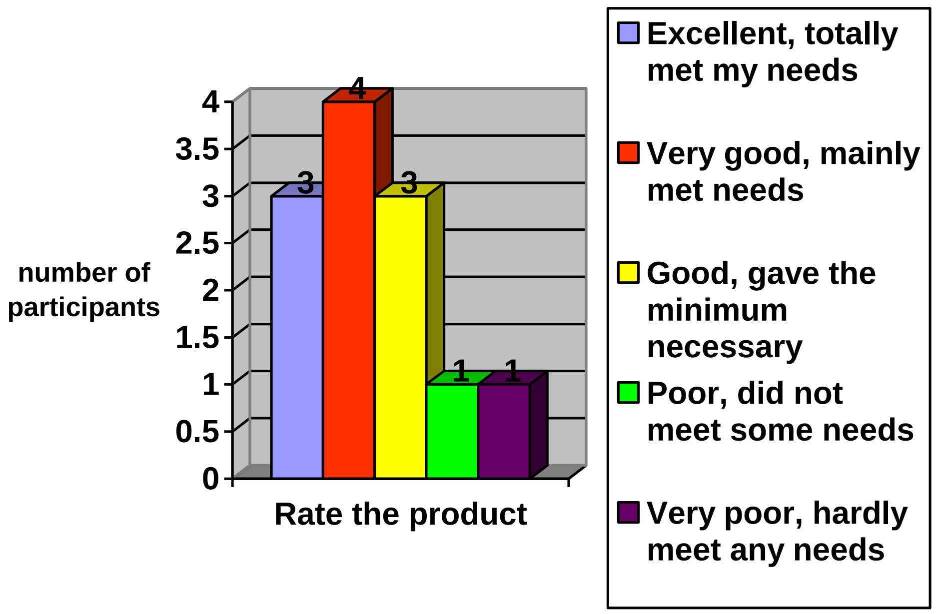


Figure 15. Question 11(d). Satisfaction with product recommendations.

Whilst it was good to see that 25% of the products recommended were rated excellent, it was very disappointing that 17% were either viewed as poor or very poor. As these were advised purchases, it does little to instil long-term confidence in the market.

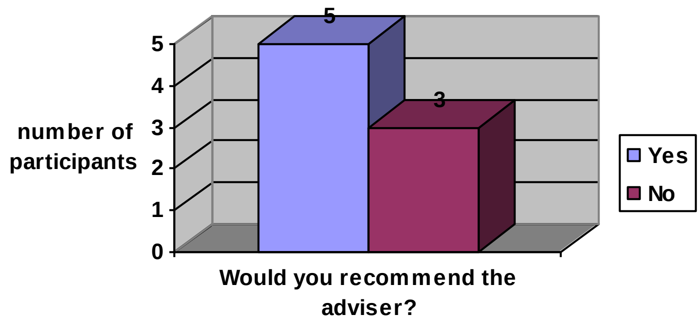


Figure 16. Question 11(e). Would you recommend the adviser?

When all the answers are read together, it is disappointing to note that there are so many 'poor' or 'very poor' ratings. Considering the training advisers are now required to complete and the regulatory framework that exists, if these ratings were repeated on a national scale, it would indicate a significant market failure. If representative, this would certainly back up the call for a cultural change, a drive to higher standards and levels of professionalism as suggested in the FSA's Retail Distribution Review. It would, however, also question the wisdom of suggesting that primary advisers could be (largely) removed from the suitability regime.

Question 12 (a). Until recently advisers were Tied or Independent, had you heard of this polarisation?

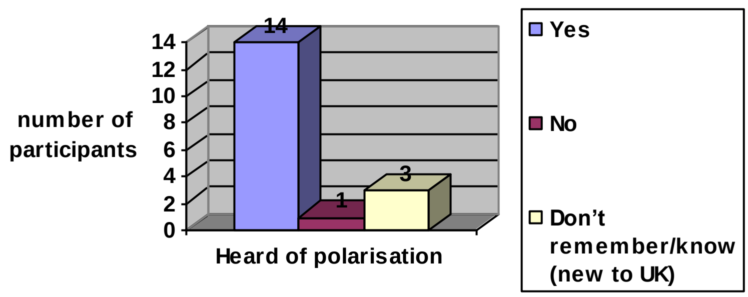


Figure 17. Question 12(a) Awareness of 'polarisation'.

This was a straight forward question designed to provide a quantitative outcome.

Question 12 (b). Was your adviser Tied, Mult-tied, Whole of market or Independent?

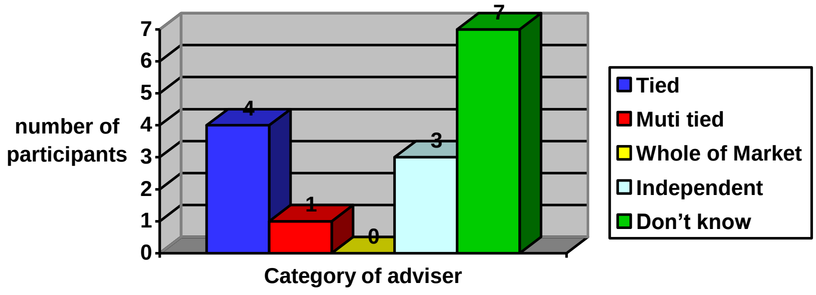


Figure 18. Question 12(b). Current categories of advisers used.

Whilst almost all of the participants had heard of polarisation, they were less clear on the new definitions. A failure of communication or unnecessary confusion?

Certainly they preferred the idea of 'independent' as one said: "Personally, I would go with the independent because my perception is that they have less self-interest…and they do not just provide one provider's product." (Brian Curry).

It is probably also significant that the participant thought of independent as meaning that the adviser would not be tied. This is consistent with research from IFAP and is at odds with the FSA's suggestion that 'independent' in the future may not have to include 'whole of market'. However, this did not stop participants using a tied adviser when it was convenient to do so (say when arranging life insurance to go with the mortgage). However, trust remains key. "I did trust him"(Kath Green). This bears out the findings of the State Street/Wharton research.

The above quotations are also significant as Brian Curry is a junior member of staff and Kath Green is a senior. It is often assumed that High Net Worth (HNW) individuals will always use an IFA, clearly they do not and this is evidenced in this research.

Question 13. What is the academic level of the FPC (a) now and (b) what should it be?

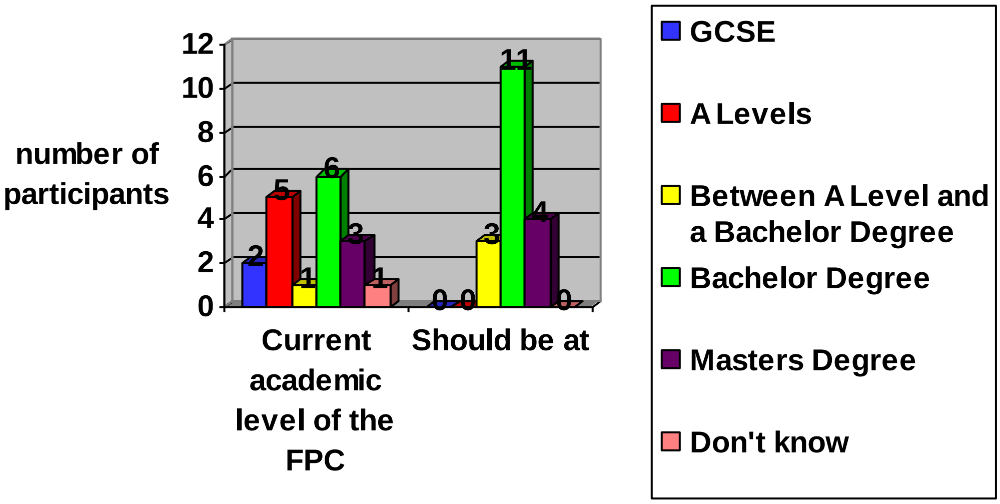


Figure 19. Question 13. Academic level of the 'benchmark' financial service qualification.

Although two participants (including one senior member of staff) thought that the FPC was at the academic level of GCSEs (QCA level 2), this was probably a reflection of the (poor) service they had received.

Most participants thought that the FPC was at 'A' Level or above, with half expecting it to be at bachelor degree level or above.

The Financial Planning Certificate (FPC) and other minimum benchmark qualifications for investment advisers are at QCA Level 3, which is A Level. QCA Level 3 is Level 6 in the Scottish QCF. Advisers can voluntarily go onto higher level qualifications and many go onto complete the CII's Diploma (QCA Level 4) and Advanced Diploma Level/Chartered Financial Planner qualifications (QCA Levels 5 and 6).

When asked at what level the benchmark qualification should be at, there was a firm preference for bachelor degree level (QCA 5/6) with a minimum quoted of 'between A Level and bachelor degree' This would place it at QCA Level 4, which is where the new CII Diploma (and old AFPC) sit. All four 'seniors' quoted a bachelor degree or above. There is thus a clear expectation that the minimum (benchmark) level of qualification for advisers should higher than it currently is.

Interestingly, the FSA's Review of Distribution is proposing that 'full' advisers may either have to be qualified at Diploma level if they are General Financial Advisers and Chartered level if they want to be Professional Financial Planners. The FSA's call for higher qualifications therefore appears to be in tune with public sentiment and expectation.

Question 14. Would you expect to pay more/less/the same for an adviser holding qualifications higher than the FPC?

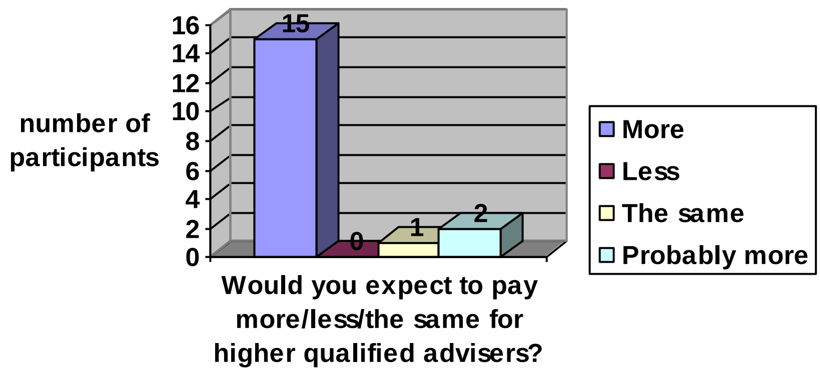


Figure 20. Question 14. Would you pay more for higher qualified advisers?

A staggering 88% of participants said that they expected to pay more and if the one 'probably' is included, this rises to 94%. Reasons given included: "they have more qualifications and probably more experience" (Francesca Field); "It's fair that if you study more, you are paid more, people (clients) here pay more for me (because of this)" (Kath Green); "You get what you pay for, if you go to a tax partner at PWC, you will pay more" (David Evans).

All of these quotations are from middle ranking or senior staff as they were better able to articulate their reasoning but the message that they convey was representative of the group as a whole.

Question 15. £15,000 Investment. £500 advice charge. Participants were asked if they preferred to pay by fee or through the product (commission). They also were

asked if they thought the £500 was a fair charge especially when the work to be undertaken for the £500 was explained.

Some participants chose fees, as one said "(I would) prefer to pay a fee so that I know that (the adviser) does not go for the highest commission" (Amanda Brown). However, the majority of participants preferred to pay for the advice through the product. Comments made included: "fees would be a put off" (Adam Atkins) and "Out of the investment, I don't have £500 lying around" (Kath Green).

When asked if they thought that the £500 was a fair charge, the comments included:
"No, it is outrageous"(Stephanie Owen), "Sounds a lot" (Brian Curry), "Chunky" (Maureen Keele), "Feels at the top end" (Kath Green), "Depends on what investment return I get" (Edward Foxton), " Sounds steep" (Rachel Mason), "No, too high, should be £200-£300" (Beverley Burton). Others thought it was reasonable with comments such as: "Doesn't sound bad, surprised it isn't more" (Debbie Duke), "What I expected, but I would like to pay nothing" (David Evans), "Sounds reasonable" (Adam Atkins), "Not unreasonable. I paid £399 to a mortgage adviser" (Pauline Lomax).

Whilst it might have been expected that senior staff would be more comfortable with fees, the responses did not form a pattern that was grouped by the sex, age or seniority of the interviewees.

When I explained the work involved in the investment recommendation and execution, most participants accepted that it was fair.

This question, like most others, was specifically structured to enable a naturalistic generalisation to be made and it did indeed produce some interesting results. The last comment, "Not unreasonable, I paid £399 to a mortgage adviser" is perhaps the most significant as the participant has compared this charge with something paid in the past. This gives a reference point from which to make a judgement. Most other comments showed hesitancy as the interviewees did not have such a reference by which to make a valued judgement. The question was also asked in a controlled research environment where a hypothetical case was being presented to them. Had this been a real client/adviser meeting, the level of acceptance could well depend on the level of trust and confidence that had been established. This conclusion is supported in findings from the second round of interviews and the research carried out by Axa (Axa 2007) and Wharton (State Street 2007).

Although the reference to the mortgage adviser's fee (of £399) is useful, the fee of £399 is actually less than the commission that would be payable on many investments. Whilst fee-based planners will usually charge on a time basis, with higher qualified staff being 'charged out' at a higher rate, commission rates are contract and not adviser driven. Unit Trusts and OEICs, typically, have initial commission payable of 3.5% of the investment plus .5% of the fund as an annual charge. Investment Bonds pay higher commission, usually 7% of the investment. So a £15,000 investment could attract commission of £1,050 or more. A fee-based adviser could charge more or less than this, depending on the hourly rate and time taken.

This shows one of the difficulties with any profession. Is the fee (or commission) fair? The FSA's Retail Distribution Review is proposing the introduction of "Customer Agreed Remuneration (CAR)". Under CAR, an adviser will fully discuss the charges that he (or she) will make. These will be agreed with the client and then the CAR can either be settled as a fee or taken out of the product (like commission), but the amount will have been agreed. CAR could be seen as a hybrid between commission and fees but the crucial point is that the client is in control. Certain categories of adviser will be obliged to use CAR.

Question 16. Generic Advice (a) What do you think of the idea? (b) Should it be restricted to those that cannot pay for advice? (c) How should generic advice be funded?

These questions were placed in the interviews to gauge reaction to the Government's proposal for a generic advice service. The Government has appointed the Thoresen Review to consider how such a service could be set up.

(a) Generic Advice. What do you think of the idea?

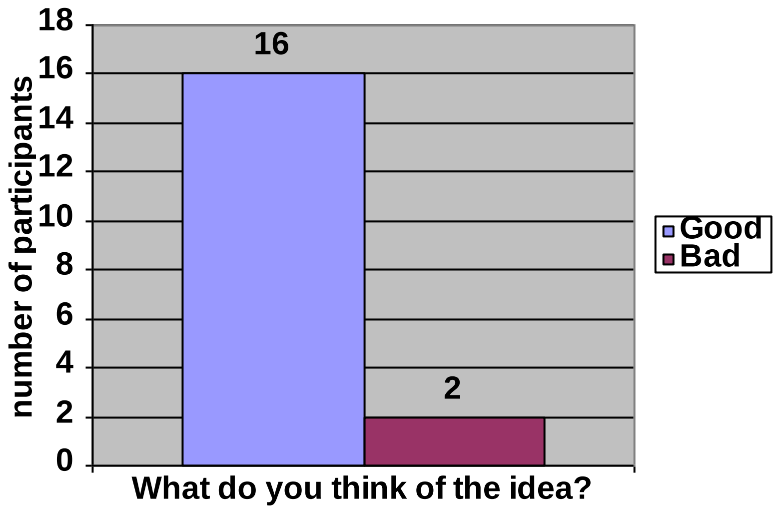


Figure 21. Question 16(a). Is Generic Advice a good idea?

(b) Should it be restricted to those who cannot pay?

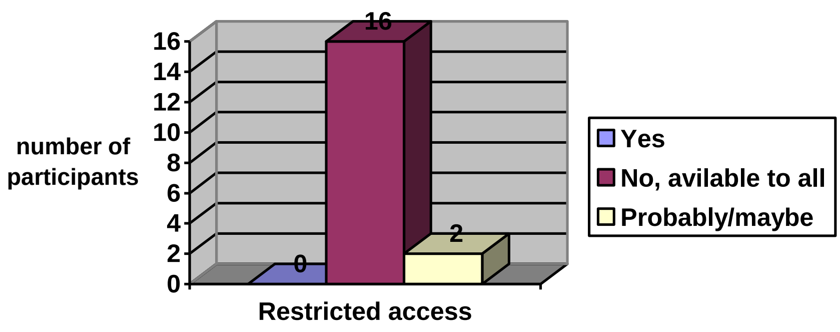


Figure 2. Question 16(b). Should access to Generic Advice be restricted?

(c) How should Generic Advice be funded?

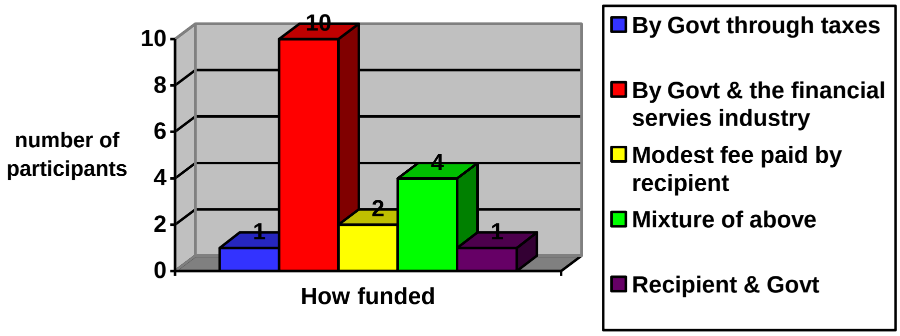


Figure 23. Question 16(c). How should Generic Advice be funded?

The vast majority (89%) of the participants support the idea of Generic Advice. The same number believes that it should be available to all but some participants have conditions on each of these points, principally on the issue of qualifications and ability to pay. Comments, grouped into those for, against and neutral, included:

Against

"Waste of time, if on low income they don't have spare cash" (Beverley Burton).

"Not a good idea. Why did they get into debt? Own fault" (Fred Hughes).

Pro

"A good idea. There are too many goods and services" (Lyn Hamilton).

"Feels a good idea but without qualifications it will be broad advice, but good for those who cannot pay" (Christine Crow).

"Excellent idea, but why don't they have to be qualified?"(Maureen Keele)

"Fantastic idea, especially for debt management" (Stephanie Owen).

"No need to restrict to just the poor. It will self select, those who can pay will want to get the better service" (Kath Green).

"Hugh amount of personal debt in this country. The Government and Financial Services Industry have a responsibility to help…problems often caused by industry, so right that they should (also) pay" (Francesca Field).

Neutral or with both negative and positive comments

"Good idea but low paid not interested, they cannot afford…The very people who need help cannot or will not pay, so it must be (free to them)" (Adam Atkins).

"Doesn't seem a good idea if they don't have any qualifications" (Rachel Mason).

"Worried if not regulated or they do not have to hold some qualifications"(Amanda Brown).

"Sounds like a complete waste of time if not qualified. What is the value?" (Pauline Lomax)

"Should charge a modest fee (£25), shouldn't be paid for by taxation" (Jane Fullerton).

"Wouldn't use it myself" (Edward Foxton).

"Why not charge a fee and cross subsidise the poor?"(Mary Jenkins)

The above extracts from the interviews give a flavour of the comments made and it is worth noting that the 'pro' quotations came from across all staff grades. Overall, the participants welcomed the idea of Generic Advice and thought that it could provide a useful service. However they were sceptical that these advisers would not need any formal qualifications. They feel that this would create the danger of poor guidance and they would like to see a benchmark in place.

Question 17. Views on Retirement

This question was all about gaining an understanding of their views on retirement. Had they made any plans? Where did they want to live, etc. Like much of the interview, it was deliberately free flowing. Not unsurprisingly, those closest to retirement tended to have a clearer vision of retirement and were making plans, although sometimes these were vague.

Almost all of the participants who were not members of the pension scheme were expecting (hoping) to retire with a sizeable income and have a fun retirement. Plans ranged from 'travelling' to actually buying a retirement home abroad. Without any planning, it is difficult to see how these plans would be achieved. Participants tended to 'comfort themselves' with comments like "it's too far away to worry about". This 'manyana' approach is almost as bad as assuming the 'tooth fairy' will solve the problem but it does show the scale of the task facing the Government with Personal

Accounts. If highly educated and well-paid individuals are living for today and avoiding unpleasant thoughts of how they will afford to retire, what will others do.

Comments ranged from:

"No idea (about retirement), but I don't want to work to 65" (Edward Foxton).
"I am planning for an early retirement, I want to get off the tread mill" (Pauline Lomax).
"When I retire I want to travel and do things without financial pressures and to fund long-term care" (Kath Green). (This participant is a member of the pension scheme and is one of the few with a 'plan'.)
"Haven't thought about it. It would be nice at 50" (Adam Atkins).
"It's too far off" (Amanda Brown).
"Not thinking about it, too far ahead" (Rachel Mason).
"I need to be financially secure in retirement" (Jane Fullerton).
"Starting to worry that I haven't done anything yet" (David Evans). (Participant not a member of the pension scheme, hopes to retire on £30,000 in today's terms.)

All of the above quotations are taken from senior or middle-ranking staff but those in junior grades also expressed similar views. One said that retirement was "too far off to worry about it" (Christine Crow), yet whilst this may be the case for some younger staff (Cristine Crow is 24), some older staff such as Debbie Duke had plans in place. Overall, the issue here is either the lack of awareness or the unwillingness to accept that they need to think about retirement now. With increasing longevity, it is vital that pension funding starts early and is regularly reviewed.

A 'typical' participant in their mid-30s who is hoping to retire 'early', is looking at a funding period of 15-20 years to support a retirement that could stretch for 30 years plus. Pension savings are therefore vital, but are being ignored by the participants and as they are representative of employees at AMS (and possibly elsewhere), probably by the wider population. Certainly the DWP research (DWP 2006) would indicate this. Based on my financial planning knowledge and experience plus an understanding of the finances of the participants, even those in pension schemes need to consider increasing their contributions.

This question used the naturalistic generalisation approach to establish the scope of the action research. The action research phase of the project was the development and publication of a 'Janet & John'-style book on financial planning, written specifically for those interviewed. This included a section on simple pension planning. A link to an internet-based forecasting tool was also included in this phase.

Question 18. In today's terms, how much income will you need in retirement?

The answers to this question need to be considered in conjunction with the answers to Q33, which asked about their income. Incomes range from approximately £15,000 to over £200,000. The range of 'hoped for' pensions are also widely spread. The minimum retirement income quoted was £80 pw (£4160), this figure assumed that the mortgage had been paid off and was in addition to the state pension. Several participants were looking at £20-30,000 net pa and the highest quoted was £60-70,000 pa. It is worth stressing that these figures are what the participants said they needed.

Looking at some specific examples, it is interesting to see how removed from reality some of these figures are:

"I will need £50-£60,000 pa." (Maureen Keele). (Not in the pension scheme and no alternative retirement strategy is in place.)
"Quite a lot!, at least £20,000 gross pa." (Brian Curry). (Not in the scheme and no alternative strategy is in place.)
"70% to 80% of my salary" (David Evans). (Not in the scheme and no alternative strategy is in place.)

The above quotations cover all three staff levels (junior, middle and senior) and represent the fact that job function or seniority was not a differentiator for this group of employees.

The most extreme was one participant, who is not in the pension scheme but who was still hoping for 94% of their salary at retirement. They based this figure on their likely expenditure.

When considering these comments, it is worth bringing them into context. For many years the Inland Revenue (now the HMRC) had a ceiling on the maximum pension that could be taken. This pension was based on final salary at retirement. A typical high quality final salary scheme would have secured a benefit of n/60ths (or n/80ths with an additional tax-free cash lump sum). With 40 years service, a member could thus look forward to a pension of 2/3rd (40/60ths) of their final salary. Although the HMRC rules have now changed with a Lifetime Allowance being given instead, this formula is still used as a 'yard stick' to a 'good pension'; yet with the exception of public sector employers, few employers now provide such scheme benefits due to the high costs of providing such 'guaranteed' levels of pension. The AMS is therefore typical of the pension schemes offered to a large percentage of UK employees.

