While plans to introduce a guidance guarantee at retirement are seen as radical and a victory for the consumer, the government's promise still appears to be shrouded in mystery as to how it will be delivered and by whom. **Hannah Uttley** looks at the merits of workplace financial education programmes

FINDING BETTER GUIDANCE

Business case

- Financial education programmes can help to increase the perceived value of benefits to a workforce
- Education in the workplace is an opportunity to create a "closer relationship" with staff particularly in light of the recent Budget announcements
- Experts predict the guidance guarantee will fuel the need for paid-for regulated advice

With greater choice comes greater responsibility, and it was in this fashion that chancellor George Osborne made his announcement to introduce a guidance guarantee for all pension scheme members at retirement in this year's Budget.

In a raft of pension changes, Osborne said earlier this year that schemes and providers would be given the responsibility to provide retirement guidance on decumulation by April 2015.

The government explained in a consultation alongside reforms which included the loosening of restrictions on using capped and flexible income drawdown that "choice on its own was not enough" and added: "Consumers need to be able to make informed decisions. We will therefore guarantee that individuals approaching retirement will receive free and impartial face-to-face guidance to help them make the choices that best suit their needs."

Lorica financial education specialist and chartered financial planner Mike Gough says the plans are a "paradigm shift" in how people can extract their pension funds. "It is a victory for your own right to take control and do your own thing, but with that comes a lot more difficult and quite significant choices," he says.

However, with the government's commitment to the guidance guarantee priced at £20m and industry figures estimating the cost to providers and schemes to be anywhere between £32m and £120m per year, Gough questions how effectively the chancellor's 'hat trick' will be pulled off.

"This idea of face-to-face guidance that's been announced – it is incredibly difficult to see how it can be delivered. Advice is not possible and I think it's been announced to counteract the inevitable responses of, 'Who will help these people make their choices?' A budget of £20m is a drop in the ocean," he says.

Offering financial guidance and advice are of course two very different things, with employers themselves only able to offer guidance or education.

Wealth at Work director Jonathan Watts-Lay explains: "If you think about financial education as a non-regulated activity. The reason it's non-regulated is that you're giving people facts, you're not telling them what's right or wrong, and you're not telling them what they should or shouldn't do. But when it comes to advice, and by that we mean regulated advice, it is very much about recommendations and companies cannot do that."

Perceived value

Financial education programmes can often help drive the perceived value of benefits within organisations, with many employees unaware of the merits of particular incentives although they may be enrolled in them.

According to Aon Hewitt's 2013 EMEA Benefits Communication Survey, just 9% of employees claimed to understand their company's reward policy, suggesting that organisations' communications efforts were not having the desired effects in engaging workers.

While the government's announcement comes on the back of a wide range of reforms to pensions, Barclays Corporate and Employer Solutions (BC&ES) director Paul Wilson believes the employee conversation about retirement education is more about asset accumulation.

"My only concern with the announcement would be that offering that guidance only at the point of retirement is quite late and a lot of decisions and choices would have been made and a lot of doors would have been shut in terms of choices when retirement gets to that point. So if you're taking that mandated guidance at 65 then that's a lot of other guidance you've taken in the past 40 years that will mean that your options at that stage are relatively limited," he says.

"It's an opportunity for employers, so those that want to create a closer relationship with their employees will take advantage of this. I don't think the government sees itself as a provider of these kinds of services — I think it sees itself as a policymaker. Quite rightly."

Take the Morrisons 'Save Your Dough' campaign, for example, which enlisted the help of financial expert Alvin Hall to educate employees on how to make the most of their finances by making small changes. Morrisons' campaign was accompanied by a booklet illustrating 52 money-saving tips, where the first six months of the programme looked to focus on money saving and finances generally, before delving deeper into the possibly more onerous and long-term issues of pensions or retirement planning.

The financial education programme was launched in advance of the supermarket chain's decision to roll out a defined ambition cash balance scheme as its auto-enrolment window came round. The campaign enjoyed such success that 44,500 employees said the Save Your Dough programme had made a positive impact on their finances, while — even more markedly for Morrisons — voluntary membership of the new scheme was three times higher within three weeks of the pension scheme's launch than the original defined contribution scheme had achieved in 10 years.

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"I found that the employees at Morrisons responded very positively to the message when you tied the numbers to a dream issue, an aspiration or a concern of their day-to-day lives. So in the articles that I wrote I tried to focus on one point that was short-term and in the next to focus on the long term," Hall explains.

"You have to relate things to employees' lifestyles and their own aspirations and dreams. Part of this is making sure that the tone of what you do is not just about the numbers. I think any professional can show you a chart but you have to engage people in what they want to achieve in their lifetime and then have them see what it will realistically cost in the future."

Sufficient knowledge

Many commentators agree that without sufficient knowledge of the new rules introduced in the latest Budget — combined with a lack of education in the workplace — the new guidance promised by the government at retirement is likely to fuel the need for individuals to pay for regulated advice.