In the 'Janet & John'-style guide "How to make your dreams come true", I give an indication of the levels of funding required to provide a target pension. A copy of the guide is attached as Appendix 12.

Some participants were, however, realistic. One participant was hoping for £1,200-£1,500 gross pm. This participant is in the pensions scheme and the figure is achievable. Overall, there was an alarming lack of understanding or acceptance of the need to fund for their retirement at the earliest possible opportunity. I had half expected that the low take-up rates of the pension scheme would be compensated by some other investment strategy for retirement planning. Sadly, there was none. Whilst a few talked about 'property being a great investment choice' (because it doesn't go down) almost none had thought about where they would live if they did sell the property to fund an income. That said, two participants had consciously invested in property but not specifically for pension reasons. This understanding underscores the use of the naturalistic approach.

Question 19. How much is the current state pension?

Again, very few had any idea about the levels or the structure of state pensions. Suggestions ranged from £50pw (£2,600pa) to £7,000pa. One optimist said: "A bit less than (the £30,000) I need"(Francesca Fields).

One participant even questioned if there would even be a state pension when she retired (she was not a member of the pension scheme, which further increases the concern for her retirement provision). Clearly there is an enormous communications exercise here plus a clear need to simplify pensions (and probably other state benefits). Whilst the current system may be targeted and cost effective, its complexity alienates individuals.

The guide ‘How to make your dreams come true’ briefly describes the structure and gives the reader details on how to obtain a state pension forecast.

Question 20. The AMS Group Personal Pension Plan (GPP)

This question was all about the GPP, how well it was received and how useful the information provided was. Sadly the answers were not encouraging.

“I was given a pack (from Standard Life) but I haven’t even opened it or taken it home” (Christine Crow). (Not a member of the pension scheme.)
“Useful information. Lots of it. It was posted to my home address but the employer contribution was too low” (Stephanie Owen). (Not a member of the pension scheme.)
“[The information] was not very useful. A simple meeting, so that I could ask questions, would have encouraged me to join” (Jane Fullerton).
“When I joined the investment information was useful and so is the annual statement” (Fred Hughes). (This participant is in the scheme and joined because “the employer was paying into it”.)
“Useful information…would have liked a higher employer contribution”(Brian Curry). (Participant intends to join.)
“Useful information but too confusing” (Francesca Field). (Not a member of the pension scheme.)
“Too much information” (David Evans).
“Left behind a good pension scheme in my last job so the pension was an important part of the package for me” (Pauline Lomax).
“Useful information. Didn’t understand it all. Filling in the application form was difficult” (Adam Atkins).
“Information was not very useful” (Beverley Burton) (but this participant remembers having a one-to-one meeting with Origen and joined the scheme).

These quotations range across all staff grades, ages and sex and demonstrate the need for clear, simple and relevant material for all.

Question 21. Have you seen an adviser from Origen?

“No contact” (Christine Crow).
“Attended a group presentation” (Beverley Burton).
“A one to one was an option but I have never taken it up” (David Evans). (Not a member of the pension scheme.)
Less than 30% remembered any contact with Origen, most simply relied on the pack given to them at work or posted to their home address. Those who had seen an adviser said that it had helped.

Question 22. Why did you join/not join?

A variety of comments were received to this question including the following comments from joiners:

“Better to be in than not” (Maureen Keele).
“There was one and I have always had one so…” (Debbie Duke).
“Everyone knows it is the right thing to do” (Mary Jenkins).
“Had a pension with a previous employer” (Adam Atkins).
“Because you should. I need more money than the state will provide me” (Rachel Mason).
“It would be stupid not to. The company pays…and it is tax efficient” (Pauline Lomax).
“(I joined because of) family upbringing” (Kath Green).

And these comments from non-joiners:

“Decided to settle in (at AMS) first and never got round to it” (David Evans).
“Not sure. I wasn’t confident, but I now know that I need to” (Francesca Field).
“Thinking of going abroad plus I do not earn enough” (Lyn Hamilton).
“Didn’t have time to do it” (Jane Fullerton).
“Not appealing enough.” (Employer contribution) (Stephanie Owen).

"I don't understand pensions. I forgot it (information pack) was in my drawer. Now I will think about it (because you have prompted me)" (Christine Crow).

Both sets of quotations include comments from all three staff grades and are representative of the group as a whole.

Question 23. How satisfied are you with the GPP?

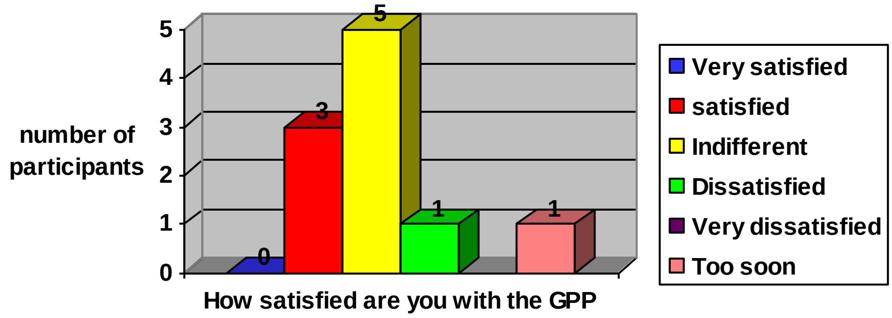


Figure 24. Question 23. How satisfied are you with the GPP?

This is a disappointing response as the largest group of responses was 'indifferent' to the scheme and this included representatives from all three staff grades. Clearly the value of this benefit was not appreciated by these employees. Although AMS had invested a significant amount of time, effort and money in establishing the scheme, unless the staff valued the benefit it is failing to provide the benevolent feel-good factor that the employer genuinely wanted to provide. This lack of satisfaction also points to a disconnect between the scheme information provided to the employees and what they wanted to receive.

A few clear messages came through from Questions 20-23

It is evident that the information sent out may be comprehensive but there is too much and it is difficult to understand. It is also clear that there is a desire for 'face-to-face' contact with the opportunities to ask questions. I see this as being part of the necessary trust. Unlike the internet searches when the participant knows what they want, here something is being offered and they need the reassurance of contact and the ability to ask questions.

Considering the investment that AMS is making in recruiting staff and providing staff benefits, it is a false economy to leave the individuals without contact or someone to help fill in the application forms. This could either be an HR responsibility or something for the adviser to provide.

The charges on the contract do not currently allow for such additional services on a bespoke basis, but during the interview it became apparent that the participants were not anxious about charges where they were seen as fair, but they were interested in the benefits (see Question 15). Therefore paying a higher (but still highly competitive) charge should be considered if this adds to the service provided and thus the take-up rate of the scheme.

Consider the following. A 0.65% charge is cheap, but if no benefits are built up it is worthless. A 1% is also cheap but if a pension is provided, the individual has an income in retirement. Which is the better benefit?

Although I was not advising on the pension scheme, the fact that I was talking to them has caused a number of non-joiners to think again about the scheme. Although unintended, my presence may lead to an increase in the membership. This had been anticipated – hence my original question to AMS.

In terms of scheme membership, it is evident that the two principal reasons for joining the GPP is either because it is the ‘accepted behaviour’ or that an adviser has been there to provide information, guidance or support. In some instances, this was no more than assistance with the forms whilst for others a degree of persuasion was required. This demonstrated that advice has a value for those who are not already committed.

Question 24. Are you making AVCs, if so why?

AVCs were being paid by participants who had been in a “better” scheme with their previous employer and they wished to keep their pension up. Interestingly, one senior (by grade/job function) participant had been making significant AVCs but cut these back to the minimum contribution levels because of “all the bad press about pensions” (Kath Green). No alternative investments are being made by the participants towards retirement.

Question 26. Are you building up any other savings for your retirement?

Few participants were building up any other savings for retirement. Some mentioned that they had paid up pension from previous employers’ schemes and one participant had bought investment properties. A couple had savings in cash deposits. Saving for a deposit on a house or “the kids” were reasons quoted for not saving for retirement.

As with other questions, the grade or job function was not indicative of alternative savings. Even though, in theory, their disposable income was higher, senior grade staff were just as likely to be living up to their means (or even beyond). Culture, ‘up bringing’ and family necessity (and responsibilities) proved to be far bigger indicators.

Question 27. Do you expect to benefit from a pension provided for your spouse or partner?

Most participants who were in relationships did, but the size of the benefits varied depending on their partner’s employment (ranging from part-time clerical to senior executives). Most considered their ‘joint’ income when planning retirement.

Question 28. Have you heard of Personal Accounts?

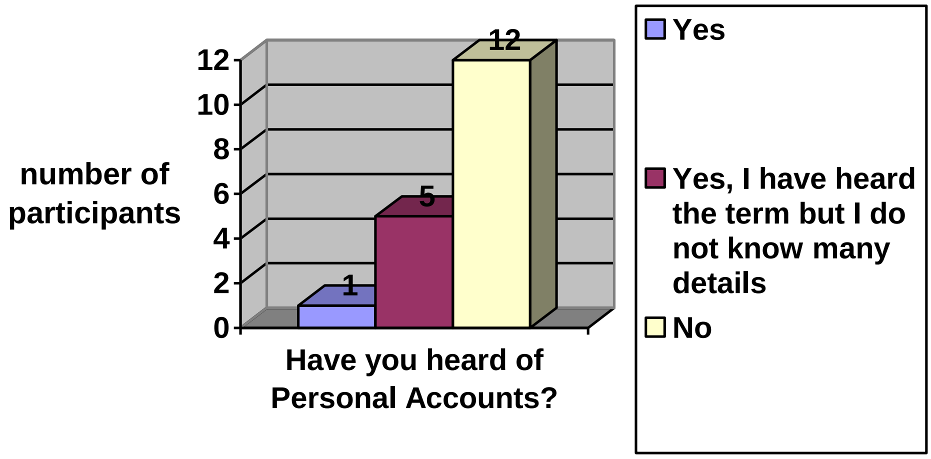


Figure 25. Question 28. Have you heard of Personal Accounts?

Whilst the pensions industry, the financial services market and the Government may all be talking about Personal Accounts, it does not appear to be having any impact on individual consumers. Only one participant had any real knowledge of personal accounts.

Question 29. What can you tell me about Personal Accounts?

Not a lot, would be the quick answer (see Q28). However, one participant (a middle manager) was aware of some of the detail and pensions in general. This was not due to their role at AMS but more 'general awareness'.

Background to Questions 30-40

These questions were asked to gain a better understanding of the participants and to see if there were any trends that could be identified between different categories of employees interviewed. For example, did different educational attainment levels have an impact or did marriage/partnerships influence their financial decisions. These questions were deliberately left until the end of the interview because of their private nature and the need to have established a relationship with the interviewees and to have gained their confidence.

Not surprisingly, younger, single participants were less interested in the pension scheme than their older married/co-habiting colleagues but even in this latter group, too few were members of the pension scheme. However, an over reliance on credit cards was evident across all employment grades, ages, sexes, marital status and educational levels. In Chapter 5, I outline where trends have been identified.

Questions 30 & 31. Family situation

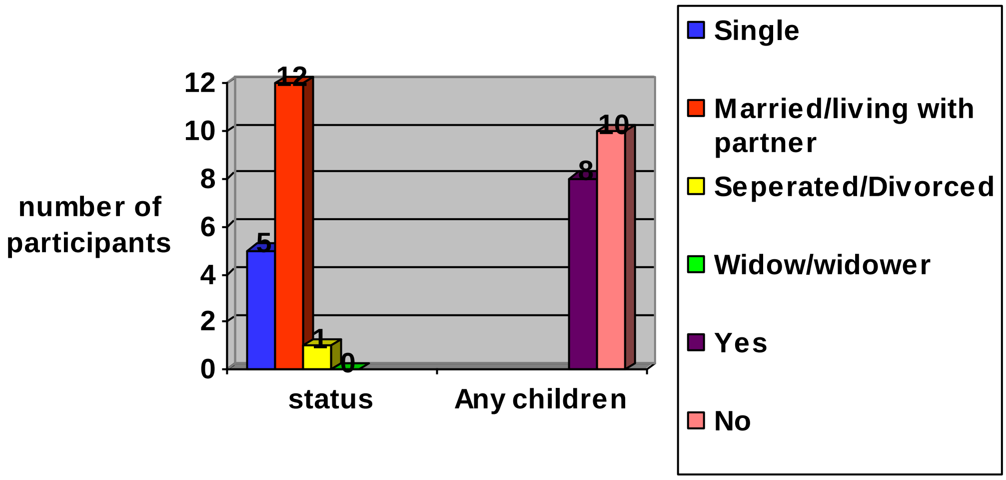


Figure 26. Question 31. Family status.

Question 32. Health; and Question 33. Income and family income

All participants were generally in good health. Because of the relatively small sample size I am not showing the breakdown of incomes. However, as previously quoted, incomes ranged from approximately £15,000, to in excess of £200,000.

Question 34. Educational levels of the participants

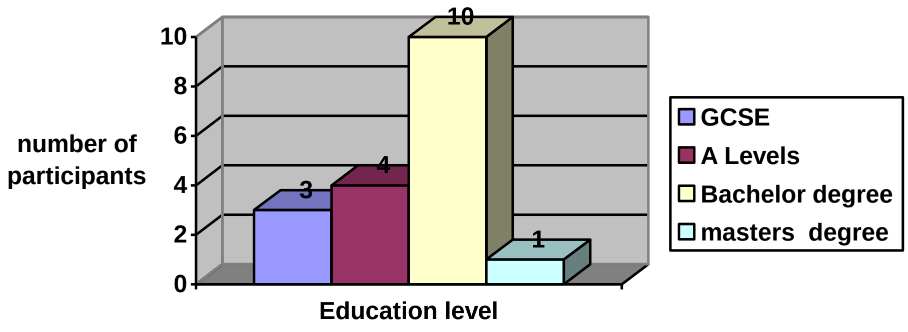


Figure 27. Question 34. Educational attainment levels of the participants.

Some participants had also taken or were currently taking professional qualifications from relevant institutes such as the Chartered Institute of Marketing, the Chartered Institute of Personnel & Development or the accountancy bodies. Chartered qualifications have been included as 'bachelor' level.

Questions 35 and 36 asked where and with whom participants lived

Responses were in line with the 'family' questions. All participants lived in or around London although commuting distances could be quite long.

Questions 37 and 38. Home ownership

Five participants (including one senior staff member) were currently renting property and 12 were in the process of buying their home with a mortgage. One participant owned outright. The mortgages ranged from £50,000 to £500,000.

Question 39. Use of credit and store cards

Sixteen of the participants have credit cards. Eight admit to having a balance outstanding at the end of every month and eight claim to pay off the balance. However, through the conversation it was evident that for a few who always 'intended' to pay off the balance, they had occasionally lapsed when a hefty bill arrived (holiday, Christmas, etc). Two of the participants do not have credit cards. One said: “I got rid of it because I was shafted by the repayments” (Brian Curry). Credit card usage extended across all grades, job functions, ages and sex.

Question 40. Other debts

Four were recorded. One small loan “almost paid off”, two participants with car loans and one participant with a student loan. There were no other debts.

Question 41. Asked if they wanted to receive a copy of the guide ‘How to make your dreams come true’

Apart from one participant who was leaving the country, all said yes.

Question 42. Anything else you want to tell me?

I only received two additional comments. One participant made a plea that a representative from the IFA or the GPP provider should see staff members about joining the scheme. The other comment, although not strictly in the terms of the research, was a five-minute statement about how disappointed the participant was with the Government’s handling of pensions. This included the state pension scheme and their treatment of private pension schemes and the pension industry.

Question 43. Can I contact you if I have any more questions?

Everyone said yes.

End of the first interviews

4. 3 Second Round of Interviews

Following the completion of the first round of interviews, a second questionnaire was developed for the second round of interviews that were scheduled for the end of May, beginning of June. A copy of this questionnaire is attached as Appendix 4. Simultaneously a simple guide ('How to make your dreams come true') was written and access to an internet financial plan tool was arranged for all participants. However, the guide and access to the website was given to the second-round interviewees first so that they were less likely to be influenced by comments from those who were not to be interviewed for a second time.

Neither the guide nor the subsequent second interviews went according to the original research plan. The aim of the second interviews was to "test" the simple guide 'How to make your dreams come true' and to see if the guide, the previous interview and access to the internet financial planning tool, *mymoneypal,* had changed their attitudes to pensions and financial services. It also gave an opportunity to discuss a couple of further ideas that were being considered to improve the market – 'Factory Gate Pricing' and 'auto enrolment'.

The original intention had been to write a detailed guide to financial planning but this was changed after the first interviews to reflect the feedback that I received and to keep the guide short and focused on the issues that arose from the first interviews. In the first round of interviews I had interviewed nine employees who had joined the pension scheme and nine who had not.

The second-round interviews were all with participants who had not joined the pension scheme and I had expected to interview all nine again. However, because of staff changes and on site demands, only four second interviews took place. These were all held on the 30th May at AMS. The four participants were all younger employees under the age of 30. Three were females and one was male.

All but one of the participants was a junior member of staff. The low numbers participating and the relative youth of the group may limit the lessons that can be learnt from this section but that said, the second participants do represent an important target group – young people. As we saw in the literature review and the first round of interviews, young people are less likely to be members of pension schemes or to engage with financial services.

Question 1. How did you find the last interview experience?

The first interviews appear to have gone down well. Comments received included:

"Thought provoking. Makes me think about the future" (Francesca Field).
"Got some useful information" (Christine Crow).
"Interesting. Made me aware of the (benefit) options at AMS" (Brian Curry).
"Good experience. Didn't know about financial matters" (Lyn Hamilton).

Question 2. Have you looked at the guide and if so what were your impressions?

All four had looked at the guide but it did not seem that they had all done so to any great degree. The following comments illustrate their views:

"It was good. Explained things well, in layman's terms" (Lyn Hamilton).
"Well presented and comprehensive" (Brian Curry).
"On holiday last week…(haven't read it all but)… definitely will" (Christine Crow).
"Very friendly, non-threatening, more relevant" (Francesca Fullerton).

Interestingly, two of the participants intended to show the guide to their parents.

It is difficult, on such a small sample, to be over confident about the conclusions that can be drawn. Certainly the style, language and layout of the guide appear to have been well received. These points are reinforced by the responses to Question 7. The guide was deliberately written with this in mind but whether this evidence is sufficient to have all financial literature rewritten is debatable. However, it is sufficiently positive to indicate that more research is needed. If such changes do work then the impact could be enormous.

Question 3. Have you looked at the FSA or *mymoneypa*l websites? If so, your views?

Two of the four had managed to look at the *mymoneypal* site and one had also viewed the FSA site. Of the other two who had not accessed the site, one had tried to access the site but there had been a technical (web) failure and the fourth participant was unable to look at the site due to being “Too busy, social life and my new flat” (Brian Curry). Comments received on the sites were:

“Lots of information, easy to navigate” (Lyn Hamilton).
“More information than I expected. Navigation was clear and logical. Well laid-out. Will help me with my knowledge” (Francesca Field).

Question 4. Which do you prefer, the guide or the websites?

(The question was extended for the two who didn’t view the suggested websites so that general comments could be given.)

“Either. Generally online guides as they are easy to access” (Francesca Field).
“I prefer guides to websites – there is always stuff you miss” (Christine Crow.)
“Liked the guide, (but) it doesn’t bother me, there are advantages to both. Good to have the basics in hardcopy (the guide) and then details in *mymoneypal*” (Lyn Hamilton).
“I use the internet a lot, but there is no idea of who the author is so I am therefore sceptical” (Brian Curry).

Staff at AMS are highly internet orientated and in the general population this especially applies to the young, therefore, I had expected a marked preference for the website but this was not the case. The use of the guide (as an introduction) and then the website for the detail (and comparison tools) appeared to be a good mix.

Question 5. Have you made contact with Origen since the last meeting?

None of the four had made contact.

Question 6. The guide and *mymoneypal* information. Was it of interest/use?

As two of the group had not seen *mymoneypal* comments were restricted. However, all said that they recognised the advantages of the comparison facilities and the guidance given. One, who had read the guide and visited both websites, was also now exploring her pension requirements and using the website to understand the investment options. It was interesting to reflect that whatever information or guidance issued there is no guarantee that it will be used or followed. The AXA Avenue research had the same difficulties.

Question 7. Looking at the guide in detail (language, usefulness, etc), how it could be improved.

I worked through the guide with all four participants. It was well liked and no improvements were suggested. Comments made included:

"Clear language, a bit like a pamphlet from Citizens Advice" (Brian Curry).
"Very clear, easy to understand" (Christine Crow).
"Great. Particularly useful was the life insurance (basic calculator), the Q & As and the ten 'quick tips'" (Lyn Hamilton).

Question 8. Views on Factory Gate Pricing

Factory gate pricing is where the cost of the financial product is separately identified and then the cost of advice is added on top. Thus instead of an adviser receiving commission, at a level set by the provider, the adviser is free to negotiate their advice charge with their client. This is identical to the way fee charges are established. The agreed advice charge is then added to the manufacturer's (factory gate) price, thus giving the client the advantage of having all costs (manufacturing and advice) collected via a contract charge. The concept was very well received by all four participants but it was also evident that care needs to be taken with these comments as without a reference point there is no way of knowing if a charge is fair or not. This will become apparent when we look at Question 12. However, the comments receive included:

"Yeh, it's good. You see where your money goes" (Lyn Hamilton).
"Transparency is a good thing" (Francesca Field).
"You know exactly what you are paying for" (Christine Crow).
"Good, nothing hidden, much better" (Brian Curry).

Since discussing Factory Gate Pricing with the participants, the FSA's Retail Distribution Review has proposed the introduction of a modified version of this, Customer Agreed Pricing (CAR). On the basis of the comments from these participants, CAR will be popular, but without a meaningful benchmark against which to compare CAR rates, it could be meaningless. The existing MENU does at least have such a mechanism.

Question 9. What do you think of auto enrolment and had AMS operated it, do you think that you would have joined the GPP? (*Auto enrolment is where an employee is automatically enrolled into the company's pension scheme unless they take action to 'opt out'*.)

All four liked the idea (although one participant was initially reticent) and all said that had it been operating when they started at AMS they would have joined the scheme.
"Good idea" (Francesca Field).
"I wouldn't have opted out" (Lyn Hamilton).

The views of the four participants is in line with the experience from the USA and AEGON Scottish Equitable's experience in the UK with 'streamline joining', which is the nearest that GPPs (as contract based schemes) can come to auto enrolment without changes to contracts of employment or legislation.

Question 10. Views on auto increase (*Auto increase is where the employee automatically has an increased pension contribution taken from their salary when they next receive a salary increase. Thus they might pay an employee contribution of 3% of salary but when their salary is next increased their contribution rate moves from 3% to 4%. By tying the increased contribution to a salary increase, the extra cost is hardly noticed by the employee but the additional contribution funds a bigger pension.)*

There was less enthusiasm for this but they could see advantages for those who wanted to save more. The following comments were recorded:

"Good idea for those who want to put more into their pension" (Christine Crow).

"I think it is a good idea. Works just like the 'Supa'[9] in Oz" (Lyn Hamilton.)
"Probably a good idea. I would have thought about it" (Francesca Field).
"Does the employers contributions also go up?" (Brian Curry).

Question 11. Having read the guide and viewed the websites, are you more likely to join the scheme, adjust your finances or see a Financial Adviser?

Three of the four said that they would now consider joining the pension scheme (the fourth was expecting to move back to Australia but otherwise said she would have joined). All agreed that they would look at their finances differently and would shop around more. However, having now interviewed this group twice, I am not convinced that this will happen with at least one of them. Although the intention is there, if it is too 'hard', the soft option will be selected (quickest hassle-free loan, not the cheapest loan, etc).

Finally, NONE of the participants would consider using a financial adviser unless it was for a really big investment. (Again, this is consistent with the findings of the AXA Avenue research.)

Question 12. Having gained an insight into your financial position, I am confident that if I did a financial plan for you I could significantly improve your financial wellbeing. If I was able to offer you this service (WHICH I AM NOT nor will I [10]) I would need to charge you a fee of £1,000. However, if the plan requires you to proceed with any products and these attract commission, I would offset the commission and thus reduce/remove the fee. If I offered you this service would, you buy it?

The response was mixed. Comments received included:

"Not for £1,000. Don't earn enough to have a financial plan" (Lyn Hamilton).
"Probably not. I realise that there would be potential savings in the long run but it sounds a lot" (Christine Crow).

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[9] Superannuation. The Australian compulsory pension scheme.
[10] I strongly made the point that this was a research exercise and I was not offering private regulated advice.

“I would consider it, but not at the moment” (Brian Curry).
“I know the answer should be yes, but it sounds a lot of money. So I would have to think about it” (Francesca Field).

In all four cases, I would have been able to save them several hundred pounds and over a relatively short period, the £1,000 would have been covered. Yet they were right that the level of fee, although fair (on a time cost basis) would not have given them sufficient savings for them to see it as a financial benefit and not a cost. But what measurement (benchmark) did they have to know if my fee was fair and reasonable? In addition, they had previously said that it was right to pay more for some with higher qualifications (as a Chartered Financial Planner with the FCII, FPFS and 30 years experience I would have been placed in that category).

In fairness, the question had been designed in the expectation of a wider spread of second interviewees. Their affairs were not complex and had I been able to offer them a financial plan for several hundred pounds, at least two of the four (including the middle manager) would have probably proceeded. In theory, generic advice could fill a gap here, but these individuals can afford to pay and they would financially gain from the advice. Perhaps IFA firms need to look at providing ‘junior’ financial planners who could do simple financial plans at a realistic rate. This could tie in with the Pathways initiative that was set up some years ago. Several members of the first group I interviewed did have significant financial planning needs and although their complex affairs would have led to a higher fee (than £1,000) from me, I would have been able to save them considerable sums.

The missing link with fees and potentially CAR is that you still need to give people confidence by explaining all the benefits provided and/or the fairness of the charge. This is one reason why fee charging financial planners are increasingly moving ‘up market’ where clients with substantial assets are used to fees (from accountants, solicitors, etc).

One example of the need for some fee or CAR scale or guidance occurred in the first round of interviews. One participant had been ‘cold called’ by a will-writing service that was prepared to write wills for the couple and then store them. The cost was a ‘mere’ £5,000. The participant was prepared to pay as having a will was important to the couple as they had a young family. The guide 'How to make your dreams come true' explained that a local solicitor could write a straightforward will for a few hundred pounds. The guide was providing a yardstick but whether it was used, I do not know. However, the will-writing firm may have been (very) expensive but they were offering the client a value – peace of mind that wills were in place.

Incidentally, all four participants would also have probably proceeded had I been operating on a commission basis as they would not have seen the 'commission' as a fee. Overall I do not believe that job function or grade had any bearing on the outcome of these second interviews, however, their relative youth was a factor.

Question 13. What are the top three things you have learnt/gained from this experience?

The list included the following:

- Need to be more proactive in managing my finances
- Need to research more
- The information on pensions opened my eyes
- General finances, not just spending my money
- AMS pension, now certain to join.

Questions 14 & 15. Additional opinions or questions for me?

There were none.

Second Interviews completed

I was disappointed with the low numbers that I was able to interview for a second time, especially as this meant that any conclusions reached on the success of the guidebook would be guarded, at best. I did consider if there would be any merit in interviewing the pension scheme member who had been issued with the guidebook. However, I discounted this for two reasons. Firstly, the guidebook had been specifically written to stimulate interest in membership of the pension scheme and clearly this was not relevant to this group. Secondly, whilst AMS had been happy to support my research, this was on condition that I kept to the conditions agreed (numbers accessed, time commitment of their staff, etc). Had I extended the research, this would have required a renegotiation of the agreement with their board.

I also briefly considered asking if I could issue the guidebook to all their staff (in London) and then to follow this up with a questionnaire or possibly a small number of interviews. However, I concluded that this was inappropriate for four reasons:

- it would require renegotiating my agreement with (the Board of) AMS
- we were entering the holiday period and thus participation could be ‘patchy’
- the manager who had been my internal co-ordinator was due to leave AMS and her replacement was not yet appointed (and my project was unlikely to be their number one priority)
- such an extension would take significant additional time and commitment, especially as this ‘new’ group were not part of the controlled environment and thus the research outcomes would be difficult to assess against the research already completed.

4.4 Final Analysis

The vast majority of the questions posed in the interviews were structured to enable a naturalist generalisation (Stake 1995) to be made. This was necessary as this was a qualitative study, based on a relatively small sample. Other questions were put to elicit basic data collection. I was able to interpret the findings in a meaningful way. However, with so many questions and hours of recording, the analysis of the interviews has been a painstaking process. Yet due to my level of understanding of the issues and the ability to gain the trust of the interviewees I have been able to look at key topics in far greater depth than is typically the case. Question 39 from the first interviews (on the use of credit and debit cards) is a good example where the initial comments from the interviewees, if left un-probed, would have led to a false conclusion.

Equally, it was often necessary to ‘play back’ comments to the interviewees to ensure that a clear understanding of their views was obtained. This interpretation and on-thespot analysis was crucial to the overall success of the interviews and overall project and fully demonstrated the benefits of using a naturalistic generalisation approach.

To complete the analysis of all the interviews, I took two and a half weeks holiday to systematically go through each of the taped interviews. Where I had asked for a rated response, I was able to produce graphs that visually conveyed key messages. However, the main analysis was to pull together the various answers and to apply these to the issues being addressed.

A major surprise of the study was the commonality of the opinions expressed. On many issues, clusters did not form based on the age, seniority or the sex of the participants. Although it is true that the highest (executive) grade had the greatest pension scheme participation (60%), the second lowest participation rate came from staff in the second highest grade. Based on the interviews, it would, however, be fair to say that the lowest participation rate (5%) in grade 5 was due to a number of factors including the lack of IFA contact and reassurance about the pension scheme and what it could provide. But equally, this group did represent younger ages and age, as can be seen from this study and the literature review, is a key factor in scheme participation. Retirement seems a long way off when you are 25.

The more senior staff might not have had any greater contact with the IFA but their age and experience generally meant that they had been involved with pensions in the past (with previous employers) and were thus more likely to consider the pension – although such consideration did not mean that they would join without further support or guidance and there remained a ‘manyana’ approach to retirement in this group too.

The above said, it is certainly true that outside of AMS, the participants were more likely to take on additional life insurance where they had a need. House purchase, marriage and children were drivers of this rather than the age, sex or seniority of the individual. In most cases the participants also made such decisions in conjunction with their partner and therefore their partner’s pension and other employee benefits had a bearing on their action.

Chapter 5 - Conclusions and Recommendations

This project has confirmed some well-established beliefs, produced some unexpected findings and supported the conclusions reached in a number of overseas and UK research projects. However, it would be unwise to make radical changes based on this research alone. Whilst it is intended that this research is academically robust, it is still a relatively small-scale social research project and therefore, it cannot claim to be representative.

Unlike a ‘scientific generalisation’ where absolute general statements can be rejected if one contrary instance is found that challenges its verity (Bassey 1998), I was adopting a ‘naturalistic generalisation’ as defined by Stake (Stake 1995), whereby conclusions are arrived at through personal engagement with the subject. As explained in ‘Research methods in education’ (Cohen & Manion 2003), the purpose of my interviews and personal observation was to “probe deeply and to analyse intensively …with a view to establishing generalisations about the wider population” (Cohen & Manion 2003).

So whilst it cannot claim to be ‘representative’, what it does do is to explain what is happening in one firm in London and how the employees in that firm view pensions, advice and general financial matters. From the analysis and evaluation of the project, it is possible to reach conclusions that may have wider implications, but it will be for future researchers to take forward these outcomes so that over time a better understanding of the value of advice can be ascertained.

In Chapter 1, I discussed how an adviser can add value by either increasing the monetary worth of the consumer or by giving the consumer satisfaction and peace of mind. In this research project I have shown that an adviser can achieve both, but true ‘satisfaction and peace of mind’ often depends on a personal relationship of trust having been developed. Later in this chapter we look at this issue of value in more depth, however, there is sufficient evidence from this project to state that **advice can add value.**

The research project has also explored a number of topical issues and the evidence it provides will be of assistance to a variety of groups as the debates on Financial Capability, Generic Financial Advice and the Retail Distribution Review evolve.

5.1 What Has Been Learnt From The Study?

Firstly, it is worth restating that the participants regarded AMS as a good employer that was "client focused and lived its values". AMS also seemed genuinely keen on providing staff benefits. We are therefore not talking about an employer who is 'disengaged' from pensions and this makes it even more surprising that the pension scheme take-up rates are so low. Secondly, the lack of face-to-face contact with AMS's IFA meant that no relationship was established between the IFA and the employees. Thus the employees didn't think of, or turn to, the IFA for advice and not surprisingly, the bulk of financial advice taken was from advisers who 'prospected' the employees outside of work.

This is interesting as in my experience, where an adviser is endorsed by a well-respected employer, it is easier for the adviser to build trust and empathy with the individual employees. However, in this case, the relationship between AMS and the IFA was not fully exploited and thus the employees were left to establish their own sources of advice. Due to the general mistrust of advisers and financial services in general, many of the employees chose to do nothing and it was only when confronted with immediate financial needs (mortgage, etc) or when approached by advisers (often 'tied' advisers) that any action was taken. Even here there often remained a deep suspicion of the motives of the advisers and a lack of trust.

The above said, there were a number of examples of a strong adviser/client relationship and a strong sense of trust but these relationships were outside of the workplace and not via the IFA appointed by AMS.

Because of the small sample size, race and ethnicity were not considered but age and seniority were. One surprising conclusion from this project is that the seniority (in terms of job role) of the participants was not a guide to their financial knowledge, understanding or attitude. A far better indicator was age.

Age often brought experience and in some cases, an "old fashioned" attitude to savings and investment that had been nurtured from childhood. This contrasted with younger participants (of all grades of seniority) who lacked experience and had had a different upbringing. With the exception of some cultural variations (where participants were from countries where attitudes towards financial planning and the need to take greater responsibility for your own financial well-being was evident) younger participants were firmly hooked into a consumerist culture and approach that I cover later in 5.11. Young people today have been surrounded with cheap and easy credit. Graduates are inevitably debt ridden (including student loans) and it is now socially acceptable to be in debt.

It will be interesting to see if the current credit crunch will have any long-term impact on consumption. Early indications are that the reduction in spending is a reflection of the greater costs of basic necessities (housing, utilities, food, etc) rather than a new found longing to save – indeed savings have also gone down.

I have grouped the lessons from this study under headings that are relevant to a number of market developments and where appropriate, I have recommended courses of action. I have also added comments where overseas research (as identified in the literature review) or my own market experience can add some light to the issue. Finally, I also compare the research outcomes against the aims and objectives of this study.

5.2 Reasons For The Poor Pension Scheme Participation Rate

- For this scheme, the pension scheme participation rate was driven by age and not gender or seniority/job function. This is partly a reflection of past experience ('I was in a pension scheme in my last job so I will join') and behaviour. For the Government and the wider community, this raises an important question. If this finding is representative of the entire population and the young do not have such experiences or if they do not have a savings behaviour, what will the position be in ten years?
- The lowest participation rate was at the lowest staff grade. This is likely to be part of the core target group for Personal Accounts, so this could be of concern. Auto enrolment (or streamline joining for GPPs) may be able to largely counter this.

- Participants were attracted to AMS by the job and salary. Even in the context of an employer who is viewed as "good", with senior management keen to see their staff join the pension scheme, the participation rate is poor because this senior management commitment was not carried through by the staff who dealt with recruitment and induction.
- In the fast-paced environment in which AMS operates, the pension was treated (by many) as almost an afterthought.
- Without face-to-face support (answering questions, filling in forms, etc) the scheme participation rate suffered. Such a role could be filled by the HR department, or a junior staff member from the IFA (possibly focused or generic adviser?)
- There is a clear benefit in, and demand for, 'face-to-face' contact with the opportunities to ask questions.
- The information provided by the GPP provider was comprehensive, but there was too much information ("information overload") and it was difficult to understand. However, from experience, I know that it is probable that this comment would have been made whoever the insurer was, as all insurers are tightly regulated and the volume of information is often a symptom of regulation. This said, the positive response to the guide 'How to make your dreams come true' shows that improvements can be made.

5.3 Financial Capability

- Participants' financial capability was not good even though we are dealing with highly educated and remunerated individuals. (This research conclusion supports the work of Agnew et al (2007).)
- Whilst there is a great volume of useful material available (both written and via the internet) there is little awareness of its existence and even less interest in searching it out. The participants wanted information that was relevant, short and easy to digest. They also wanted to be able to deal with the issue, then and there, with a minimum of fuss. With this background, it is easy to see why consumers are drawn to store cards that can be opened in minutes and which can provide immediate gratification (the ability to purchase – often with an introductory discount). Compare this with most medium and long-term saving

products that come with an immediate cost, are intangible, providing little or no immediate gratification and which can take hours (or days) to set up.

- The internet was popular for searching for information and occasionally for purchasing simple commoditised products such as car insurance and life insurance. A lack of confidence prevented more complex purchases and a distrust of ‘advisers’ meant there was little engagement with an adviser unless a specific financial need (e.g. a mortgage) arose or they were actively approached and persuaded.

5.4 Wider Savings and Retirement Views and Expectations

- Nearly everyone wanted to retire early on a huge pension but they failed to recognise (accept) that this would require action (saving now) on their part. This attitude of ‘Live for today and worry about tomorrow later’ applied across most ages although it was particularly prevalent amongst the young. There is acute denial of the problem.
- There were surprisingly low levels of investments and savings. Those held were ‘run of the mill’. There was little property investment outside the main home.
- There was clear evidence of an over reliance on credit cards and individuals were continually living up to their means (and occasionally beyond their means). This was not restricted to those on low(er) incomes but included staff in all grades.

5.5 Attitudes to Financial Advice and Advisers

- The participants’ main financial service contact was through their bank.
- Tied Advisers (or possibly multi-tied) were the most common advisers used, outside of mortgage advice.
- There was a mixed view on the quality of advisers and advice. This ranged from excellent to very poor.
- The first choice for financial advice was ‘a member of the family’, typically “Dad”. Advisers were second, followed by “the bank”.

- 77% knew about 'polarisation' and could describe what an IFA was. However, there was little recognition of the revised categories (Tied, Multi-tied, Whole of Market and Independent).
- Participants expected advisers to hold a degree equivalent qualification.
- When presented with a 'fee', they were shocked by the amount but they were willing to accept charges taken from the plan to pay for advice. However, they do want to be reassured that the charge (or fee) is fair and therefore, some form of benchmarking is necessary.
- The concept of Factory Gate Pricing (Customer Agreed Remuneration) was welcomed but some form of benchmarking will be required if confidence is to be established.
- TRUST is essential.

The key questions

5.6 Does Advice Add Value?

It is possible to define the 'value of advice' by modifying the Institute of Value Management's standard definition of value, by replacing 'customer' with 'contact' and 'organisation' with 'consumer'. The revised definition would thus read:

"The concept of value relies on the relationship between satisfaction of many differing needs and the resources used in doing so. The fewer the resources used or the greater the satisfaction of needs, the greater the value. Stakeholders, internal and external <u>contacts</u> may all hold differing views of what represents value. The aim of Value Management is to reconcile these differences and enable a <u>consumer</u> to achieve the greatest progress towards his/her stated goals with the use of minimum resources. It is important to realise that Value may be improved by increasing the satisfaction of need even if the resources used in doing so increase, provided that the satisfaction of need increases more than the increase in the use of resources." (IVM 2005 – modified by the author, customer/contact and organisation/consumer.)

From this it can be said that an IFA adds value by either increasing the monetary worth of the consumer, by limiting the loss that the consumer would otherwise suffer and/or by giving the consumer satisfaction and peace of mind.

In the case of the project, contact that participants had with advisers was either relating to the employee benefit package offered by AMS, and (in this case the adviser was an IFA, Origen), or it was an external contact with another adviser that was related to other financial needs and matters.

Looking firstly at the relationship with Origen, where this existed, the participants were able to have their questions answered and it appears that all those who saw an adviser subsequently joined the pension scheme (and signed up for the other benefits). However, we know from the research that some were already conditioned to join the scheme (as part of their built-in behaviour – (Selnow 2003)). The existence of the adviser did not detract from this commitment and appears to have reinforced the commitment by assisting with the details (fund selection, etc).

Clearly those participants who saw the IFA have gained financially by the pension fund that has been built up. Whilst this has been at a cost to the participants (their personal contributions – net of tax relief) the benefits have far out-weighed the costs as the participants have benefited from the employer's contributions and the growth in the fund value.

This 'monetary' value was also demonstrated in the AXA Avenue research (AXA 2007), in a number of studies by IFA Promotions (IFAP 2007) and in 'The advice gain' (Resolution Foundation 2007). These monetary gains satisfy the IVM definition.

The majority of participants have had contact with advisers outside of AMS. These contacts can also be assessed against the IVM definition and again value can be seen to be added in many instances.

Peace of mind also features here, but what is also apparent is that negative value can also apply. Those participants who were mis-sold endowments or pensions fall into this category.

More positively, some participants successfully dealt with advisers and were ‘relieved’ that the adviser had done all the chasing around for them and put their finances on the right footing. Even the example of the participant who had been approached by the ‘will writing’ company, had been pleased that wills could be set up without ‘hassle’. However, this last example also shows one of the challenges facing the industry. Was the £5,000 fee a ‘fair’ charge? Certainly, the individual had gained “peace of mind”, but the cost seems disproportionately high, if compared with the average fee that a solicitor would charge for this work. It is worth noting that will-writing services are not regulated by the FSA. Therefore, it can be said that advice CAN add value, but a positive value is by no means certain.

5.7 What Are The Core Requirements For Advice To Work?

From the analysis and evaluation, it is possible to identify that a number of factors must be present for the advice to have value. Top of this list is Trust. As recorded by the State Street/Wharton research (State Street 2007), there are three levels of trust that an adviser must fulfil (a) trust in technical competence, (b) trust in ethical conduct and (c) trust in empathic skills.

In a UK environment, we can also highlight the need for openness within ethical conduct, especially with regard to remuneration. Clients are suspicious that (all) advisers are ‘in it for themselves’. The bad experience that some have had or the experience of others (as stated in the AEGON/OLR research “all know someone affected by mis-selling” (AEGON 2007)), has created an environment of suspicion.

Advice must also be accessible. Only a few of the participants in this research would have required the services of a highly qualified Chartered Financial Planner, but they all could have benefited from advice. Advisory firms should, therefore, look to see how they can provide wide coverage at the basic level, together with an adequate internal (or external) referral mechanism.

5.8 Are There Lessons For The FSA Retail Distribution Review?

There are also lessons for the FSA from this research. Firstly, for the market to be a success, we need to build confidence and trust and this can only be achieved by ensuring high standards. The FSA has done much to improve the market in this respect, but if a new advisory category of primary advice is introduced, it is important that high levels of integrity, honesty and trust are attained.

The participants in this research expected their advisers to be higher qualified than they are today (if purely measured against the FPC benchmark). Indeed, the preferred level of qualification for an adviser is a qualification at ‘bachelor degree level’. It should also be noted that this does not mean a module at this level, but the equivalent of a full degree. A bachelor (Honours) degree is Level 6 in the QCA framework and this is the level of the CII’s Chartered Financial Planner. This would therefore point to this being the minimum qualification for the suggested, ‘Professional Financial Planner’.

The second most popular qualification was ‘between A Level and a bachelor degree’. This is where the CII’s Diploma sits and this is where the suggested General Financial Adviser category is set. Based on this project, the FSA would do well to keep the definition of ‘Personal Financial Planner’ at the level of a (full) bachelor (Honours) degree.

However, it is also the case that the participants did not realise that advisers could hold qualifications above the regulatory minimum. Thus for any change in the levels of adviser to work, it is vital that there is clear labelling and a communications programme established to explain to the consumer what the different levels mean. If adopted, the success of these new categories of adviser will depend on the consumer understanding the difference between the levels on offer.

The participants in the project welcomed the ‘factory gate price’ proposals (now called CAR – customer agreed remuneration). But some caution is due. Currently, the MENU gives a comparison with market averages. Whilst the formula used may be less than perfect, it does at least give some benchmark against which the commission can be checked or the fee scale compared. The old LAUTRO maximum commission agreement was, in effect, such a benchmark as many IFAs took commission below the maximum and their clients could compare. It would therefore be desirable for CAR to also have such a benchmark. If the FSA is unable (or unwilling) to publish a 'typical commission/fee table', then the profession (probably the PFS/CII as they are the dominant professional body) should produce a 'voluntary' table.

The FSA should also take note of the above comments on CAR and the need for a 'benchmark'.

Finally, the participants that I saw were quite clear that 'independent' meant that the adviser was not restricted in the products that they could recommend. The Retail Distribution Review suggests that the term 'independent' should in future refer to remuneration and not product choice. From this research it would seem that removing product choice would be counter to the consumers' view. As the term 'IFA' is widely recognised by the participants in this study, it would seem to be a mistake to consider removing the 'whole of market' aspect of 'independent'.

Even if 'independent' remains on a whole of market basis, it would still be desirable to offer CAR because if commission is the sole method of remuneration, there will remain a suspicion that the advice is driven by the commission and not by the clients' needs.

5.9 What Does This Research Tell Us About Financial Capability?

As shown by the research, the level of financial capability of the participants was not high and this appears to support the findings of several reports including the FSA's Baseline survey (FSA 2006) and Research Report 413 (DWP 2007). There is, therefore, action needed to assist individuals. Yet the FSA already have a financial capability strategy in place and the Government is making concerted efforts (Balls 2007). Many not-for-profit organisations, such as pfeg, are also involved. Whilst all the parties are sincere in their intent and produce some useful material, there does appear to be a fair amount of overlap and some material is over complicated. For example, the GPP information provided to the participants was seen as being too extensive.

I am aware that the FSA are reviewing the documentation that individuals receive and this research may be a timely reminder that balancing the amount and level of information is crucial in encouraging people to engage with financial planning and financial services in general. What appears to be needed is simple information provided by a variety of methods.

The use of an introductory guide and access to more detailed information ‘on line’ appeared to work for the participants in this research. However, the mass of material already available and the wide range of activities from Government, regulator, industry and other bodies, may mean that better co-ordination is required. Perhaps the FSA, or a new independent body, should be tasked with fulfilling the role played so well by the New Zealand Retirement Commission (PPI 2006). Such a body could be responsible for a comprehensive public awareness campaign, on the lines of the ‘drink driving’ campaign, which has been successful in tackling anti social behaviour.

In addition, such a commission could have a website modelled on the NZRC ‘sorted’ site and, in line with the Resolution Foundation (2006) findings, a telephone helpline could be set up. Whilst a telephone facility was not a success in New Zealand, the Resolution Foundation report would indicate that it could work here.

Finally, in this section I would encourage the DWP to complete their aggregation tool (‘retirement planner’) and ask the Government to work towards a simpler, and thus more readily understood, benefits system (including pensions). Virtually none of the participants had any idea about the type or level of state pension they could expect at retirement. Due to the age of the participants and their levels of earnings, means-tested benefits are not immediately a concern but if this group are unaware or confused about their state entitlements, how will individuals, near to means-tested thresholds, be able to judge the advantages of Personal Accounts when they are introduced?

5.10 Is There Support For A Form Of Generic Financial Advice?

88% of the participants in this project supported the general concept of generic financial advice. However, a concern was that such ‘advisers’ would not have to hold a qualification. It was felt that this would lead to (a form of) mis- selling and would damage the industry. Some level of formal assessment of competence (qualification) would therefore be welcome.

There also still remains an issue of trust and acceptance that the generic adviser is acting in the consumers' best interests. In addition to holding a qualification that demonstrates that they have sufficient knowledge, it is also important that generic financial advisers also conform to a code of ethics and conduct. This could be policed by the profession, a new body, or by the regulator. This said, the profession is the obvious choice.