Barclays C&ES head of workplace savings Katharine Photiou explains that if individuals decide to defer their retirement or opt for drawdown then their need for more education or advice will increase "dramatically" at that point.

"There's this position where you'd have 30 or 40 years of no advice or guidance then half an hour or maybe an hour of guidance and then what – nothing after that? So if you think about that whole statement, you can see what's negligent and remiss about it," she adds.

"I think that, overall, we absolutely agree with the spirit of what the legislation is trying to do but it's the practical application of it and the fact that you can't view it as a one snapshot one-hour decision – it's much more than that."

And while employers continue to support and take responsibility for many aspects of employees' lives, including physical and mental wellbeing and caring responsibilities, Photiou believes organisations still have not caught on to the need to take a role in their staff's financial lives.

Indeed, research published by Aon Hewitt last month revealed that while money concerns were the leading cause of anxiety across all ages, two-fifths of those aged 45-54 cited worries over their finances as the prime cause of their anxiety.

"We spend so much time at work – the question is if it's not the employer's responsibility to educate on these matters. What time have we got to do this, where are we going to do it, and whose job is it?" Photiou asks.

"I think the employer has to provide capability regarding financial matters but also give them the capacity to do so, which means making it acceptable to do this stuff in working hours. The impact is so massive on your life, yet we don't talk about it – it seems like a real hole that we've missed."

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Case study: BT dials up retirement support

With about a third of its 90,000-strong UK workforce approaching retirement, workforce management specialist Kate Kay believes it's safe to say BT has an ageing workforce.

With the help of Wealth at Work, the multinational telecommunications firm began running retirement planning seminars in 2009 as a result of the removal of the fixed retirement age which later led to the abolition of the default retirement age (DRA) in 2011.

As updates were also being made to the BT pension scheme, Kay explains that the company felt employees needed to have a more holistic understanding of retirement.

"It was no longer that staff were working towards a set age and prior to that, I think, people just carried on and the money was deducted from their salary so they didn't really have to do anything – it was all done for them," she says.

"Previously, they knew they were going to get to age 60 to 65 and they were going to retire, then of course the removal of the DRA changed everything for people and it made it open. As a company, we recognised our responsibility and our duty of care to convey to people what this meant for them in practice."

BT currently runs three-hour face-to-face seminars for members of its final salary scheme in two formats; one for people who are thinking of retiring within the next three years and another for those considering retirement in the longer term.

And while the seminars link in with the company's pension scheme, looking at how large employees' pensions are likely to be, the scope of education is much wider in looking at how BT's workforce can improve their retirement benefits more generally, through investment of savings and tax efficiency, for example.

Seminars also offer support on how to make a will and information about savings devices such as ISAs, which ensure programmes are as wide as possible to ensure members have "a happy retirement", according to Kay.

In order to measure success, participants are asked to rank their knowledge of subjects before and after each seminar on a one-to-five scale, with one being very poor and five very strong.

With the most recent set of results demonstrating that employees' knowledge of the subject presented increased by an average of two points – up from 2.4 to 4.4 – it appears that BT has a strong business case to extend the education programmes to its defined contribution (DC) members.

Kay says that widening the seminars to educate DC members is something that the organisation is currently considering: "Many people have come to us and said, 'Well, what about me? I'm in the DC pension scheme and I'd like to go to a seminar as well.'"

She adds that this could also help address any concerns the firm has about employee contribution levels.

"Where we have an issue there is that we know most people just contribute the default when they join the company and it really is questionable whether that will be enough for them to have the lifestyle they have while they're working at BT when they retire. So that's one of the reasons we want to run the seminars, to bring it to life for people more and to really explain the difference."

Pension scheme members who choose to attend the retirement seminars also have the option to follow up on this with a one-to-one with a Wealth at Work adviser to talk about their personal situation in more depth.

Kay explains that, with crucial legal differences between offering advice and guidance which prevent employers from directly providing the former, seminars give a good context to the "bigger picture".

"One of the challenges within the business that line managers and HR managers have is that many employees don't understand why they can't talk about or help them with the BT pension scheme," she says.

"And we can't because we're not financial advisers and we don't want to say the wrong thing or interpret the figures incorrectly. A lot of people really just do want to know how much money they will get if they retire next year. It's obviously not a simple question with a simple answer but they want it to be as simple as possible, so having Wealth at Work take them through it really helps."

Should participants of seminars choose to tell their line manager that they are preparing to retire, this helps BT prepare its workforce in order to recognise where it needs to replace people or transfer skills, says Kay.

"It also helps us encourage people to stay as well, so it's really useful to help us plan what's happening with our people going forward," she continues.

"We do have a genuine duty of care to our people. Because we're a company that's been around so long and we've got people who've worked for us all their lives and their family work for BT. So although it's such a big company, it's not a faceless company and it has real family ties."