A few years ago, the FSSC produced a 'standard' for Generic Financial Advice. This standard sits in the National Occupational Framework and the standard effectively provides a syllabus for any future qualification. An elementary (QCA Level 2?) assessment could be easily developed by the CII or other awarding bodies. One participant added that 'generic advice' could be a training ground for new advisers.

5.11 How Might Personal Accounts Affect Retirement Savings?

If an engaged employer, who is keen to see his employees in the pension scheme, can only attract 29% take-up rates, this raises serious questions for Personal Accounts. However, the research does point to the potential success of a number of initiatives. When AEGON originally responded to the Turner (Pension Commission) report, I was instrumental, with Steven Cameron, in ensuring that our response recommended that pension contributions should be compulsory.

We also argued that the self-employed should be included. The Government rejected compulsion and instead went for the soft option of auto enrolment. Auto enrolment (or streamline joining in the case of GPPs) could have a major impact on pension take-up. Auto increase might also work for those wishing to increase their pension savings but who lack the will to carry out the necessary review and changes. These conclusions are supported by the work of (Choi et al 2001) and Thaler & Benartzi (2001).

However, action beyond this is needed if we are to break the culture of living for today and ignoring tomorrow. As explained in a range of research (including DWP reports 434 & 438 2007 and IFAP 2007), we have a major attitudinal change to make. This especially affects the young, but, as this project shows, it is not just the young. As Selnow states (Selnow 2003) we need to change the behaviour so that the culture is to join the pension scheme. This will require some enforcement (auto enrolment) and a great deal of trust which the industry and Government must be jointly responsible for creating.

The scale of this task should not be underestimated as arguably, this intent is counter to the capitalist consumerist mentality that now prevails in the UK and most of the world, including China and Russia. It is remarkable that China and Russia are included as ‘consumerism’ is often associated with the criticism of consumption that started with Karl Marx (Marx 1867).

Whilst consumerism is often described as providing personal happiness through the purchase of material possessions and consumption, we are seeing the pace of repurchase and fresh consumption accelerating. In *The Challenge of Affluence,* Avner Offer (Offer 2006) explains how, since the 1970s, it has become “essential” to possess a telephone, washing machine, car and as the decades have progressed, the list has grown longer. The trend towards dual-income families as been driven by this need to consume and this acceptance of consumption has been passed down to the children. Mobile phones are a case in point. My daughters regularly change their phone, not because the old mobile is broken but because it is no longer the right colour or the most fashionable.

The increased debt mountain (probably better described as a pit that consumers need to climb out of) is funding this consumerism and any attempt to restrict consumption so that savings (including pension savings) can be increased is likely to be resisted. In essence, consumers are addicted to spending and we now need to change this to a savings addiction (although a balance must be drawn as over saving and a lack of consumption is also not in the national interest).

The following table from the Economic and Social Research Council shows how consumption increased from the 1970s to 2004.

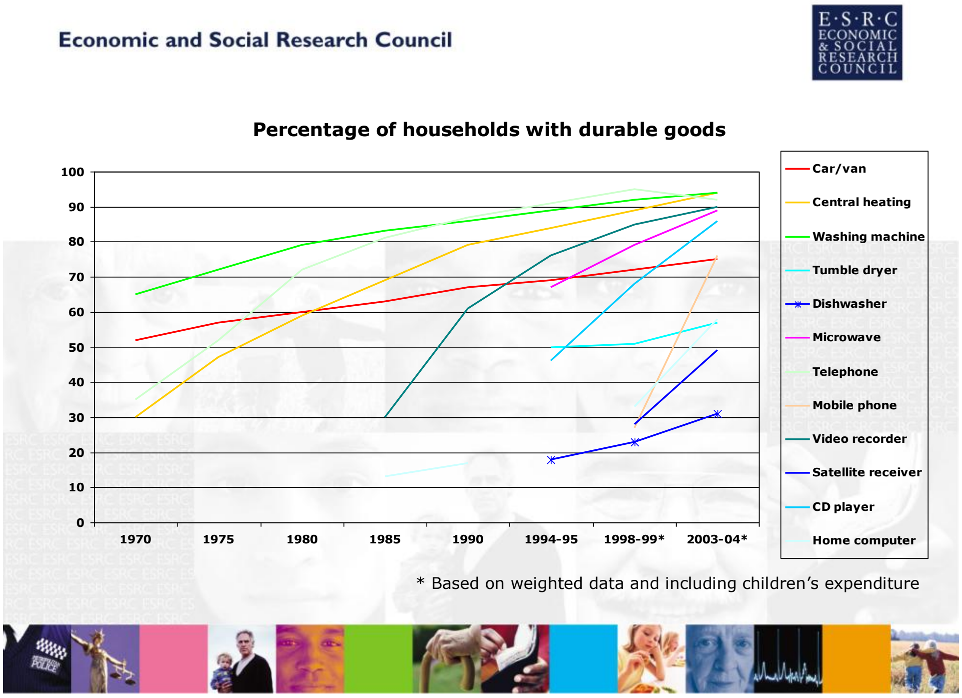

Figure 28. ESCR. Percentage of households with durable goods.

It would be wrong to suggest that this is a new phenomenon. As early as 1899, Thorstein Veblen was describing how unnecessary consumption is a form of status display. "It is true of dress in even a higher degree than of most other items of consumption, that people will undergo a very considerable degree of privation in the comforts or the necessaries of life in order to afford what is considered a decent amount of wasteful consumption; so that it is by no means an uncommon occurrence, in an inclement climate, for people to go ill clad in order to appear well dressed" (Veblen, *The Theory of the Leisure Class*, 1899).

This research project is not designed to investigate consumerism, but its impact on the lack of a savings culture, is important to record.

5.12 Can Written Information Such As The Guide, 'How To Make Your Dreams Come True', Make A Difference?

Whilst it was disappointing that only four of the original nine non-joiners were interviewed for a second time, some lessons can still be learnt from their responses but with so low numbers, I would not attempt to claim that the guide was perfect, but it was well received by the participants. The guide had also been piloted before it was issued to the AMS participants and this too provided valuable insight into the structure and layout of such guides.

It is clear that to be most effective, guides must be focused, written in plain English and easy to read. In addition, the more direct the guides can be in answering or dealing with individuals' questions and concerns, then the more likely they are to be used. To achieve maximum success, such guides need to be short and targeted to the consumers' wants or needs. There also should be a clear referral mechanism.

Lessons and recommendations for the stakeholders and AMS

5.13 Lessons And Recommendations For AIFA

On one level, AIFA may feel quite smug with these findings. Almost all of the mis-selling problems and poor services reported by the participants in the research have originated from either banks and/or direct salesmen.

However, such a reaction would be a mistake. The one big issue from this research is why so many highly educated and well-paid individuals have been ignored by the IFA community and why so few participants have sought advice from an IFA. If this is happening at AMS, it is likely to be similar in other firms. Clearly Origen has a relationship with the employer but this was not enough to instil confidence in staff to approach Origen. Such employer/adviser relationships may therefore need to be reviewed because the IFA is not only missing new business opportunities by ignoring such staff but collectively, the market is failing to support the consumer.

The above said, this report should give a lot of comfort to the IFA community especially as it can be stated that advice can have a value, but the word is CAN. Value must be earned. For advice to have a value, the adviser (IFA) must meet the requirement for trust and openness and the client must be aware that a value has been gained. *(AIFA are already using this research as part of their lobbying (see Appendix 1- Letter from Chris Cummings).*

5.14 Lessons And Recommendations For AEGON UK

Three issues were relevant to AEGON UK.

Firstly, banks have the potential to be the major force in financial advice and planning, providing that their selling practices are 'fit for purpose'. Numerous sources (ABI 2006, IFAP 2006) show their commanding position and the participants in my research had most contact with their bank. However, the experience was not always good. AEGON therefore needs to build up its relationship with banks, but in a controlled environment.
AEGON already has a strategy for banks and this research has provided valuable evidence in support of this work.

Secondly, AEGON needs to rethink its approach to literature and ensure that it provides information in a clear and simple format that is easy to read and understand. This includes using a font size that is legible and benefit statements that make sense (to the average consumer). *Following this research, annuity information and literature is now being printed in a larger font size and other work is underway*.

Thirdly, AEGON's work on financial capability, generic advice and the Retail Distribution Review is of paramount importance if we are to help this industry regain the trust that we have lost. We should be encouraged by this research.
This research has already influenced our thinking in these areas and the research was quoted, and was part of the evidence that supported, the AEGON submission to DP07/1 Retail distribution Review. Separately, the full research was also submitted by AEGON to the FSA, HM Treasury and DWP as important academic research.

5.15 Lessons And Recommendations For Middlesex University

This doctorate has taught me a lot. Most importantly, it has also enabled me to study important issues in greater depth than I would attempt in commercial life. This depth has been beneficial to me and the way I think. This is already having an impact on the way I do my job. I am now more reflective in my approach to problems and more questioning in my development of ideas, proposals and strategies.

My success is also the university's success and I would hope that the university will extend its work-based learning into the wider financial services community. Both would benefit. Based on some excellent coverage in the (financial services) trade press of my involvement with Middlesex, the university's profile is now far higher. I believe that work-based learning is ideally suited to financial services and that if the university created a bespoke 'pathway' for financial service practitioners, it would generate substantial demand. I would be happy to work with the university on this proposal.

5.16 Lessons And Recommendations For AMS

I have already discussed the outcome of this research with AMS and they are already putting in place some measures and are reviewing their total employer package. Two key points that I emphasised was the respect that AMS, as an organisation, have from their staff. Secondly, I recommended that AMS design their employee package around the benefits and then decide on the most appropriate way of paying for these benefits and services. If, for example, plan charges have to rise slightly to pay for regular contact with an adviser then this would be a cost worth paying if participation rates increase, staff were more content with their 'package and more of the staff receive advice. I also encouraged AMS to facilitate regular access to financial advice and ask the GPP provider to make their literature more focused and more "user friendly".

In summary, advice <u>can</u> have a value, but everyone has to work to ensure that it is a positive value.

Further (post research phase) activity – 'getting the message out'

Over the summer, the research was analysed and the results were written up. In July a 'Poster' on the research was presented at the Universities Association for Lifelong Learning (UK) Work Based Learning Network Conference. Following on from this 'poster', a formal paper was written and this formed the basis of a paper that was published in February, in Middlesex University's Work Based Learning e-journal.

In addition to preparing the paper for the e-journal, a short (22,000 word) 'market' paper, on the research, was written and published. This market paper, together with a summary, was placed on the AEGON UK website in November 2007. Access to the papers is freely available to all.

Copies of the summary and market paper have been sent to HM Treasury, the FSA, DWP, Thoresen Review Team, ABI, AIFA, AXA, and Which? and a number of MPs.

The Financial Services Research Forum (at Nottingham University Business School) had also expressed an interest in the paper but unfortunately, their next forum meeting takes place whilst I am in New Zealand.

A full summary of the research findings has also appeared in the January/February edition of *Financial Solutions*, the membership publication for the PFS. This is circulated to almost 25,000 industry professionals and the article has stimulated an impressive amount of interest. In particular:

- An insurer asked if they could have a copy of the 'guide' and could use it (after suitable amendment) with a new GPP they are establishing. I have agreed.
- An IFA asked if he could use the research in his dissertation for Napier University, Edinburgh. Subject to adequate referencing, I agreed.
- Following a number of comments from their members, AIFA has now asked me if they can make the guide available to all their member firms. I have agreed, but as this will require a significant rewriting of the guide (to remove references to AMS and *mymoneypa*l) I have delayed this until after my return from New Zealand.

At the end of January 2008, Rachel Vahey (another member of AEGON's 'Lobby Group') and I had a meeting with the Head of Pension Information and Education at the DWP. During the meeting the research was frequently referred to and a copy of the guide was requested by the DWP. AEGON has also agreed to look, with the DWP, at the GPP information that is currently issued to see what improvements can be made to both industry and Government literature.

5.17 Final Reflections

In reaching these report conclusions, I have reflected on my experiences, the interviews that have taken place, the highs and lows of the research and the various techniques that I have selected and used.

This has been a complex but engaging exercise. Qualitative research is a time consuming and absorbing experience but one that can allow the researcher to mine a rich vein of information and knowledge that would otherwise remain uncovered. Through qualitative methods it is possible to get to the truth of the matter and not to be misled by initial responses which are often designed to give the 'expected' or 'acceptable' response. The real answer may be different, as shown in the responses to the question on credit card debt.

At the outset of this project, I set a number of objectives. These are now listed below and against each I have measured the success of the research.

1. To provide my employer, the advisory community, the profession and the wider stakeholders with an awareness of advice – its advantages and limitations. This understanding would enable the various Stakeholders to redesign their products, systems, processes and requirements so that a more efficient market can develop. This should increase confidence and improve the savings ratio and retirement provision in the UK.

   I believe that I have fulfilled this objective. This research does demonstrate that advice can add value but it also shows that the value can be both negative and positive.
   By reflecting on the outcomes of the research, I have been able to identify changes that need to be made across products, systems and processes. There is already evidence that the regulator has taken on board some of the recommendations and at an AEGON level, our annuity literature (which is aimed at those retiring) is now published in a sensible font size. Further work is being undertaken by both AEGON and the industry and I have

high hopes that the Retail Distribution Review will forward many of the lessons from this research.

2. Establish what value is provided by advice and advisers.

   This study has shown that advisers can offer value and that such value may be measured in a number of different ways. To me, the greatest value is the 'peace of mind' that advice can give but this is only possible when the adviser is recognised as acting in the interests of their clients and where trust exists.
   AIFA and the PFS have both accepted these conclusions and the new President of the PFS has made 'The Value of advice' his presidential theme for 2008.

3. Establish what motivates consumers to save and what information or guidance they would find useful.

   The research has shown that consumers are often driven by consumerist desires that are sometimes irrational and often the least financially sensible. To overcome these, consumers often need persuasion or compulsion as good intentions on their own seldom work.

4. Develop a self-help consumer guide to pensions (this was expected to be in a booklet format as recent research had shown that this is the most popular and user-friendly method of communication – interactive software has certain advantages but is not widely accepted by all consumers at this time).

   Perhaps the biggest surprise to come from this research was the acceptance of web-based systems to support the consumer. However, it is also clear that apart from very basic 'commodity' products, the IT solutions remain an information tool rather than a substitute for traditional channels.
   The second lesson from this research is that guides need to be simple and far more focused than they currently are. There is also evidence of

'literature and information overload'. Less may well mean more (or at least better) in financial services.

Overall, all my stakeholders have made use of this research. AIFA are using the evidence from this research to support the IFA market and to promote advice and advisers. Equally, AEGON has benefited from this work – both in a practical way (appropriate literature) and in developing our lobbying and future research work. The two testimonials from AIFA and AEGON are demonstration of this (Appendix 1).

This project is a good conclusion to my doctoral studies. It has brought together the knowledge and understanding that I have gained in almost six years of work-based learning and it has been applied to real issues that face the financial services market today. This project demonstrated that advice can add value.

5.18 Comparison Of The Project Against The Level 5 Descriptors

Knowledge: Understanding the UK pension regulations is beyond the capability of most individuals. Even pension professionals struggle on occasions and the recent Inland Revenue (HMRC) "pension simplification" has, in fact, added an additional layer of complexity. To establish, therefore, if there is any value provided by advisers, it is necessary to know the pension regulations and to recognise and understand the impact that advice may make. In addition, it is necessary to know what an adviser does, how he (or she) does it and why they do it. I have been an authorised adviser and I am a Chartered Financial Planner. I still write on advice issues for two trade publications and I have been a lecturer in financial services at a Scottish university and examiner for both the university and the Chartered Insurance Institute.

The knowledge required for this project was not confined to pensions and advice. It was also necessary to understand how people learn and think and to be able to analyse their behaviour. Through previous study and experience, I had already acquired some of this knowledge and through this professional doctorate, I have been able to build on this as demonstrated by this report.

This project provides an understanding of the value of advice and will thus be a valuable tool in determining how advice can best be used in reducing the pension savings gap.

Analysis: At the heart of the project is a collection of investigative techniques that, when analysed, have provided a sound foundation of knowledge. Collecting data via the literature review and the primary research was just that, data collection. It offers little meaning without analysis of what it meant. In this project I have demonstrated my ability to analyse the material, this includes the different analytical skills needed for interviews. Here it was necessary to look at the information objectively and then to balance this by interpretation (Denscombe 2003 and Bell 1999). Good analysis is necessary if the evaluation is to be accurate and Chapter 4 is particularly good at demonstrating this.

The success of the project has been dependent on this analysis. This is an original contribution to the understanding of advice and how advisers can add value to consumers who need to make pension provision.

Synthesis: In Bloom's *Taxonomy of Educational Objecti*ves, synthesis is described as a cognitive skill that "compile(s) information together in a different way by combining elements in a new pattern or proposing alternative solutions" (Bloom 1956). This report demonstrates how I have brought together a variety of research methods to create unique understanding. This, together with previous knowledge – Revans' 'P' (Revans 1983) from earlier studies and my own personal knowledge and experience has enabled me to identify clear lessons that will have an impact on the financial services market. My employer stakeholder comments are evidence of this.

I have synthesised the findings from the research to enhance the understanding in the market. This will be especially beneficial for the Association of IFAs (AIFA) and my own organisation, AEGON UK as we own a significant percentage of the IFA distribution channel. Our insurance company, AEGON Scottish Equitable also deals predominantly through IFAs. Significantly, the research is already being used beyond these groups.

This will have (and indeed, already has had) an impact on the Government and Regulator and copies of this research have already been submitted to the FSA (for the Retail Distribution Review and the ongoing Financial Capability project), the DWP (for Personal Accounts) and to HM Treasury (for the Thoresen Review).

Evaluation: Western Michigan University offers an 'Evaluation Center' that specialises in what evaluation is and how it should be judged (WMU). In considering my own performance, I have reflected on their guides and tools. In my mind, the ability to evaluate is core to the success of the professional doctorate. Evaluation can take the research from 'nice to know' to 'need to know' and I believe that my research and this project does this. In Chapter 5, I have evaluated what I have learnt from the study and then contextualised this into a form that can provide meaning to the reader (both industry and academic) and gives clear guidance on changes that are necessary in a number of areas. Chapter 5 also provided the basis of the 'Market Report' that has already proved to be influential as demonstrated in 5.16 'Getting the message out'.

The evaluation of the data has been central to the success of this project. This report is testimony to my ability.

Self-appraisal/reflection on practice**:** Not everything has 'gone according to plan'. The initial difficulty in securing a scheme was an example of over ambition. The need to change the basis of the guide "How to make your dreams come true" and to positively respond to the challenges this presented, is another examples of this. But both, in their own way, actually added to the richness of the work and in the end, a better project and guide were produced.

The variety of techniques used has also necessitated a need to continually reflect on the project and to self-appraise and amend plans. The project report offers frequent examples of this and the lessons that I have learnt will be invaluable when I come to tackle future projects. Importantly, the self-appraisal and reflectivity has enhanced the project.

Planning/management of learning: I created an outline plan and timeline for the project and although this was subsequently rewritten on a number of occasions, when the project was amended, my project remained manageable and thus achievable. From the outset, I had recognised that I would have to be flexible in the delivery but without compromising the learning. This ability to change has been crucial to the success of the project. Not only have I had to manage this complex research project but I have had to do this whilst still fulfilling a high profile role in AEGON and balancing my commitment to the CII and PFS.

The one weakness that I have had (and that remains to this day) is a tendency to be pragmatic in my approach and over optimistic. This has often caused tension with my many (time) commitments.

<u>Problem solving</u>: I recognised that the final research project was never going to be straight forward due to the variety of techniques I was using. In addition, at each stage, the outcomes have led to unexpected conclusions, which have then had to be taken into account. Two examples of this was the necessity to change the project and the need to write a different ‘guide’. By solving these (and other) problems, I have ensured that the project has met its aims and objectives and is ‘fit for purpose’. I believe that problem solving is one of my key strengths in business and has been evidenced in this project.

<u>Communication/presentation</u>: I knew that good communication skills would be required, both when carrying out the research and also when presenting the findings. I have demonstrated the success of the research stage and this report (plus the viva) will I hope, confirm the second.

Apart from the consumer guide that I wrote as part of the project, I have also written a project report for the market. This report has been sent to the FSA, DWP and HMT and the Thoresen Review, as part of their call for evidence. In addition, it has been widely distributed within the market and AEGON has placed the report on their website.
I have already received indications that the FSA are using the report (see the letter from Chris Cummings, Appendix 1) and more recently (January 2008) the DWP has taken an interest in the paper.

Last summer I also presented a poster at the Work Based Learning (WBL) conference held at Trent Park (June 2007) and a summary of my research has been published (in

February) on the Middlesex University Work Based Learning e-journal. The findings have already been quoted in more general articles published in the financial services trade press, and this is likely to increase.

A full summary of the paper has also appeared in *Financial Solutions* (the PFS publication distributed to almost 25,000 financial service professionals).

<u>Research capability</u>: As a Chartered Marketer with prior research experience and the additional educational research tools that I have acquired on this doctoral programme, I have been well positioned to undertake the research. I have used a range of research methods including a literature review, interviews, case studies and action research. These I have brought together to create a useful piece of research that is likely to have a long-term impact on the market.

<u>Context</u>: In my job I am required to "think outside the box" and to work to achieve an efficient market that will allow AEGON UK to profitably trade whilst respecting the needs and wishes of our customers and clients. Equally, as a former Director and Vice President of the Personal Finance Society, I have always promoted the profession by safeguarding the consumer. I have also, through this work, shown how I have been able to translate theoretical knowledge into a blueprint for change.

<u>Responsibility</u>: Although I work amongst a team of senior managers, I have an extremely high level of professional autonomy and responsibility for my work with AEGON UK. Indeed in certain areas, such as education, I set the corporate policy. Whilst a Director and Vice President of the Personal Finance Society (which is the financial services arm of the Chartered Insurance Institute), I also had board responsibility for education and ethics. Finally, I am currently the Chairman of the CII's Examiners Committee, which has responsibility for examination and qualification standards (the CII are QCA regulated and the 5th largest awarding body in the UK).

This project has also demonstrated by leadership qualities in the new field of research. In the past, my leadership has been industry and firm specific whilst now I am driving forward academic research. I also hope that by completing this doctorate, I will also encourage other practitioners to follow my example. By doing this, we can change our market for the better.

Ethical understanding: Ethics is close to my heart and I am deeply committed to ethical behaviour and I fully recognised the potential conflict that could develop. I equally understood the need to ensure that all participants and Stakeholders were correctly treated.

Throughout this project, there is evidence of my commitment to ethics and the need to operate in an ethical way. This commitment is also demonstrated by my work for the International Standards Organisation (ISO) where I am deputy Chairman of the UK group (BSi). I have represented the BSi (UK) on all four of the workgroups that developed the standards – including the ethics group.

As a Chartered Financial Planner, I am also bound by a stringent Code of Conduct and Ethics and this is reflected in my AEGON position where I am responsible for our Education and Ethics policy development. Ethics was, therefore, already central to my business and professional life and this was extended to this project.

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HM Treasury (HMT)

Inland Revenue (IR)/Her Majesty's Revenue & Customs (HMRC)

Liberal Democrats (Lib Dems)

National Association of Pension Funds (NAPF)

The Pensions Commission (PC)

Pension Policy Institute (PPI)

www.Plansponsor.com

www.choosetosave.org

www.unbiased.co.uk

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DWP: Employers Task Force (ETF). DWP Dec 2004

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State Street Global Advisors & Knowledge @ Wharton: Bridging the Trust Divide: The Financial Advisor-Client Relationship. Wharton, University of Pennsylvania

Educational Tools

FSA: Make the Most of Your Money. November 2006

FSA: www.moneymadeclear.fsa.gov.uk

Life Academy (University of Surrey): Learn About Money. 2005

Open University: Want to Learn About Personal Finance? OU 2006

Pfeg: Learning Money Matters.2006

Appendix 1

Stakeholder feedback on DPS 5200

Separately attached are statements from Chris Cummings, Director General, AIFA (for the advisory community) and Steven Cameron, Head of Business Development, AEGON Scottish Equitable (for my employer).

Dr Pauline Armsby
Institute of Work Based Learning
Middlesex University
Mansion House
Trent Park
Bramley Road
London N14 4YZ.

18th December 2007

Dear Dr Armsby

Peter's contribution to the financial services market and in particular, raising the professionalism of advisers is second to none. For example, his work in the area of pensions advice and income drawdown ensured that advisers were equipped with both the regulatory knowledge (through RU 55) and appropriate text books and training material, all written by Peter.

It is not a surprise to those that know him that the two key professional bodies, the LIA and SOFA, merged shortly after his election to the LIA Board. It is an example of his reputation, diplomacy and popularity that he is the only individual to have held top positions at the CII, SOFA, LIA and the PFS.

Peter has also played a major role in developing the international standard for financial planning, leading much of the detailed work undertaken by the UK BSI committee and the international work groups.

However, it is his recent research work that is of significant importance. It has helped us to understand consumers' attitudes to personal finance, their responsibilities and perceptions of financial advice. The research will help influence and shape the market for financial advice in the future.

There has been considerable research into the availability, quality and cost of financial advice but very little focus on the value of financial advice. This focus on the supply side is just what is needed and will help those who offer financial advice and the providers who manufacture products, better understand the needs of consumers. Whilst I appreciated Peter's technical grasp of his subject –the way in which he engaged with the underlying issues makes the study especially valuable and helps shed light on some urgent issues.

It is my assessment that Peter's work sheds new light onto the value of advice – as seen from the consumers' perspective. There has been little work of real substance before his study and it to his credit that his fresh thinking has already been recognised by the financial market's regulator, the FSA, as well as AIFA, to develop our thinking.

I know that Peter worked hard on this study. I can only say that his endeavours have been worth the toil and I am proud to be associated, in a small way, with the end results.

Kind regards

Yours sincerely

Chris Cummings
Director General

Dr Pauline Armsby
Institute of Work Based Learning
Middlesex University
Mansion House
Trent Park
Bramley Road
London
N14 4YZ

Our ref: SWC/lkp 0312.01
Your ref:
Direct Dial: 0131 549 3859

3 December 2007

Dear Dr Armsby,

PETER WILLIAMS: DOCTORATE IN PROFESSIONAL STUDIES

I am writing to you as Peter Williams' 'employer sponsor', regarding the work he has undertaken as part of his Doctorate, including his research project.

Peter and I have been colleagues for 11 years, and have worked particularly closely together over the last 5 years as fellow members of AEGON's 'lobbying group'. This group brings together individuals from different business units and reporting lines to analyse and seek to influence key regulatory and legislative developments that are likely to have an impact on our industry in general and on AEGON in particular.

Within AEGON, my role title is Head of Business Regulation and I take a particular interest in ensuring our business units understand the regulatory and legislative changes we face, and think through the possible implications of these. I also champion Treating Customers Fairly for our life offices, which means I take a particular interest in consumer research. I have 23 years experience with a number of life offices and by profession, am a Fellow of the Faculty of Actuaries.

AEGON UK is one of the UK's leading financial services companies. The group includes life companies, a fund management company, a pension's administration company and two large distribution businesses. As such, we take a broad interest in all aspects of long-term savings and protection – from the provision of advice, through product manufacture to investment.

I have been very pleased to be Peter's employer sponsor throughout his recent studies. Peter discussed his intended area of study with me. I agreed from the outset that this should add significant value to the available research in this field. Peter has kept me informed of developments and asked for my input at various stages as his plans have evolved. It is rewarding to see Peter's efforts come to fruition with a thought-provoking and insightful report supported by a unique and valuable research project. As Peter may have mentioned to you, AEGON was very pleased to provide access to the research report from our public website.

It is interesting to note that Peters chosen research project has become even more relevant to the financial services industry since his studies commenced. We've seen increased regulatory and Government focus on saving for retirement, financial capability of consumers and the role of advisers in encouraging saving. I do not believe this was entirely accidental. I believe Peter identified these as key areas for our industry to consider and improve our understanding in.

Peter cares passionately about the role of advisers in helping consumers plan their financial futures. He is an active participant in trade and professional bodies and a strong advocate of raising standards across the advisory sector so it can better serve the needs of consumers.

I will comment first on the research project. As an industry, and particularly in the fields of pensions and investment, we have often spent too much effort meeting the needs of intermediaries, and too little talking to consumers and researching their needs. This is one of the driving forces behind the Financial Services Authority's recent emphasis of the Treating Customers Fairly principle.

Initially, I know Peter intended to carry out a more extensive review of the experience different advisers had in encouraging employees to join employer-sponsored pension schemes. While this did not prove practical, I believe by focussing on a single scheme, Peter has obtained a richer understanding of individual motivations.

As a business, it is in our interests for advisers to encourage as many employees as possible to join a pension scheme we administer. We observe vastly different take-up rates and it is often not at all clear what drives these differences. Of course, higher take-up rates are also in line with Government objectives of encouraging saving for retirement, and the individuals themselves should also benefit significantly in terms of receiving an employer contribution and also in terms of better preparing themselves for the future. So better understanding of employee attitudes in this area is of value to providers, consumers, Government and advisers themselves, whose remuneration is often dependent upon take-up.

This research could stand on its own as a valuable addition to the insights we have into consumer / employee behaviours. However, I believe Peter has increased its value by placing this in the context of other research findings and analysis, before drawing inferences that are relevant to a number of high profile legislative and regulatory reviews. I believe the three regulatory / legislative developments that will have greatest impact on our industry and its consumers over the next 5 to 10 years are pensions reform, the FSA's Review of Retail Distribution and improvements in financial capability, including AEGON UK Chief Executive, Otto Thoresen's review of Generic Financial Advice. I will comment on each of these in turn.

Pensions reform

From 2012, all employees will be automatically enrolled into either Personal Accounts or an alternative form of employer-sponsored pension. They will have the option to opt out, but Government hopes most will take advantage of this opportunity to provide for their retirement. This is a major social experiment, and we need all the research we can obtain to predict how consumers will behave in this context.

FSA Retail Distribution Review

One aim of this review is to improve consumer engagement with advisers and improve consumer understanding of the costs and benefits of the various services available. Again, Peter's research shines light on an aspect of this.

Financial capability

The interviews Peter carried out with employees gave an insight into the level of financial capability that currently exists. His booklet, 'How to make your dreams come true' was an interesting exercise in considering how best to engage consumer interest and hence improve their engagement, without being unduly constrained by regulation.

AEGON has drawn on Peter's work in our discussions with and submissions to the bodies leading each of these reviews. This demonstrates our support for the work and has also allowed Peter to achieve greater impact from his efforts.

I hope my comments above make it very clear that I fully support Peter's work. I see it as a valuable contribution to our industry's future.

Yours sincerely

Steven Cameron BSC FFA
Head of Business Regulation
AEGON UK

Appendix 2 - Informed consent form

Middlesex University

National Centre for Work Based Learning Partnerships

Trent Park Campus, Bramley Road

London N14 4YZ

<u>Research Study: 'What Value Advice'</u>

INFORMED CONSENT FORM

For participation in research

In accordance with the requirements of the university's code of research ethics, this document seeks to (a) make explicit the nature of the proposed involvement between the researcher and the person or organisation agreeing to supply information (the participants) and (b) to record that the research subjects understand and are happy with the proposed arrangement.

The researcher is Peter Williams of the National Centre for Work Based Learning Partnerships at Middlesex University (address as above). Complaints about the conduct of the research may be addressed to the researcher's programme adviser, Dr Pauline Armsby, at the above address.

Peter Williams is a part-time student at Middlesex University. He is employed by AEGON UK plc, a major financial services group. He is also a Director and Vice President of the Personal Finance Society (PFS). The PFS is the financial services arm of the Chartered Insurance Institute (CII). In addition to the ethical requirements of the university, Peter is also bound by the code of ethics and conduct of the PFS and CII. Details of these codes will be made available at all interviews. Copies can also be downloaded from the PFS or CII websites.

The Research: The purpose of this study is to evaluate if employees of the firm receive any value from the pension scheme information and advice that is provided to them. This study is part of a larger project on the role played by Financial Advisers and written guides in the provision of pensions in the UK. This is academic research and there will be no direct commercial advantage provided to either AEGON UK plc or the PFS/CII.

What participation in the study will involve: Participants will be asked to grant one or more interviews of up to an hour and a half's duration, although typically, they will be shorter. The interviews will be recorded. It is understood that the interviewee is free to decline to answer any question, to terminate the interview at any time and to require that any section or the whole of the recording be deleted. The firm will also be asked to provide access to scheme records and other relevant data.

Use of data (including the interview notes): It is intended that data received from this study, together with data collected from other parts of the project, will be used to inform academic and professional audiences. This will be through publications, conference presentations, teaching and so on. If so requested, the researcher will refrain from using data that the subject considers sensitive. The participants will be offered copies of any publications based on this research.

Anonymity of participants: all information acquired will be treated as confidential. Unless specifically agreed otherwise, references in publications, talks, etc to particular jobs, organisations or individuals, etc will be anonymised and features which might make identification easy will be removed.

A copy of this form will be given to each participant, with a signed copy retained by the researcher.

Declaration by the research subject (participant): I have read the consent form and any questions that I have raised have been answered to my satisfaction. I am happy with the arrangements as set out above.

Name of participant:

Signature of participant:

Researcher's signature:

Date:

The university and the researcher, Peter Williams, thank you for the time you have given and the assistance that you have provided. It is greatly appreciated.

Appendix 3 - Checklist For Piloting An Interview

PLEASE RING THE APPROPRIATE RESPONSE OR COMPLETE THE BLANK SPACE AVAILABLE

1. How long did the interview process take?...........................minutes

2. Did you find the period of time taken in the interview process to be :-

   TOO LONG

   TOO SHORT

   ACCEPTABLE

   OTHER

   If other, please specify………………………………………………..

   ……………………………………………………………….

   ………………………………………………………………

3. Was the verbal introduction clear? Yes/No

   If NO, where did it become confusing?..

   ………………………………………………………………………

   ………………………………………………………………………

4. Was there anything in the introduction that you thought could be removed or was it missing any additional information that you would have found useful?

   ………………………………………………………………………………

   ………………………………………………………………………………

   ………………………………………………………………………………

5. Did any of the questions make you feel uncomfortable? Yes/No

   If YES, can you give details

   ....

   ………………………………………………………………………………

………………………………………………………………………………...

6. Did you think that any other questions should be added? Yes/No

If YES, please give details ………………………………………………

…………………………………………………………………………………

..……………………………………………………………………………….

…………………………………………………………………………………

7. Do you have any other comments you would like to make?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………

Thank you for your help Ref: /Date:

Appendix 4 - First Interview Questionnaire

Name: ___________________________ **Sex: M/F**

Age: ___________ **Date/Time of Interview:________________**

Date joined the firm: _____________________

Joined the Pension Scheme: Y / N When_____________ **AVCs Y/N**

Introduction

Welcome.
*Thank you for agreeing to participate.
*You have already been given some information by AMS (expand - Today is all about you and your attitudes to saving for retirement, about the pension scheme that AMS offers and the financial information or advice that you may have received in the past).
*Further details of the research project, me as a researcher and this interview.
*University Code of research Ethics plus CII/PFS codes **(HAND OUT).**
*****Explain the use of the digital recorder (as a record for researcher's use only to save taking notes and that NO ONE else will hear it and that the recording will be wiped clean after analysing it and that no one will be mentioned by name in the analysis).
*Outline the interview and that I will be referring to a topic guide (this doc) and that there is NO right or wrong answer. What I am interested in is their opinions only.
*Consent form (give one, **RETAIN a SIGNED copy**).

Turn on the digital recorder

Q1. Firstly, I would like to learn more about you. Tell me about yourself
(free-ranging question, draw out what they do at AMS)

- *job role*
- *how long with AMS*

- *is it fun/ what is it like working here*
- *what did you do before*
- *always worked in London?*

Q2. When you joined AMS, during the induction day, I understand that you were given details of the benefits that the company provides or offers. For example, all staff are automatically provided with Life Insurance.

- What information were you given – written, presentation, could you ask questions (who/how)
- Did the availability of these benefits influence your decision to join the firm?
- Did the info/presentation influence your decision to (a) join/not join the pension scheme and (b) the PMI scheme?
- Can you remember what benefits you are provided with/are offered?

I will return to your induction and the information that you were provided with later, but to better understand your views, I would now like to ask you some general questions on savings, investments and advice.

Q3. How knowledgeable do you feel about financial matters?

Looking at the following statements, where would you say that you are?
(SHOW CARD Financial matters – *verbal rating scale*)

Q4. How confident are you about making financial decisions?

Again on a scale of 1 to 5, (SHOW CARD – *verbal rating scale*)

Q5. I would like you to look at the list and tell me if you have any of the following savings and protection products, if so which ones? (show card list)

- Bank/building society savings in addition to your current account
- ISAs – cash and/or shares
- UT or OEICs
- National Savings Products (including Premium Bonds, Saving Certificates)
- Gilts or other Govt securities
- Shares (if so which – check if just “privatisations”)
- Endowments
- Life insurance
- Critical illness policies
- Permanent health insurance
- Private medical insurance
- Investment properties
- Any other investments (if so, what?)
- None of the above
- Don’t know.

Q6. Can you tell me who you bought them from (Looking at the list) (SHOW LIST)

- At the counter at a bank/building society
- Over the phone
- Via the internet
- Salesman
- Financial adviser
- Other (please specify).

	Q6. RECORD RESPONSE	Q6. - RECORD RESPONSE				
		At counter at a Bank/Building Society	**Over the phone**	**Via the internet**	**Salesman**	**Financial Adviser**
Bank/Building society savings in addition to your current account						
ISAs – cash and/or Share						
UT or OEICs						
National Savings Products (including Premium Bonds, Saving Certificates)						
Gilts or other Govt securities						
Shares (if so which – check if just “privatisations”)						
Endowments						
Life Insurance						
Critical Illness policies						
Permanent Health Insurance						
Private medical Insurance						
Investment properties						
Any other investments ***(Please write in)***						
None of the above						
Don’t know						

Q7. Why did you buy these products?

Q8.When considering investments and savings, what sources of information do you rely on, indicate all that apply (SHOW CARD – list details)

- From bank/building society
- Insurance or financial service company
- Financial adviser
- Newspapers
- Television

- Radio
- Internet
- Books/magazines
- Newsletters from an advisory firms
- Others (please specify).

Q9. If you were considering making an investment in the next two weeks, who would you discuss it with (SHOW LIST)

- Bank/building society manager
- Solicitor
- Accountant
- Financial adviser
- Member of the family
- Colleague at work
- Friend
- Other (please specify)
- No one.

Q10. Have you every received “face-to-face” advice from any of the following? (SHOW LIST)

- Bank/building society manager/counter staff
- Solicitor
- Accountant
- Financial adviser
- Other professionals (please specify)
- No one (go to Q13).

Q11. Can you tell me about the last time you saw someone for Financial Advice

- Did you seek advice or were you approached?
- Who was it?
- When was it?
- What was it about?
- How did you rate their knowledge? (SHOW SCALE)

- How did you rate their advice? (SHOW SCALE)
- What was the best aspect of this contact>
- And the worst aspect?
- Did you pay a separate fee for the advice or were their costs covered from the product?
- How did (a) the value of the advice you were given (b) the product recommended (SHOW SCALE for (a) (b))
- If a friend needed advice, would you recommend this adviser? Y/N

Q12. Until recently, advisers were polarised into those who were tied to one provider and could thus only offer the products of that provider or they were Independent and could offer products from the whole of the market.

(a) Did you know about this polarisation? Y/N

(b) Now advisers can be:

   - Tied
   - "Multi tied" where they are restricted to products from a small group of providers.
   - Whole of Market (remunerated by commission or fee)
   - Independent (remunerated by fees or commission but must offer a fee option)

(SHOW CARD)

- Do you know what category (Tied, MT, WoM, IFA) your adviser is or was?
- Would you expect the same level/quality of advice from each group? Why?
- Does it matter to you what category they are and why?

Q13. All regulated advisers have to hold an appropriate entry level qualification. For 90% of advisers, this is the Chartered Insurance Institute's Financial Planning Certificate (FPC). What academic level do you think the FPC is (a) at and (b) should be at (SHOW CARDS):

- GCSEs
- A Levels
- Bachelor Degree

- Masters Degree
- Other (please specify).

Q14. Many advisers hold qualifications higher than the FPC, would you expect to pay more/less/the same to see such an adviser – *record reasoning*

Q15. If you had £15,000 to invest and I was your Financial Adviser, I would need to charge you for the advice and help that I give you. Let us say that this would cost £500 and I gave you an option of paying by fee now by cheque or instead having it paid out of the contract over 5 years. Which would you prefer and why?

Q. Do you think that £500 is a fair charge?
Q. If I told you that it was covering three hours of my time plus all the documentation and administration provided by my staff (such as…), does this alter your answer?

Q16. The Government is thinking about introducing ‘generic advice’. This would be more guidance than the full advice given by regulated Financial Advisers and anyone offering ‘generic advice’ would not have to be qualified to FPC levels. However, the service would help individuals to make their own mind up about their financial needs and it could be either offered free or at a low cost as the target market for generic advice is those who are unable to pay for advice.

- What do you think of this idea?
- Should it be restricted to those who cannot pay for advice (the poor)?
- How should generic advice be funded? (SHOW CARD)
  - By Government through general taxation?
  - By the financial services industry and Government?
  - By modest fees paid by the recipient?
  - By a mixture of the above?
  - Other (please specify).

Q17. (It may seem a long way off) but what are your ideas on retirement?

- What do you want to do/what plans have you made/dreams to fulfil?

- Is it too close/too far off?
- Where do you want to live?
- Do you expect to fully retire or to phase in with part-time work?

Q18. In today's terms, how much do you think you would need to live on in retirement?

Q19. Do you know how much the state pension currently is?

Q20. I would now like to consider the AMG Personal pension scheme that is with Standard Life.

- Can you tell me what information was provided?
- How was it provided?
- How useful was this information?
- Have you ever consulted it again?
- How useful was that?
- Is there anything that you would have liked to receive but didn't?

Q21. When you received information on the staff benefits at AMS, including the pension scheme, did you also see a financial adviser from Origen?

- Was this in a group presentation?
- A one-to-one discussion?
- Have you ever contacted Origen again about the pension scheme or something else (if so what). Tell me about it (AND USE Q12 sub questions, if relevant).

Q22.You decided to JOIN/NOT JOIN the scheme, can you tell me why?

(Non joiners – probe for what would have persuaded them to join then go to Q26)

Q23. What information do you receive each year from Standard Life?

- Is this enough/too much/too little?
- Is there any information that you would like but that you don't get?
- How satisfied are you with the plan (SHOW CARD – Very Satisfied (1) to very dissatisfied (5)) *Verbal rating scale*

Q24. Are you making additional contributions into the scheme? Y/N, if Yes – Why?

Q25. Including the benefits from the AM GPP with Standard Life, what pensions do you expect to receive at retirement?

Q26. Are you building up any other savings for your retirement (if so what)?

Q27. Do you expect to benefit from a pension provided for your husband/wife/partner when you retire?

Q28. The Government is changing the basic state pension (OAP) and phasing out the current second state pension (S2P). Instead, Personal Accounts (or NPSS) will be introduced. All employers will have to make available Personal Accounts to their staff unless they already offer a pension scheme. These Personal Accounts were mentioned in the information, on my research, that was provided to you by AMS. Apart from that, have you heard or read about Personal Accounts anywhere else?

- No, go to Q30**.**
- Yes (specify - TV, radio, newspapers, etc).

Q29. What can you tell me about Personal Accounts

Q30. Before finishing, I would just like to ask a few questions so that I can put your other answers in context. Are you:

- Single
- Married/living with partner
- Separated/divorced
- Widow/widower
- Other (explain).

Q31. Do you have any children? Ages?

Q32. How would describe your state of health?

Q33. What is your income/your family income?

Q34. What educational level have you studied to (SHOW CARD)

- GCSE
- A Level or equivalent
- Bachelor Degree level
- Masters Degree or above
- None of these (explain)

Q35. Where do you live (area)? _________________

Q36. Do you (SHOW CARD)

- Live with parents
- Live alone
- Share
- Live with partner
- Other

Q37. Do you rent or are you buying? (rent, go to Q39, buying, go to Q38)

Q38. Do you have a mortgage? Size?

Q39. Do you use credit cards and/or store cards? If so do you pay them off each month?

Q40. Apart from a mortgage do you have any other debts or loans?

Q41.

- For NON PENSION SCHEME JOINERS – I have written a simple guide to pensions and general money matters. It is not a big book just an introduction to the subject. After I have completed the first series of interviews I would like to send you a copy, ask you to read it and then in a month's time, return to see what you thought of the book. Is this OK? (If yes, give them the book, IF no, go to the end/close.)
- For JOINERS – I have written a simple guide to pensions and general money matters. It is not a big book just an introduction to the subject. Some of your

colleagues who have not joined the scheme will be sent this book in a few weeks time and I will then be reviewing it with them in the next two months. After I have completed these review meetings, I would be happy to forward a copy of the book onto you, for you to keep. Would you like me to send you a copy?

Q42. Is there anything that you would like to tell me that you think would be relevant to my research but which we have not covered today?

Q43. When I analyse my notes, I may have to contact you with a further question or two. This is unlikely to happen, but if so can I contact you? Y/N

END.

Finally, thank you for your time. It is really appreciated and your involvement in this project has been very important to me. THANK YOU.

Appendix 5 - Second Interview Questionnaire

Date: 30th May 2007 **Time: __________** Venue: AMS

Name:________________ **Recorder Ref:____________**

Introduction

Welcome.

- Delighted to see you again & once more, many thanks for agreeing to this second interview.
- As you know, this meeting is to ask you about your thoughts/views/feelings of the last interviews and what you now think about your finances. We will also explore what you think about the guide I sent to you and the 'mymoneypal' website.
- Before we start, I would just like to remind you that I am still bound by the university's research code and the CII's code of ethics and conduct. As before, the tape recording I make is only for purposes of the research and that the *Consent Form* that you signed is still valid. **Are you happy with this? YES/ NO.**

Turn on the digital recorder.

Q1**.** Firstly, I would like you to cast your mind back to our last interview. How did you find the experience?

Q2. Just over a week ago, I sent you a guide that I had written for you and your colleagues (SHOW GUIDE). Have you managed to look at the guide yet?
If NO - why was that?

If YES
* What is your initial impression of the guide?

*Did you read it on your own or with someone? (who?)

Q3. The guide referred you to the FSA websites and especially the ‘mymoneypal’ website. Have you looked at either of these sites?
No – go to Q5.

Yes
*Which one? ___________________

What did you think of the site(s)?
- easy to use, good, bad points

Q4. Which did you prefer using, the guide or the website (or did you like/dislike both) ?

Q5. The guide also referred to Origen the IFA firm that AMS uses. Have you made contact with Origen since our last meeting?

No __________
Yes.
* When was that?
* What was it for?
* What was the experience/outcome?

Q6. The guide (& ‘mymoneypal’) gave you information on financial planning. Did you find this of interest/use?
What particularly?

Did it encourage you to change your finances or saving/borrowing habits?

Q7. I would now like to go through the guide and ask your views on each section
- was the language clear?
- was it useful?
- what could be improved?

Q8. You will recall that last time, we discussed the documents that advisers had to give you to explain their status, services, etc. This included a menu of charges. One change in ‘disclosure’ that is under discussion is to move many financial products onto a ‘Factory Gate Price’ basis. FGP is… (describe)
What do you think of this idea?

Q9. You will also recall that we discussed the introduction of Personal Accounts in 2012. One feature of their introduction is that all employers will have to offer some form of auto enrolment into their pension scheme (or Personal Accounts). This means that after 2012, when someone joins AMS, they will be automatically enrolled in the pension scheme (although they can ‘opt out’). What d you think of this idea? If auto enrolment had been in existence when you joined AMS, would you have joined?

Q10. In conjunction with discussions about Personal Accounts, some people are suggesting that individuals should be given the option of pre-setting an increase in the pension savings. So whilst you could join the AMS pension scheme with a 3% contribution (of basic salary) today, you would sign up to increase this to (say) 4% on your next pay rise. This is a very popular option in the USA.
What do you think of this idea?

Q11. Having read the guide/viewed the websites, are you less or more likely to:
* join the pension scheme?
* adjust your finances (savings/borrowings/expenses/etc)?
*s ee a Financial Adviser (if so what type)?

Q12. Having gained an insight into your financial position, I am confident that if I did a financial plan for you, I could significantly improve your financial wellbeing. If I was able to offer you this service (WHICH I AM NOT nor will I) I would need to charge you a fee of £1,000. However, if the plan requires you to proceed with any products and these attract commission, I would offset the commission and thus reduce/remove the fee.
If I offered you this service, would you buy it? Why?
Q13. If I asked you to list the top three things that you have learnt/gained from this experience (seeing me/ reading the guide/website) what would they be?

Q14. Do you have any additional views/opinions about the research that you would like to share with me?

Q15. Do you have any questions for me?

THANK YOU for all the time you have given me with my research. It is really appreciated.

Close.

Appendix 6 - Note From Alexander Mann (AMS) To Staff

The firm has been asked to assist in a research project that is being undertaken by a part-time student at Middlesex University. Although the student is a senior manager at AEGON UK plc, who are the owners of our financial advisers, Origen, this is an academic research project and does not form part of a commercial study.

We have agreed to offer assistance and we would encourage all staff to provide any help and support that they can. The following notes give you further information on the research, the project and the type of involvement that employees may expect. Please provide assistance if asked.

Who is the researcher?

Peter Williams is Head of Industry Development at AEGON UK plc. He is a member of their Corporate Affairs and policy unit that is responsible for industry and Government liaison. His responsibilities include pensions, advice and educational issues.
In addition to his position at AEGON UK plc, Peter is also a Vice President of the Personal Finance Society (PFS). The PFS is the financial services arm of the Chartered Insurance Institute. Peter is a Chartered Financial Planner and Chartered Marketer.

What is the research?

Peter is now undertaking the final part of his Doctorate in Professional Studies. This final project is concentrating on why individuals join, or do not join, any employer pension scheme that is provided.

What involvement would be required from me?

Peter will be approaching a small number of employees, some of whom have joined our pension scheme and some of whom have not. Each participant will be asked to attend a meeting with Peter where a series of questions will be discussed. These meetings will be recorded but all information given will only be used for the purposes of research and no individual employees comments will be attributed to them in the published research paper. Neither Alexander Mann, Origen, AEGON UK plc nor any other body will be given access to the details of these meetings.

How do we know that confidentiality will be maintained?

Peter is bound by the University's code of Ethics and by the codes of the professional bodies to which he belongs. Peter will provide details of these at the meetings.

How many meetings will there be and how long will they take?

Peter expects to see a total of twenty employees, ten of whom will be members of the Alexander Mann Group Personal Pension.

Each meeting will last for a maximum of 90 minutes and they will be held in our London offices. Those individuals who agree to participate will be given, at the meeting, details of the research and a copy of the Chartered Insurance Institute's code of Ethics and Conduct.

Some participants will only have one meeting with Peter whilst others may have two.

Why is Alexander Mann supporting this research?

We believe that the research could provide a significant insight into why individuals decide to join (or not join) a pension scheme and this will be invaluable to the Government as it introduces the new Personal Accounts. We therefore see our support as part of our corporate social responsibility.

New 'Personal Accounts'. What are these and will they affect me?

You will probably already have seen these quoted in the national press as a Bill is currently going through parliament. 'Personal Account' are intended to be a new second tier pension for those who do not have access to an employer's pension arrangement (such as our scheme). The Government intends to introduce Personal Accounts in 2012. Although details are still being worked on it is not anticipated that they will impact on our Group Personal Pension scheme with Standard Life.

Peter's research will be presented to Government to help form the debate.
As and when relevant details of the new 'Personal Accounts' are known our financial adviser, Origen, will provide further information.

If I am asked, do I have to take part in this research project?

No. Participation is voluntary although we do encourage all employees to assist with this important research.

What will happen next?

If you have been selected to participate in the research you will be contacted with details of the meeting times and location. The first series of meetings will take place in March.

Appendix 7 – CII and PFS' Code Of Ethics And Conduct

The Chartered Insurance Institute (CII) and its financial services arm, The Personal Finance Society (PFS), encourages the highest professional and ethical standards in insurance and financial services worldwide.

The Council and membership of the CII look to all members, to meet these standards and to maintain the reputation of the CII by following this Code of Ethics and Conduct (the Code). It sets down the principles which all members of the CII should follow in the course of their professional duties. Members are obliged to comply with this Code. If they do not comply, this may result in the CII taking disciplinary action against the member.

The key values which set the standards for the behaviour of all CII members in respect of the key stakeholders in sections 1 to 5 are:

A. Behaving with **responsibility** and **integrity** in their professional life and taking into account their wider responsibilities to society as a whole. Acting in a courteous, honest and fair manner towards anyone they deal with. Being trustworthy and never putting their interests or the interests of others above the legitimate interests of their stakeholders;

B. Complying with all relevant Laws (including the laws of the CII) and meeting the requirements of all applicable regulatory authorities, and appropriate codes of practice and codes of conduct.

C. Demonstrating **professional competence** and **due care** including:
   i. Meeting the technical and professional standards relating to their level of qualification, role and position of responsibility;
   ii. Completing their duties with due skill, care and diligence;

D. Upholding **professional standards** in all dealings and relationships;

E. Respecting the **confidentiality** of information;

F. Applying **objectivity** in making professional judgements and in giving opinions and statements, not allowing prejudice or bias or the influence of others to override objectivity. Members should respect the traditions and cultures of each country in which they operate. They should carry out business in any country according to all applicable local Laws, Rules and Regulations. Where there is a conflict between local custom and the values stated above, the Code will act as a guide to help members to act professionally. A member operating in a professional capacity has duties, arising from these key values, to a number of different groups. Within these relationships a member should always act ethically and their behaviour and conduct should meet the following principles:

1. Relations with customers

A. Behaving with **responsibility** and **integrity** in their professional life and taking into account their wider responsibilities to society as a whole. Acting in a courteous, honest and fair manner towards anyone they deal with. Being trustworthy and never putting their interests or the interests of others above the legitimate interests of their stakeholders;

B. Complying with all relevant Laws (including the laws of the CII) and meeting the requirements of all applicable regulatory authorities, and appropriate codes of practice and codes of conduct.

C. Demonstrating **professional competence** and **due care** including:

   i. Meeting the technical and professional standards relating to their level of qualification, role and position of responsibility;

   ii. Completing their duties with due skill, care and diligence;

D. Upholding **professional standards** in all dealings and relationships;

E. Respecting the **confidentiality** of information;

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2. Relations in employment

Members should aim to ensure good relations with their employer and employees and should:

A. Avoid conflict between personal interests, or the interests of any associated company or person, and their duty to their employer;

B. Not make improper use of information obtained as an employee or disclose, or allow to be disclosed, information confidential to their employer;
C. Seek to be a responsible employer or employee and be honest and trustworthy at work;
D. Act openly, fairly and respectfully at all times, treating other employees, colleagues, customers and suppliers with equal respect, consideration and opportunity;
E. Aim to take every opportunity to improve their professional capability, knowledge and skills;
F. Accurately and completely account for and report in employer records all business dealings;
G. Not provide or accept money, gifts, entertainment, loans or any other benefit or preferential treatment from or to any existing or potential supplier or business associate, other than occasional gifts, entertainment or remuneration, which are provided as part of accepted business practice, provided this is not likely to conflict with any duty that is owed to their employer.

In addition, where a member holds a position of influence within an organisation they should:

8. Provide, or encourage their employer to provide, suitable arrangements for the internal review of decisions, policies and actions where an employee raises concerns of unethical behaviour. (Employees should not be penalised for raising matters of ethical concern even if this results in a loss to the organisation or a customer);

A. Incorporate, or encourage their employer to incorporate, ethical standards into the organisation's governance standards, including the development of an ethical code.

(This part of the Code will operate alongside any employer policies, guidance, work rules, contracts and conduct documents. Where this part of the Code sets higher standards, the Code should be followed.)

3. Relations with Regulators and the Law

Members must respect all Laws and abide by all Regulations that affect their business and must:

A. Ensure they operate within the Law and within the spirit of the Law, at all times;

B. Ensure they deal with regulators in an open, transparent and co-operative manner and meet any requirements correctly made of them.

4. Relations with the community and the public

Members should recognise the important wider role that they play as professionals and should:

A. Seek to advance the reputation of financial services, financial planning, insurance and associated trades through their own conduct;

B. Operate in a way that respects environmental concerns and issues;

C. Act in a socially responsible manner within the countries and societies in which they operate;

D. Strive to be trusted individuals and fulfil their responsibilities to the societies and communities in which they operate professionally.

5. Relations with the CII

Members receive various benefits as CII members, but they also have responsibilities to the CII and its members.

They should:

A. Act at all times according to the laws of the Institute (including this Code of Ethics and Conduct);

B. Ensure a transparent relationship with the CII, based on trust, respect, responsibility and integrity;

C. Have pride in their status as a CII member and in any CII qualifications they hold;
D. Ensure they do not make improper use of information or disclose, or allow to be disclosed, information confidential to the CII;
E. Aim to seek opportunities to support the work of the CII and to promote its values to others, especially industry bodies, employers and prospective members;
F. Aim to seek opportunities to support local CII activities;
G. Demonstrate to others the value of professional qualifications and continuing professional development;
H. Treat other CII officers, other members and CII employees with the same respect they would wish to be given;
I. Ensure that their membership of the CII is not publicised in any way, that might suggest that they hold a professional qualification which they are not entitled to;
J. Ensure that any conduct, promotion or public announcement, with which a member, their name or qualification are connected does not bring the CII, another member or their profession into disrepute;
K. Advise the CII of any members who are not following its rules or this Code, and advise the CII of anyone wrongly representing themselves as a member;
L. Aim to ensure the expected standard of technical competence is maintained and that they remain informed of current developments (to ensure they remain competent to carry out their role) by undertaking appropriate professional development.

In addition:

13. **Qualified members, using designatory letters** should comply with the requirements of the CII's scheme for Continuing Professional Development (CPD) appropriate to their level and conditions of membership;

A. **Chartered titleholders** should notify the CII promptly of any change in the nature of their employment which might affect the particular chartered title applicable to them under the terms of the CII's Bye-laws.

B. **Chartered titleholders** should only use the title in an individual capacity. It should not be used in a manner applying to firms, partnerships or corporate bodies.

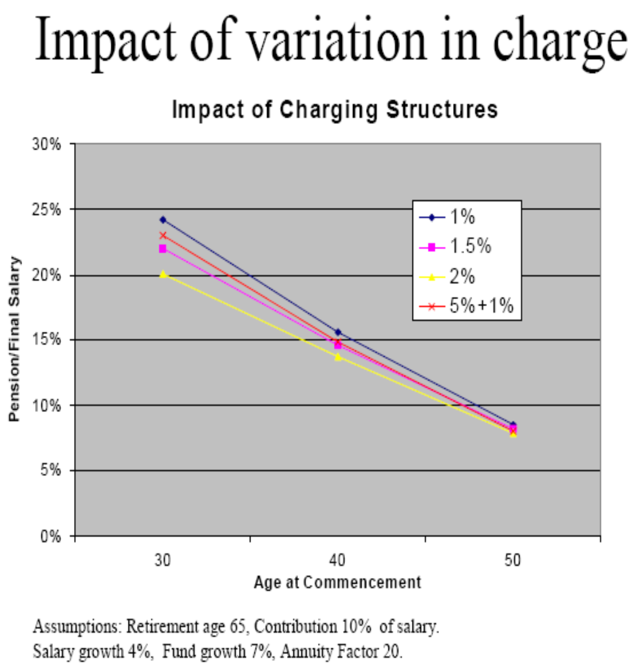
Appendix 8 - Extract From The AEGON UK Submission To The Pension Regulator's Consultation On Risks In Defined Benefit Schemes

Pensions Regulator: regulating member risk in defined contribution schemes

AEGON January 2007

Charges need to be put into context. There are other areas that affect retirement income which are much more significant than whether the charge is 1% or 1.5% of funds. These include delays in making contributions and level of contributions, but of more significance are investment related decisions and investment performance.

Section 11 of our response sets out the risks and shows the effect of higher charges is minimal with a 3% impact at retirement. This is further illustrated by the graph below.



In its consultation, tPR states its view that fees for independent trustees should be

Section 11, Table

To highlight the relative importance of the factors set out above it is worthwhile considering the impact of the following, on a member who is joining the company at age 35 and has the option of joining a scheme where both the employer and member makes a contribution of 4% of salary:-

Issue	**Percentage impact on retirement**
Member delays joining for 6 months	5%
Member increases their contributions by 10%	5%
Member loses confidence because of poor investment understanding and leaves after five years	76%
Failure to take the OMO option	15%*
Risk of overly cautious investment approach	23%**
Risk of insufficient protection as members get closer to retirement	25%***
Risk of higher charges	3%****
Impact of poor service	<1%*****

* This varies and can be as high as 40%. A 15% difference is reasonably common

** An example of a 5% rather than a 7% return

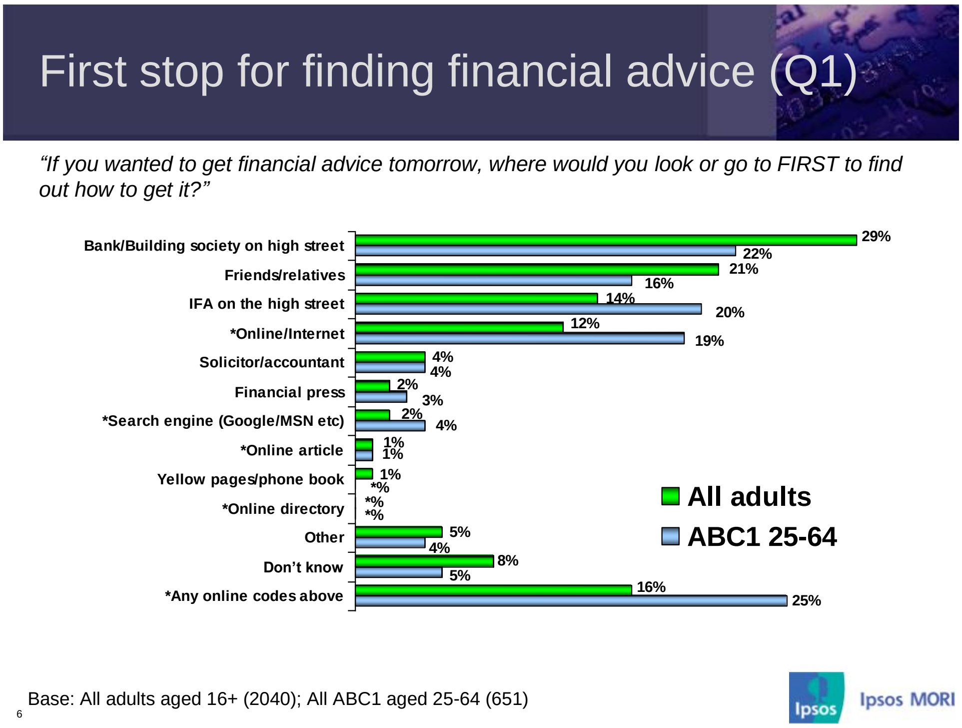
*** Again difficult to quantify. A 25% fall in asset values is not inconceivable

**** Assuming a charge of 1.25% rather than 1% annual management charge

***** Other than delays impacting on retirement values, service issues have a negligible financial impact on members

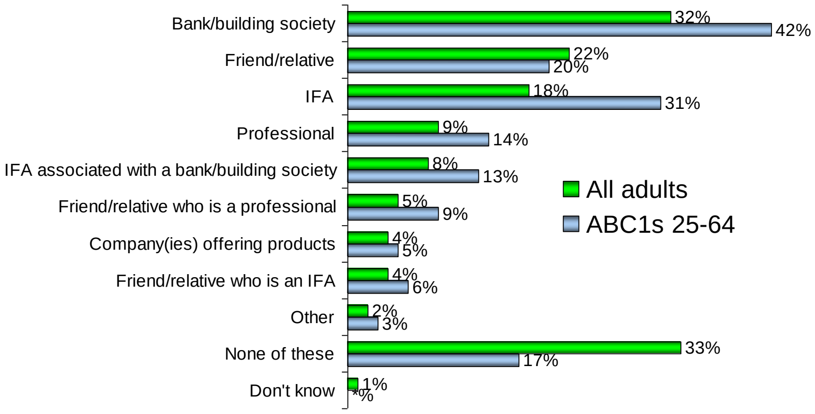
Appendix 9 - IFAP Slides

These two slides are taken from the IFAP Omnibus Report. The research was based on a number of IFAP questions placed on the MORI Financial Services Omnibus and supported by interviews conducted face to face (IFAP 2006). It clearly shows the strength of banking distribution, although IFAs continue to dominate business from High Net Worth individuals (ABC1).



Sources of financial advice used (Q11)

"Which of these, if any, have you taken financial advice from in the last five years?"



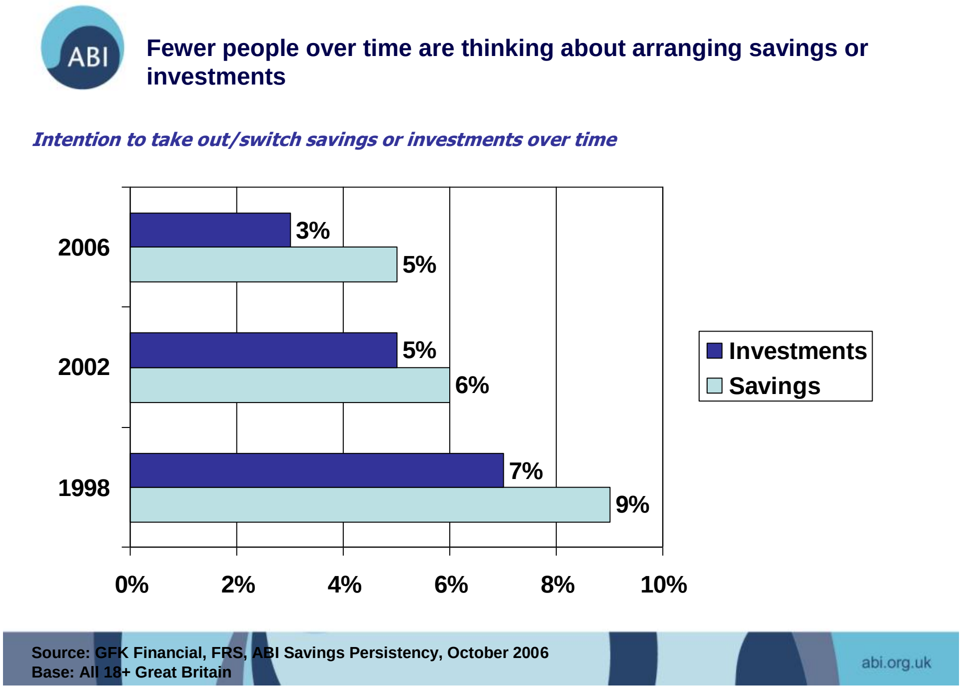
Base: All adults aged 16+ (2040); ABC1 aged 25-64 (651)

15

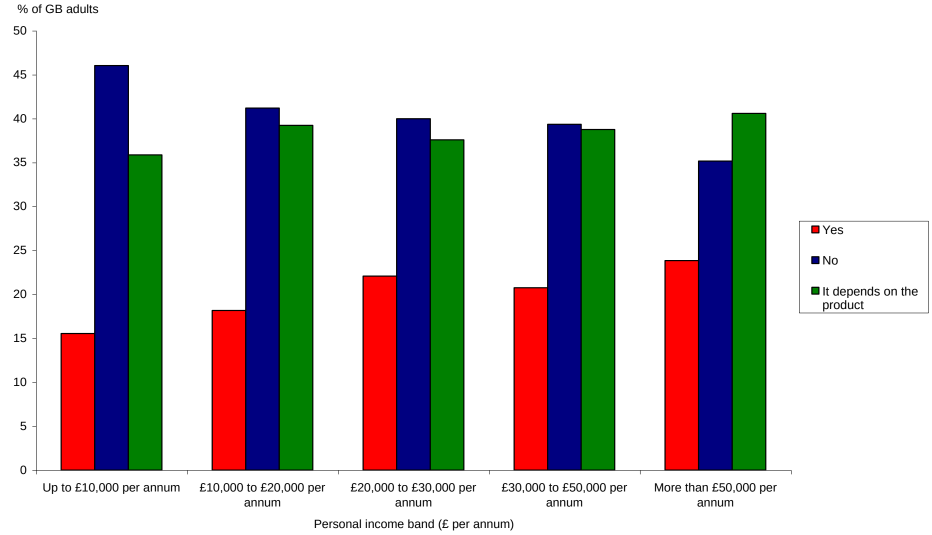
Appendix 10 - ABI Presentation To The Thoresen Review

The following slides are taken from a presentation given by the ABI to the Thoresen Review team. The ABI presentation was based on three main data sources:

- YouGov survey commissioned by the ABI (13-20th October 2006 – 5329 respondents)
- Analysis conducted for the ABI by Gfk NOP using Gfk Financial Research survey (October 2006)
- Oliver Wyman (2001).



Do you tend to seek advice before making financial decisions?

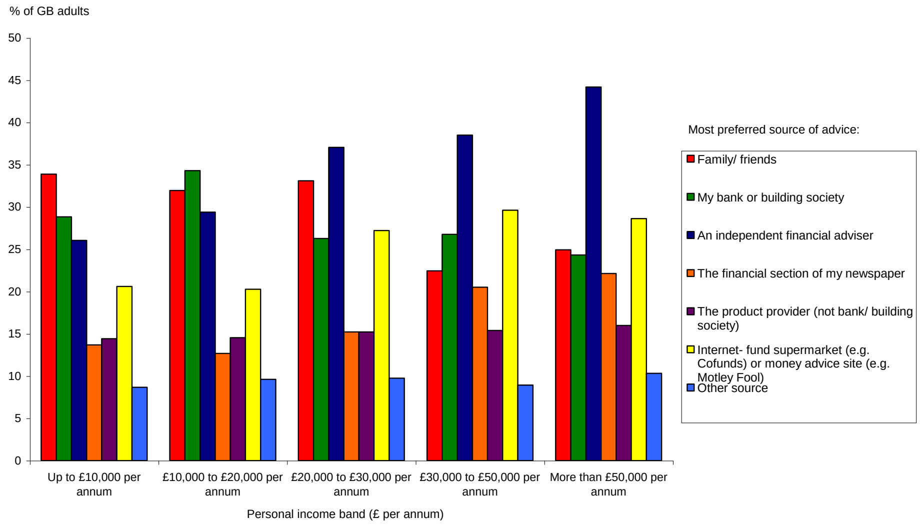


Source: YouGov survey for ABI – Question 178

Base: % of all with current account/ other savings & investments [Weighted sample size = 5,116]

abi.org.uk

Where do you prefer to get advice from on savings and investment?

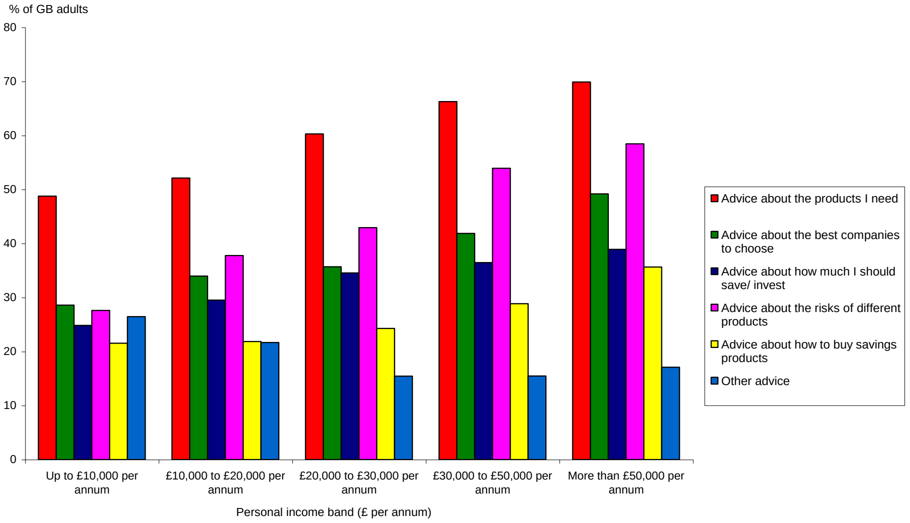


Source: YouGov survey for ABI – Question 179-185

Base: % of all with current account/ other savings & investments [Weighted sample size = 5,116]

abi.org.uk

What sort of financial advice have you received?

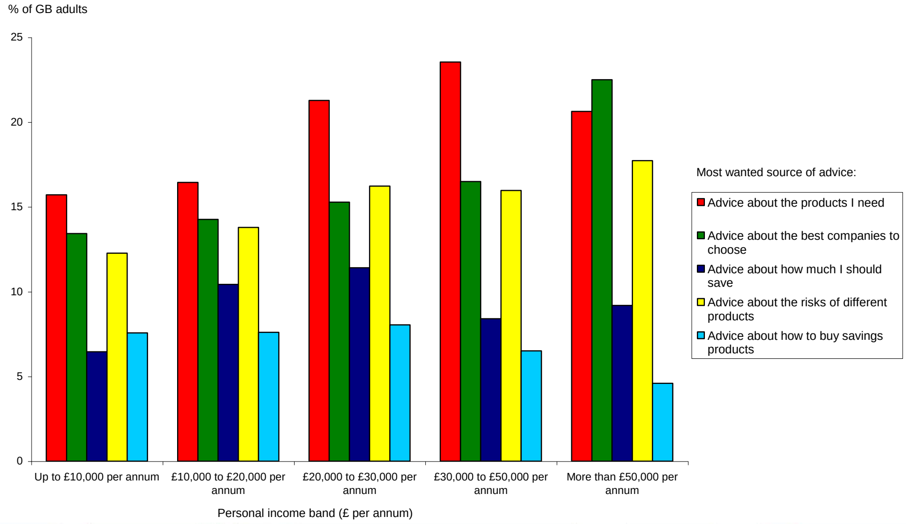


Source: YouGov survey for ABI – Question 186. Tick all that apply.

Base: % of those who sought advice before making financial decisions [Weighted sample size = 2,996]

abi.org.uk

What sort of advice would you most like to receive?

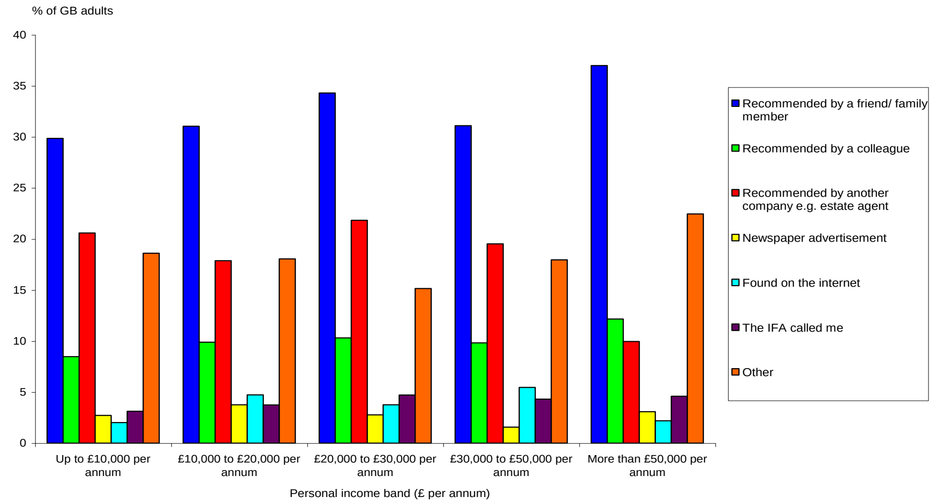


Source: YouGov survey for ABI – Question 187-191. What most want advice about.

Base: % of all with current account/ other savings & investments [Weighted sample size = 5,116]

abi.org.uk

How did you first come across your IFA?

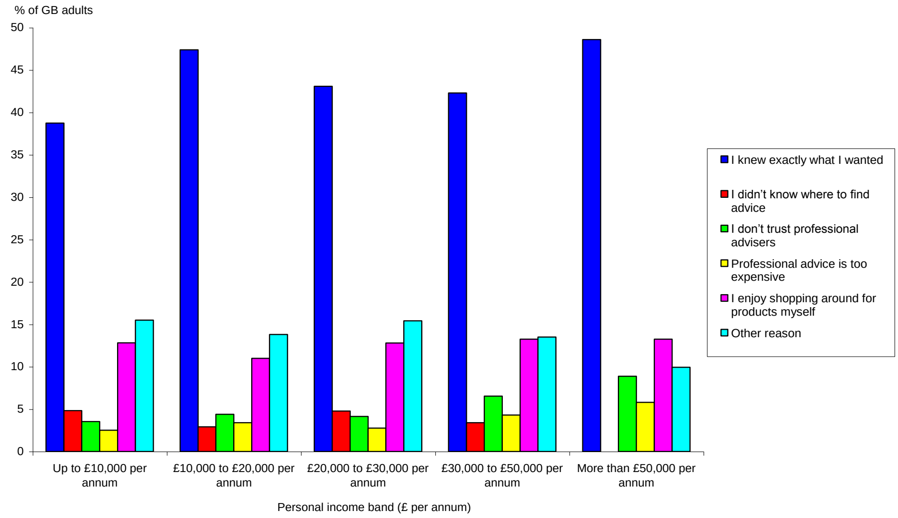


Source: YouGov survey for ABI – Question 194

Base: % Received advice from an IFA [Weighted sample size = 2,301]

abi.org.uk

Why did you choose not to take advice when you bought your most recent savings/investment product?



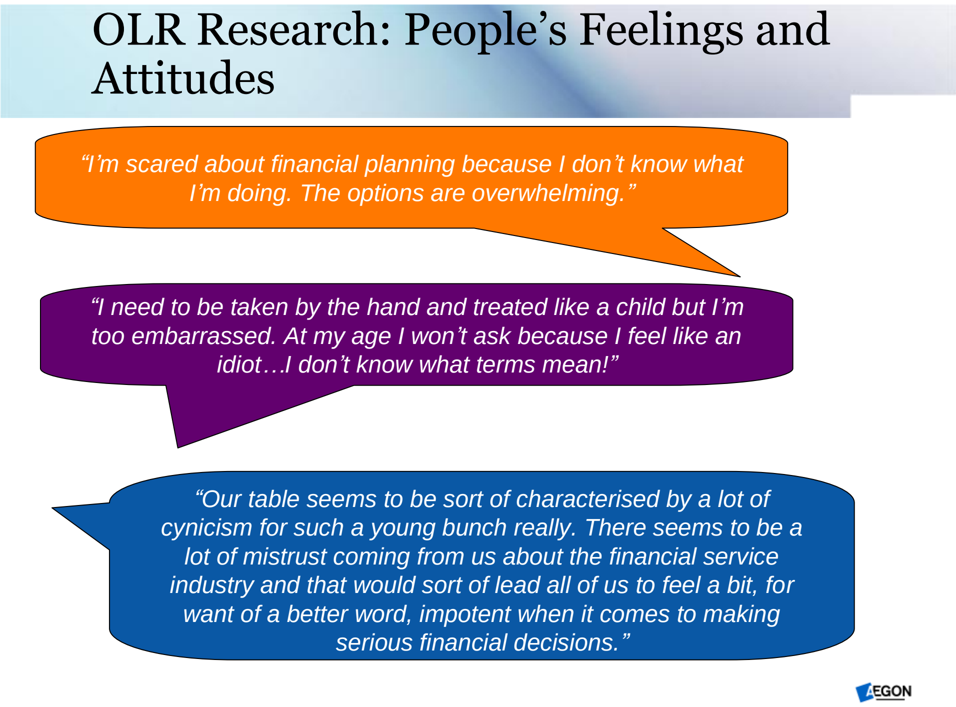
Source: YouGov survey for ABI – Question 242

Base: % of all with current account/ other savings & investments who did not receive advice [Weighted sample size = 2,092]

abi.org.uk

Appendix 11 - AEGON UK: Initial Findings From The Consumer Forum

The following slides are taken from a presentation delivered by Francis McGee (AEGON UK) to an ABI conference.



OLR Research: People's Feelings and Attitudes

Consumers:

- want independent help and advice
- don't see IFAs as truly independent or focused on their interests
- don't see a truly personal service anywhere else
- are discouraged by the time investment required
- Some don't feel they have the skills, others don't have the interest
- all know someone affected by mis-selling

"The only time you ever receive advice is when you're approached by someone selling you a product."

AEGON

OLR Research: Core Consumer Needs

Discussions identified six core needs:

1. Equip us with the necessary skills

2. Make it easier for us to make choices

3. Provide help that is designed around us

4. Build our confidence in the advice provided

5. Develop products that can be relied on

6. Motivate us to keep going

AEGON

OLR Research: Creating 'Planet Perfect'

In an ideal world, financial advisers would:

- Offer quality of advice:
  - understand all requirements & the range of solutions available
- Be Accessibile
  - there wherever/whenever needed by consumers
- Be Trustworthy:
  - Have consumer's best interests at heart
- Be Proactive:
  - Provide consumers with updates and alerts on a regular basis
- Be Flexible:
  - Adapt to changing personal and market circumstances
- Be constantly there:
  - Start from childhood, stays with consumer for life

OLR Research: Build a consumer-centric model

FINANCIAL CAPABILITY
Build skills, confidence and engagement
Early and continuing education

NEW INFORMATION STANDARDS
Simple to understand and use
Standardised protocols
Fewer caveats

NEW TYPE OF FINANCIAL ADVICE
Truly independent
Designed to 'help' rather than 'sell'
A range of products: affordable & accessible
Motivating customers – peer support

REVIEW TRADITIONAL 'SELLING' ADVICE
Build confidence by reviewing commission-based model
Enable consumers to evaluate performance

REVIEW PRODUCT DESIGN
Meet my needs
Secure
Rewards/incentives

Some common key themes

Separate ‘advice’ and ‘selling’

Align interests

Independent, impartial advice

Transparency of payments

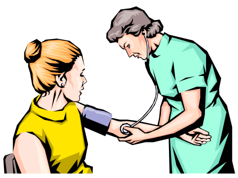
Make choice easier

Provide long-term solutions

Five Concepts from Consumer Research

1. Financial Guru

2. Personal Shopper



3. Drop in centre

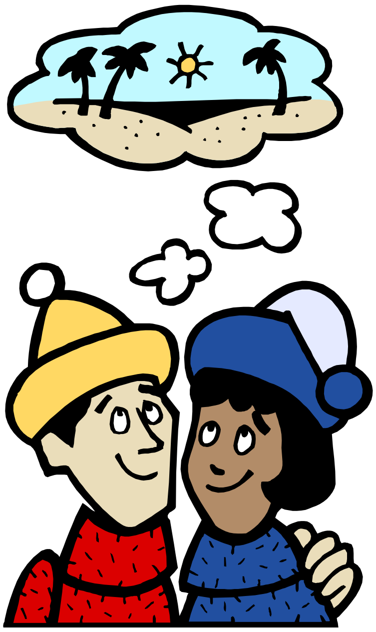
4. Life Coach

5. Financial Superstore

Appendix 12 - AMS Guide 'How To Make Your Dreams Come True'

This guide was originally published in PDF format.

How to make your dreams come true



This guide has been written for you.

It is based on the interviews that you and your colleagues at AMS have had with me and it aims to answer some of the questions that arose from these meetings and to stimulate your interest and understanding of financial matters.

Woody Allen once said: “Money can’t buy you happiness but it does bring you a more pleasant form of misery.” Most dreams and goals you have will need money to help you to achieve them.

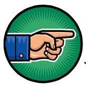
The success of this guide, and how well it helps you to fulfil your dreams, is dependent on you. You can either ignore the guide or you can use it to improve your finances – the choice is yours.

So, read on for a brighter financial future.

Peter Williams
Chartered Financial Planner
Researcher, Middlesex University

How to use this guide

You have the ability to change your life and to give yourself the future you deserve.
This short guide has been written to help you to plan your finances and to help you to protect those you love.
I guarantee that if you work through this book and carry out the actions identified, you will improve your financial situation.
Throughout the book I will highlight actions that you may need to take. You will need to write these action points down and add them to your “to do” list.

Often these action points (shown by the symbol ) may refer you to www.mymoneypal.com. This innovative website is provided by AEGON Benefit Solutions. It is usually only accessible on a group basis for a fee, but I have arranged for you to have two weeks’ unlimited access to the site. You will need to follow the instructions and use the password that I sent to your email address. The website provides a wide range of information and access to a number of comparison tools. For example, via the site, you can look at some of the best mortgage deals available in the market. The site also allows you to review your existing pension(s) and to plan for the retirement that you want.

A further source of useful information is a website that is provided by the industry’s regulator (the Financial Services Authority) www.moneymadeclear.fsa.gov.uk

Occasionally you will also see this sign  in the guide, which indicates that some important point is being made.

So, let us get started. Sit down, either by yourself or with your spouse or partner. Enjoy a cup of tea or coffee and start to plan for the dreams you want to make happen.

Financial planning often centres on key ‘lifestage events’ such as getting your first job, buying a house, getting married , starting a family, redundancy, retirement, etc.

This guide does not set out to enable you to write a financial plan. This is best achieved by engaging the services of a professional who can tailor the plan to your exact needs. Instead the guide will consider some of the main financial planning issues that were identified during the interviews. It will therefore look at:
*Loans, debts & mortgages
*Protection (life insurance, health insurance, etc)
*Savings and investments – both short term and medium/long term
*Pensions and retirement
The guide does not cover other insurances which are necessary, such as house and contents insurance, or sometimes compulsory, such as motor insurance. Details on these can be found in mymoneypal.
A question that I am often asked is “what comes first, paying off debt, buying life and health insurances, savings or investing in a pension?” The answer really depends on your own circumstances but the need for some protection usually comes high up the list and, for most people, it is a mixture of the others. An independent financial adviser, such as Origen, can assist you in sorting out what the right balance is for you. Later in this guide we look at advisers and how they can help you and how you can choose one that is right for you.

Do you have any loans, debts or mortgages?
Most individuals have outstanding loans or debts at some time. The largest of these is likely to be a mortgage.
Few individuals can afford to buy a flat or house outright so **mortgages** are a good and relatively cheap way of financing a purchase – but do you have the right type of mortgage? The mortgage market has changed and is also highly competitive so shopping around for the best deal makes sense. It is now common practice to change your mortgage on a regular basis as your needs change or new deals become available.

Review your current mortgage terms and go to mymoneypal to see what other options are available to you.

Loans are often taken for large purchases. These can range from buying a new car or purchasing a conservatory. If they are ‘home’ improvements it is usually worthwhile checking with your mortgage lender to see what offers they can make.

Go to mymoneypal and check out the loan rates on offer
Credit and store cards are now the most popular payment method for most shopping but they can be very expensive if you do not pay off the full balance each month. You should try to build up a cash reserve so that you can always pay off the outstanding balance. Failing this, look at mymoneypal and see if it is possible to get a better deal on the interest rate being charged. Whilst some credit cards charge less than 8%, some store cards are charging an interest rate of over 29%. Also be careful of offers of “interest free transfer period”. Whilst they may give you a 0% charge for a number of months, this may only apply to the original balance and there is often an administration fee (typically 2% of the balance) hidden in the small print.

Go to mymoneypal and check out the credit card offers

Have you thought about consolidating debt? If you have a mortgage your existing lender may be able to offer you a secured loan at substantially lower rates than you are paying on your credit and store card(s). However, watch out for hidden costs and remember that you still have a debt to service.

Have you financially protected yourself and your family? Who will pay the bills if you are sick or if you die?

There are several types of 'protection' that you may need to consider. If you are single and without any dependants, then your priority may be income protection insurance (IP) which is sometimes referred to as permanent health insurance (PHI). If you are married and/or have a young family, then life insurance may be equally important. Nevertheless, remember it is not one or the other. In an ideal world you should have the right cover for all of your needs.

Thinking of skipping this section and saying, "hey, I don't need these; I am healthy and it is unlikely that I would need any of this cover"? Well, you would be wrong.
Fact: Take a 35 year old. Before reaching age 60 he or she has a 1 in 5 chance that they will be off work due to accident or sickness for 6 months, a 1 in 8 chance of being diagnosed with a critical illness and a 1 in 13 chance of dying.

So what should you be considering?

Life insurance
Remember that AMS provides you with life insurance of four times your basic salary. This means that if your basic salary is £20,000 and you die this group life insurance will pay out £80,000. However, for an average family with children it is usually recommended that the main 'breadwinner' has life insurance of 10 x their salary. In addition their partner should also have life insurance sufficient to ensure that their death does not financially cripple the family. At the very least, this will mean sufficient life insurance to cover the mortgage and the cost of providing child minders etc. Other expenses, such as school or university fees, would also need to be added.

Calculate how much life insurance you need

You
Total life insurance (10 x salary) _____________
Less AMS group life insurance (4 x basic salary) ____________
Less other life insurance _____________
GAP (shortfall) _____________

Your partner
Total Life Insurance required _____________
Less any group life insurance? _____________
Less other Life Insurance ____________
GAP (shortfall) ____________

It is sensible to have life insurance written in trust so that on death payments can be made swiftly and no adverse tax charges would apply. The AMS Group Life Insurance is already in trust.

Three types of additional life insurance are available:

Term insurance is a low cost insurance that you take out for a specific length of time. Often this will be to coincide with your mortgage term or the date you intend to retire. It pays out a lump sum on your death. When arranged for mortgage purposes, it is often written on a 'decreasing' basis. This means that the sum assured reduces as the mortgage capital is repaid.

Family income benefit (FIB) is similar to term insurance except that on death an income is paid out for the balance of the term instead of a lump sum. So if you took out a FIB for £500 per month over 25 years and you died after 10 years, the policy would pay out £500pm for the remaining 15 years (£500 x 12 x 15 = £90,000).

Whole of life pays out an agreed lump sum whenever death occurs. Usually these policies have an investment element and depending how they are set up this 'investment' may mean that at predetermined policy reviews the premiums are reduced, increased or stay the same. Many newer whole of life plans also have the option of having critical illness benefits written as part of the policy.

Contact Origen or another independent financial adviser (IFA) (see pages 17-20) to arrange life insurance for you (and your partner)

What other 'protection' insurances should I consider?

There are three.
Private medical insurance (PMI) provides for the cost of private medical treatment so that you are not dependant on the NHS for treatment other than emergency or very serious conditions. This means that you can access medical treatment much quicker and when it suits you.
AMS already provides you with this valuable benefit. You are not required to pay for this although you have a tax charge for this extra employer supplied benefit.
It is possible to have the cover extended to cover your family but this would be at your expense.

Check that you are a member of the AMS PMI scheme. If you are not, contact your HR team about joining. If you are a member, you should consider extending the cover to include your family. Speak to your HR department or Origen about this.

Income protection insurance (IP)/permanent health insurance (PHI)
What happens if you are off work long term through illness or injury? Whilst the state will offer some support it is not generous and most individuals are advised to take out IP/PHI cover. This pays you an income until either you can return to work or you reach retirement. There is usually a waiting period before the benefits are paid and the longer

the waiting period, the lower the premium. You can claim on this policy more than once.

Generally IP/PHI is restricted to 70% of your income and a typically waiting period is 3 or 6 months.

Hey, this cover is not really needed, right?

WRONG! When I was 28 years old I was injured in a road traffic accident and PHI covered me for the 19 months before I returned to work. Without this cover my wife and young children would not have been able to financially survive.

Critical illness insurance (CI) pays out a tax free lump sum if you are diagnosed with a defined life threatening illness such as cancer, heart attack or stroke. It is common to offer CI in conjunction with term assurance and whole of life policies.

Are there any other insurances?

Yes, payment protection insurances (PPI), sometimes referred to as accident, sickness and unemployment insurance, is often quoted and frequently PPI is “added” to credit card, loans and mortgage arrangements. PPI has limitations and is often expensive.

 Contact Origen or another IFA and discuss which of the above is right for you (and your partner) and how these fit into your financial plan.

Savings and investments

Everyone should consider their short, medium and long-term saving needs.

Short-term usually refers to cash and deposit-based investments such as building society and bank savings accounts. Ideally you should have between 3 and 6 months of net income available in savings to cover any short-term emergencies such as periods of ill health, accident or unemployment. Other short- term needs could be holidays, deposits for a house or the arrival of a new baby.

Where possible you should have the majority of your short–term savings in cash investment savings accounts (ISAs). Cash ISAs are savings accounts that have no tax deducted. This is especially advantageous for higher rate taxpayers who would normally have tax deducted at their highest rate (initially at the rate of 22% at the bank or building society with a further 18% deducted via their year-end assessment or tax coding).

In simple terms, if you invest in an ordinary account that pays 5% gross interest a basic tax payer would only earn 3.9% and a higher rate tax payer would earn 3% but in a cash ISA, the full 5% is earned by both. In addition, you often find that the interest rates on cash ISA accounts are higher than normal savings accounts.

Because cash ISAs are so tax efficient, the Government restricts the amount that you can invest into a cash ISA to £3,000 for the 2007/8 tax year. Whilst this seems a small amount, if investments are made every year they can add up to a tidy sum.

After investing into a cash ISA you should look at high interest deposit accounts. Some banks also offer current accounts that pay a high rate of interest on the first few thousand in the account and another good investment rate can be obtained via “offset” mortgages.

 Have a look at mymoneypal for a range of the options available and/or speak to Origen (or another IFA) about these investment choices.
Another good source of short (and medium-term) savings accounts is National Savings and Investments. These Government-backed accounts also include access to Government securities (sometimes called gilts) which are in effect a loan to the Government but with interest paid on a fixed basis over a fixed term.

Fancy a punt? Is there a gambler within you but you also want to safeguard the capital invested?
One unique product available from National Savings and Investments (NS&I) is premium bonds. Although premium bonds do not pay any interest they do provide a return of the original capital and, in the interim, the bonds are entered into a regular draw with cash prizes of up to £1m. This is like entering the lottery but with a money back guarantee – although as with the lottery there is no guarantee that you will win.
Premium bonds can be purchased online (www.nsandi.com) or at a post office.

Medium and long-term savings are often best invested in mixture of assets that includes equities (stocks and shares), which carry higher risks but which have a greater chance of higher rewards.
Whilst you can hold individual shares, most individuals should think about investing via 'collective investments' such as equity ISAs, unit trusts, open-ended investment companies (OEICs), or life insurance investment bonds, to get a balanced investment.
The above investments can be either lump sum investments or purchased by monthly direct debit.
A more traditional monthly savings plan is an endowment policy. Endowments can still offer life cover combined with decent returns but they are no longer recommended. The poor reputation created by some 'low cost endowments' that have failed to meet their mortgage repayment targets has given all endowments a bad name.
Maximum investment plans are similar to endowments except that they offer a range of (unit linked) investment choices. These too are no longer popular.

 Thinking of cashing in an endowment policy?
Before doing so speak to Origen or another IFA. Cashing in (surrendering the policy) early seldom offers good value. It may be better to continue with the policy or make it "paid up" which means that you cease paying premiums but the policy continues invested until the maturity date. Alternatively, an IFA may recommend that you sell or auction the endowment.
These days, most collective investments (such as equity ISAs, OEICs, etc) and pensions can offer a wide range of investment choices including UK equities (stocks and shares), overseas equities, property, fixed rate, corporate bond and gilt funds. They can also include funds that can meet any ethical, religious or moral criteria that you set.
When making investment decisions, you need to be aware of your own attitude to investment risk. For example, you may want the potential higher returns that investing in an emerging overseas market can give but you may not be prepared to accept the risk of a substantial loss of your capital that this investment could create.
For most individuals, a balanced investment portfolio should be constructed that gives a mix of investment (asset) classes. This mix will depend on a number of criteria including your attitude to risk, the length of time you wish to invest, your health and the

purpose of the investment. An IFA, such as Origen can help you select the appropriate mix.


Contact Origen or another IFA about constructing a financial plan that will take account of your attitude to (investment) risk, including what chance you are prepared to take of not getting your investment back. They will also be able recommend suitable investment products and funds that are tailored to your needs.

Pensions and retirement

What type of retirement do you want?

Pensions are the most tax-efficient form of savings for your retirement and the earlier you start saving the better.


Just consider the following.
Let us say that you wish to retire at age 65. On top of the pensions (basic state pension and state second pension) provided by the Government you also want an additional pension of £10,000 pa (£833.33pm).
In this example, this additional pension will be paid throughout your life and when you die it will provide your partner with a pension of 50% of your pension. Both pensions will increase at 3% pa to give some protection against inflation. Assuming an investment return of 7% pa, below is a list of how much you would approximately need to pay into a pension to get your £10,000 pa. (If you want a pension of £30,000 pa, just multiply the contributions by 3.)

Age 25 £118 pm
Age 30 £164 pm
Age 35 £232 pm
Age 40 £335 pm
Age 45 £500 pm
Age 50 £793 pm

You will see from the above that if you are aged 30 and want a pension of £20,000 you will need to pay a gross contribution of £328 pm (£164 x 2). To counteract inflation, these figures will also need to increase in line with any salary increases.

If you are 30 and delay contributing until you are 35 the cost increases by over 41%. Can you afford to delay starting your pension? Even if you cannot afford the figure you 'need' to pay even a smaller regular contribution now reduces the future costs and here you are very lucky – for three reasons.

Firstly, the Government gives generous tax relief for pension savings. You are given full tax relief on all pension contributions therefore a basic rate taxpayer receives 22% whilst a higher rate taxpayer gains 40% relief.

Secondly, AMS have put in place a 'matching' Group Personal Pension scheme that means that if you join the scheme the company will match your gross contribution up to a predetermined limit. For most staff AMS will pay 3% of your basic salary providing you also pay a minimum of 3% (you can pay more). For example, for every £10,000 of basic salary pa that you earn the company will pay £300pa into your pension providing that you also pay (at least) £300pa but after tax relief this only costs you £234pa (basic rate tax payer) or £180pa (higher rate taxpayer). So for your £234 or £180 you get £600 invested into your pension!
In monthly terms this means that a higher rate taxpayer only pays £15pm to have £50pm invested on their behalf.
For some staff the 'matching' is at a different rate. Ask HR what your rate is.

Thirdly, AMS asked Origen to set up the pension scheme on a fee basis. ALL Origen's charges are paid separately by AMS and therefore the Group Personal Pension charges are extremely low. This increases the value of the pension to you.

 Some useful question and answers based on the first interviews.

1. Are pensions right for everyone?
Most individuals SHOULD invest in a pension, especially when an employer is also willing to pay into the scheme. By ignoring the AMS pension you are turning down (at least) a 3% increase in your basic remuneration package. Even if you do not intend to stay with AMS the value of your pension pot is your personal fund and it can either remain invested for you with Standard Life or transferred to a new employer's pension arrangement.
Private pensions also allow you greater control including the date at which you take the benefits (from 2010 private pensions can be taken from age 55).
The individuals who may find private pensions unattractive are those who are close to retirement and those who are low earners as they may gain from additional state support at retirement. This additional support is "means tested". An IFA can tell you about the current range of means tested support that is available – but do you really expect (or want) to be dependent on the state when you retire?

2. What state pensions are currently provided?
Providing that you have paid sufficient National Insurance contributions a Basic State Pension of £87.30 per week (singles) and £139.60pw (married couple) is payable. This is currently payable from age 65 but is due to be increased, in stages, to 68 from 2024.
In addition you will also be building up entitlement to a state second pension (and may have benefits accrued under its predecessor, SERPS). You may in the past have "contracted out" of this state second pension and instead have had part of your National Insurance contributions paid into a private pension.

For a forecast of your state pension entitlement go to www.dwp.gov.uk and fill out the forecast form (BR19)

3. Yes, I have heard about "contracting out". Is it still available and is it good value?

The state second pension is going to be converted to a flat rate basis and from 2012 contracting out, on a defined contribution basis, is being abolished (contracting out a defined benefit/final salary basis will remain for a little longer but this does not apply to you). So from 2012 you will have to rely on contributions to either your AMS scheme, the new Personal Accounts that we discussed in the first interviews or other private pensions that you set up.

Whilst contracting out remains available to you until 2012, the amount of National Insurance rebate that is currently being given is not generous and for this reason fewer people are contracting out. To decide if it is right for you, you will need to consider your own attitude to investment risk and whether you believe that future governments will honour current pension promises.

4. I understand that there are restrictions on how much I can invest in a pension. What are they?

There are two main restrictions but these are very high and are unlikely to restrict many people.

A. The maximum personal contribution that you can make, with tax relief, each year into your pension is 100% of your salary (subject to an overall annual maximum of £225,000 for 2007/8).

B. The maximum (non-state) pension fund that you can establish is £1.6m (2007/8 tax year).

On the information you gave at the first interview you are nowhere near these figures.

5. I accept that I need to join the scheme and gain the benefit of my employer's contribution, but I also feel that I need to invest more than the "matching contribution" which are only based on my basic salary. Can I do that and what investment choices do I have?

You are right to join the pension scheme. You can make additional contributions either into the scheme or into another arrangement. It is usually a good idea to pay a regular percentage of your basic salary into your scheme and then top this up each time you earn a bonus.

The advantage of investing into the AMS scheme is that it has very low charges but the investment choices may not be as wide as you would like. Origen will be able to advise you on the options plus they can tell you about alternative ways to top up your pension such as self-invested personal pensions (SIPPs). As Origen have been appointed by AMS on a fee basis, they would need to charge you for any advice beyond membership of the scheme. However if you proceeded with a top up outside of the scheme they could offer you the commission alternative that we discussed at the last interview. Alternatively, you could use another adviser but they will also need to charge for their services (by either commission or fee).

6. What benefits will the AMS Group Pension Scheme provide when I retire?
Your benefits will depend on the size of your pension fund at retirement – hence the bigger, the better!
At retirement, Origen will shop around for the best annuity rate available in the market. An annuity is the pension income purchased by the pension fund and as annuity rates can vary by more than 10% Origen can often increase your pension. You will also have the option of choosing the annuity 'shape' that best suits your needs. For example, do you want a spouse's pension? Do you want your pension to increase each year? Do you want to take an income from the fund but leave the balance of the pension fund to grow, etc. All these questions will need answering when you retire but first you need to build up your pension fund.
Also, remember that up to 25% of your pension fund can be taken as TAX FREE CASH at retirement.

7. What happens if I die before retiring? Will my pension fund be lost?
No. On your death, the full value of your pension fund will be available as a lump sum or to provide an income for your dependants.

As part of this research, I have arranged for access to mymoneypal. The site includes a valuable 'pension forecaster' that allows you to set your own retirement income objectives and then see what contributions you need to make. The system also allows you to key in details of any existing pensions that you have so that a more accurate forecast can be given.
Whether you use the pension forecaster or not you should also make an appointment to see Origen about joining the AMS pension scheme and/or about arranging to discuss additional contributions and your wider financial planning needs.

This guide has only touched on a few of the common issues that AMS staff raised with me during the first interviews. Other subjects that may be of interest to you include
*School or University fee planning
*Inheritance Tax
*Accident or sickness insurance
All of these (and more) can be discussed with an IFA, such as Origen.

By reading this guide and using the www.mymoneypal.com facility you should be able to reduce your outgoings and increase your savings, but for many investment areas it makes sense to take professional advice. An experienced, qualified adviser can help you maximise your financial wellbeing.

Choosing a financial adviser

You will recall from the first interview that there are four types of financial adviser. You are free to choose which type suits you best, but for most individuals this will be an independent (IFA) or 'whole of market' adviser. However all regulated advisers do have to meet minimum standards.
The four types of adviser are

Independent financial advisers (IFAs)
These are 'independent' meaning that they are not tied to any insurer and are free to recommend the products of any insurance or investment provider. In effect they act as your agent in sourcing the best option for you.

To have the ‘independent’ title they must offer you a fee option. This means that you can choose to pay them a fee for the work they do for you instead of having commission paid to them through any products that they set up for you.
Although IFAs must offer a fee option many are still prepared to set up cases on a commission basis if you prefer. Either way you are paying for their services because their commission is paid out of the charges on the product(s) you take.

‘Whole of market (WoM)’ advisers
These are also independent of any providers but they do not have to offer you a fee option. Instead they are remunerated by commission.

Multi-tied advisers (and limited range advisers)
These are either agents for several different insurers and providers or are able to offer a limited selection of provider products. They therefore may be able to give some choice of products and investments.

Tied advisers
These are restricted to the product and services of one provider. Often they are also directly employed by that provider although some banks have a ‘single tie’ arrangement with one insurer. They cannot offer products from different providers.
In general most banks and building societies operate on a tied or multi-tied basis although many do have an IFA or WoM arm and will offer these services – if asked.

Origen is a firm of independent financial advisers. Although they are owned by AEGON, AEGON are merely shareholders of the IFA business. Origen is not obliged to place any business with other parts of the AEGON Group and as IFAs they would not do so unless it was in their client’s interest.
The Origen Director responsible for AMS is Michelle Cracknell. She is a Fellow of the Institute of Actuaries (the actuarial equivalent of Chartered Financial Planner).

Commission or fees?
Fees have the advantage of transparency. You know what the costs are and any subsequent product purchased should be on better terms as the adviser’s remuneration is covered via the fee and doesn’t come out of product charges (this is why the AMS pension scheme is such good value).
The advantage with commission is that it is only paid if a product is sold and you do not have to pay anything up front.
The disadvantage of commission is that the amount paid may not accurately reflect the work undertaken (it can be too much or too little). An IFA (and sometimes a WoM) adviser will often offer you the option of ‘commission offset’. This means that a fee is agreed between you and the adviser for the work but the fee is paid out of the commission with any money left over added to your investment. If the fee exceeds the commission a top up fee may be required. There can be tax advantages of using commission offset.

How much will an adviser cost?
Firstly, be warned. Nothing in life is free! It does not matter if an adviser charges you a fee or takes commission (via a product) from a provider – you are still paying for the services of the adviser.
These days any adviser you see must give you an Initial Disclosure Document, which describes their status (IFA, tied, etc) and services. They will also give you a guide to the

cost of their services. For IFAs this will include details of their fee scale. Typically an IFA will charge you £100 to £250 per hour dependant on their qualifications and the services that they and their firm provide. The cost of administration staff would usually be lower.

Most advisers will give you a “free” half hour consultation so that you (and they) can decide if they are suitable advisers for you. Charges will then depend on the work that they have to do for you.

If you just wanted advice about some life insurance and about topping up your pension contributions then a typical fee would be about £500 which could be offset by commission. However if you wanted a full financial plan to be developed (and implemented) then depending on the complexity of your case it could cost substantially more.

Origen (or any other IFA) would set out and agree with you the costs before starting any work.

If I do not want to use Origen how can I find an adviser?

As explained there are four types of adviser. In general you are better approaching an IFA or WoM adviser.

Because both IFAs and WoM advisers can choose the best products in the market for you they are generally seen as being able to give ‘best advice’. However a highly qualified and experienced tied adviser could give better overall advice than a lower qualified or inexperienced IFA. The only downside would be the restriction on the products on offer. When choosing an adviser you may therefore decide that the ideal is to seek out an adviser who offers the best combination of status (IFA), knowledge (holding advanced qualifications), professionalism (a member of the Personal Finance Society or the Institute of Actuaries) and who you feel comfortable dealing with.

There are two excellent web based search facilities that you can use.

www.unbiased.com

This is the largest search facility in the market and it lists the greatest number of advisers. The listing is by firm although details of the individual advisers also appear and this is useful as many of the advisers list the qualifications that they hold. However holding qualifications is no guarantee that the individual is up to date so it is also worth checking if the adviser is a member of a professional body that insists on appropriate CPD (continuing professional development) and compliance with a code of ethics and conduct.

www.findanadviser.org

This is the search facility for IFA and WoM members of the Personal Finance Society (PFS). The PFS is the financial services arm of the Chartered Insurance Institute (CII), which is the largest professional financial services body in the world.

All PFS members are bound by the CII’s code of conduct and ethics (see www.thepfs.org)

Membership categories range from the minimum qualifications to trade (CertPFS – the examination basis of this is the Financial Planning Certificate that we discussed at the first interviews. It is equivalent to two A Levels), through DipPFS (Diploma - first year degree level) and APFS (Associateship - second year of a degree) to Chartered Financial Planner (Bachelor degree) and Fellowship.

So, when choosing an adviser, decide on the following:
1. What type of adviser do you want (IFA, WoM, multi-tied, tied)?
2. What type of service (full financial plan, arrangement of specific products, etc)?
3. What remuneration basis do you want (fees, commission or offset)?
4. What qualifications do you want them to have (CertPFS, DipPFS, APFS, FPFS, Chartered)?
5. Do you want them to have specialist knowledge in an area, such as pensions (both the unbiased and PFS search facilities allow you to select on this basis)?
5. Do they need to be a member of a professional body such as the PFS?
6. Ask your friends, family or colleagues who they would recommend and then check them out against the above criteria.
7. Arrange for an introductory meeting with your chosen adviser to see you if get on and to explain the services you need and to see what the cost is likely to be.

I hope that this guide has been of some use to you.

At our next meeting I would like you to tell me how useful you found both the guide and mymoneypal. At this meeting I would also be delighted to answer any general questions that you may have.

Here are “10 quick ways” to improve your financial wellbeing.

1. Protect your family with life insurance and/or other protection products
2. Shop around for the cheapest interest rate for your credit cards, store cards and mortgage
3. At the end of each month pay off your credit card bills
4. Look at switching your utility bills (gas, electricity, phone)
5. Shop around for your annual insurances (house, car, etc)
6. If you regularly holiday, buy annual travel insurance
7. Make maximum use of the ISA limits (especially for cash deposits)
8. Make a will. A local solicitor is usually best and the cost is modest (typically £100-300)
9. Use the internet to check out the prices on large purchases such as TVs, etc
10. See Origen (or another IFA) and get your pension (and other finance needs) sorted out.

Finally, remember if you don’t save for your retirement, who will?

Don’t delay, act today

This guide is provided to you as part of a Middlesex University research project. All the information provided is generic and does not constitute regulated advice.

Appendix 13 - Work-Based Learning Conference Poster

HOW TO MAKE YOUR DREAMS COME TRUE
Work-Based Research Project

Middlesex University

A tool to guide retirement policy in the UK?
or 'How to make your dreams come true'

The Government is currently embarking on the biggest change to UK pensions seen since the introduction of State Earnings Related Pensions (SERPs) in 1978. Currently all UK citizens that are employed are covered by both entitlement to the Basic State Pension and to a State Second Pension (S2P).

S2P was previously SERPs. Both SERPs and S2P are contributory benefits funded by National Insurance payments from both employers and employees. It is possible for an occupational pension scheme or an individual, through personal pensions, to contract out of S2P and instead have a proportion of their National Insurance invested in a private pension.

The Government has recently announced a series of major changes to the above arrangement. Firstly, the Basic State Pension is being amended, this includes reducing the qualifying period for a full Basic State Pension.S2P will cease to be earnings related, contracting out will be withdrawn and new "Personal Accounts" introduced.

These new Personal Accounts (PAs) will be Money Purchase arrangements overseen by a new Personal Account Delivery Authority. All employers who do not offer their staff an appropriate pension will be obliged to auto enrol their staff into the new PAs. Employers and employees will both have to contribute, although employees can elect to opt out, in which case no contributions are made.

The Government has been fixated with keeping the cost of PAs low and thus PAs will have no regulated advice built into the terms.

My entire research to date as been centred on the value (or not) of advice. My final project is examining a pension scheme where the employer is offering membership to all staff on a basis that is at least as good as PAs. The employer also promotes the scheme, yet less than 20% of staff have joined.

What lessons can be learnt from this scheme? Why are staff so disengaged? And what will the Government need to do to ensure that PAs succeed?
Hopefully, my research project will answer some, if not all of these questions.

Peter Williams, DProf student, Middlesex University


How to make your dreams
come true

Middlesex University

1


This guide has been written for you.

It is based on the interviews that you and your colleagues at AMS have had with me and it aims to answer some of the questions that arose from these meetings and to stimulate your interest and understanding of financial matters.

Woody Allen once said: "Money can't buy you happiness but it does bring you a more pleasant form of misery". Most dreams and goals you have will need money to help you to achieve them.

The success of this guide, and how well it helps you to fulfil your dreams, is dependent on you. You can either ignore the guide or you can use it to improve your finances – the choice is yours.

So, read on for a brighter financial future.

Peter Williams
Chartered Financial Planner
Researcher, Middlesex University

2


How to use this guide

You have the ability to change your life and to give yourself the future you deserve.

This short guide has been written to help you to plan your finances and to help you to protect those you love.

I guarantee that if you work through this book and carry out the actions identified, you will improve your financial situation.

Throughout the book I will highlight actions that you may need to take. You will need to write these action points down and add them to your "to do" list.

Often these action points (shown by the symbol) may refer you to www.mymoneypal.com. This innovative website is provided by AEGON Benefit Solutions. It is usually only accessible on a group basis for a fee, but I have arranged for you to have two weeks' unlimited access to the site. You will need to follow the instructions and use the password that I sent to your email address. The website provides a wide range of information and access to a number of comparison tools. For example, via the site, you can look at some of the best mortgage deals available in the market. The site also allows you to review your existing pension(s) and to plan for the retirement that you want.

A further source of useful information is a website that is provided by the industry's regulator (the Financial Services Authority) www.moneymadeclear.fsa.gov.uk

Occasionally you will also see this sign in the guide, which indicates that some important point is being made.

So, let us get started. Sit down, either by yourself or with your spouse or partner. Enjoy a cup of tea or coffee and start to plan for the dreams you want to make happen.

Financial planning often centres on key 'lifestage events' such as getting your first job, buying a house, getting married , starting a family, redundancy, retirement, etc.

This guide does not set out to enable you to write a financial plan. This is best achieved by engaging the services of a professional who can tailor the plan to your exact needs. Instead the guide will

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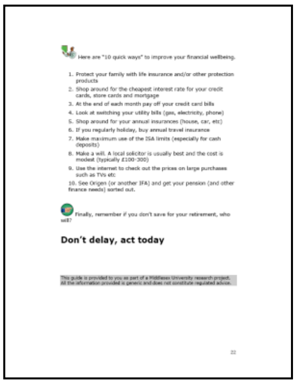
Here are "10 quick ways" to improve your financial wellbeing.

1. Protect your family with life insurance and/or other protection products
2. Shop around for the cheapest interest rate for your credit cards, store cards and mortgage
3. At the end of each month pay off your credit card bills
4. Look at switching your utility bills (gas, electricity, phone)
5. Shop around for your annual insurances (house, car, etc)
6. If you regularly holiday, buy annual travel insurance
7. Make maximum use of the ISA limits (especially for cash deposits)
8. Make a will. A local solicitor is usually best and the cost is modest (typically £100-300)
9. Use the internet to check out the prices on large purchases such as TVs etc
10. See Origen (or another IFA) and get your pension (and other finance needs) sorted out.

Finally, remember if you don't save for your retirement, who will?

Don't delay, act today

This guide is provided to you as part of a Middlesex University research project. All the information provided is generic and does not constitute regulated advice.

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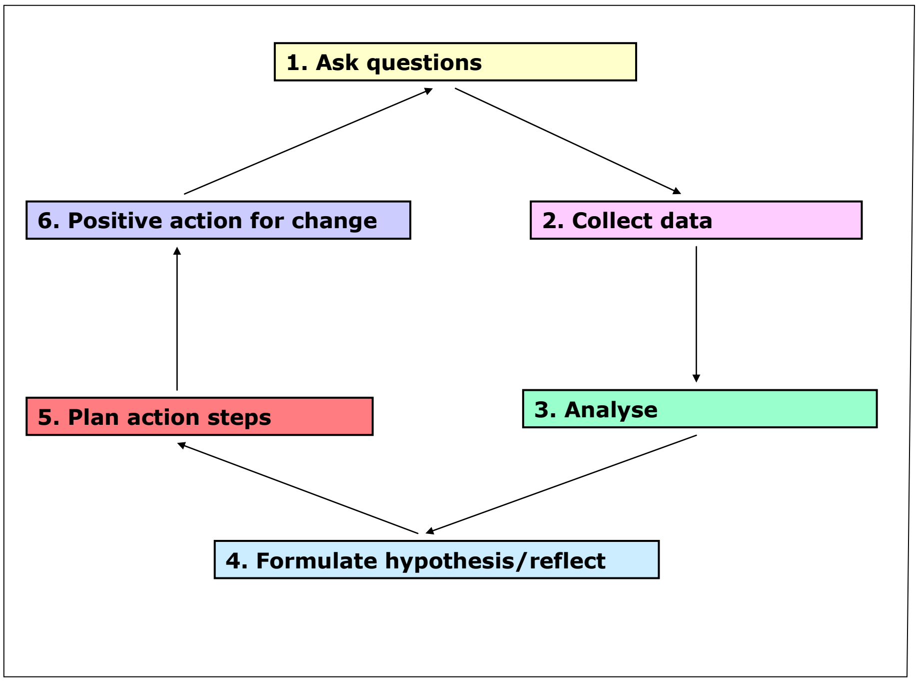
Appendix 14 - Action Research Cycle For The Guidebook ‘How To Make Your Dreams Come True’



(Figure 26). Action Research Cycle: Developing the Guide ‘How to make your dreams come true’

Guide Stage 1 – Ask questions
The main action research cycle provided the hypothesis that a revised guide was needed. In considering what shape the guide should take, I set myself a series of questions that focused on the aims of the guide and how it should be delivered. Particular emphasis was placed on the needs of the group (both the needs identified by the participants themselves and the needs recognised by myself as an experienced financial planning professional). This also included looking at the size, layout and simplicity of the guide. I also questioned if access to a web facility would be beneficial and if so, in what way.

Guide Stage 2 – Collect data
The answers to the questions in stage 1 came from the data already collected at the interviews plus a further series of investigations at AMS and discussions with AEGON Benefit Solutions.

Guide Stage 3 – Analysis
Having secured the necessary information, I analysed the findings and from this analysis a revised plan was developed. For example, I was able to identify that ‘wills’ were an important and relevant topic for the group.

Guide Stage 4 – Hypothesis
I formed the hypothesis that a shorter guide was necessary, that it should be written in plain English with particular key topics (that had been identified from the interviews) being covered. Based on the interviews, my self-assessing questions, existing marketing knowledge and the literature review, I then developed a revised guide that would be

supported by access to AEGON Benefit Solution's *mymoneypal* web-based tool. For example, continuing with the example given in stage 3, I decided that it was necessary to highlight key topics such as 'wills'.

Guide Stage 5 – Plan action steps

The revised guidebook was then developed in conjunction with setting up access to *mymoneypal.* This included a section on 'wills' that gave the reader an awareness of the typical cost of 'wills' and ideas where they could go for advice.

A draft of the guide was then tested on a group of individuals who were similar to the profile of the AMS participants.

As explained in Chapter 3, this stage also included the overriding of my marketing department's changes to the book's layout and style.

Guide Stage 6 – Positive action

The revised guide was produced and issued and up to one month's free access to *mymoneypal* was provided. This cycle was then followed by the main 'phase 2' action research cycle (see stage 7 in Chapter 3, section.4.2.).