Finally on target?

Callum Conway looks at why the freedom and choice reforms failed to close the pensions advice gap, and how targeted support might offer the solution

Summary
- The pensions advice gap stems from several factors, including cost, inertia and distrust.
- Targeted support is a new approach proposed by the Financial Conduct Authority (FCA) to address the grey area between generic guidance and full financial advice.
- The industry supports the proposals, but raises concerns over regulatory restrictions and costs.

In 2014, then-Chancellor George Osborne stood at the dispatch box and promised a revolution in retirement planning: "We're going to introduce a new guarantee, enforced by law, that everyone who retires on these defined contribution pensions will be offered free, impartial, face-to-face advice." The landmark freedom and choice reforms, backed by the government's new Pension Wise service, were intended to ensure that "no one would have to buy an annuity" in the future.

A decade on, it would be fair to say that Osborne was wrong, or at best, a little too optimistic. According to last year's report by the Institute and Faculty of Actuaries, 43 per cent of respondents said they took no advice or guidance about accessing their pension savings – up from 40 per cent in 2022. Despite the availability of free guidance through Pension Wise, just 20 per cent reported having used the service in 2024 – down from 22 per cent in 2022. Alarmingly, 15 per cent admitted they didn't fully understand their retirement options – up from 11 per cent in 2022 – and nearly half (44 per cent) had no idea how their pension was being invested.

Meanwhile, pension annuities, once seen as outdated, are making a comeback. Figures from the Association of British Insurers (ABI) reveal that annuity sales soared by 24 per cent last year, reaching 89,600 – a 10-year high. The total value of these sales hit £7 billion in 2024, a 34 per cent increase on the previous year.

The consequence of insufficient and under-used pensions advice is clear – a retirement readiness crisis. Research by St. James's Place shows that 60 per cent of UK adults doubt they will save the £500,000 needed for a moderate standard of living in retirement. In addition, pension disengagement could cost workers over £500,000 in retirement, a report from PensionBee claims.

These numbers paint a stark picture of the so-called 'advice gap' – a persistent shortfall in accessible, affordable financial guidance that leaves too many savers at risk of poor decisions or, worse, no decisions at all.

The UK's enduring advice gap stems from several factors. The primary barrier is cost; over half (55 per cent) of UK adults perceive financial advice as reserved for the wealthy, with 64 per cent having not sought regulated advice in the past five years, according to the Financial Services Conduct Authority (FSCS).

Independent Governance Group head of defined contribution (DC), Priti Ruparelia, highlights that high fees often exclude members, especially when the perceived value of advice isn't evident. "They cannot see the added value of advice, and in some cases, it is not needed," she adds.

BNY Investments head of retirement, Richard Parkin, points out that many savers might underestimate the benefits of taking advice. "Retirement is an area where we see many eschewing advice but also significant numbers making what appear to be questionable choices, such as cashing in large pots or withdrawing at an unsustainable rate. Perhaps the ease of cashing in pots or taking tax-free cash gives people the impression that it makes sense to do so," he explains.

Echoing this, Nuveen head of UK pensions, Sophie Ballard, emphasises that while auto-enrolment has increased pension participation, it often capitalises on inertia, leaving members unprepared to make informed decisions at retirement.

Meanwhile, despite being widely praised by those who use it, the government's Pension Wise service may be failing to close the advice gap because it is introduced too late in the customer journey. Just Group communications director, Stephen Lowe, praises it as "revered by those that consume it" and a "crucial bulwark against poor choices" for non-advised savers – but suggests that the 'stronger nudge' rules introduced in 2022 have made little difference to usage. Right now, people encounter Pension Wise when they are on the verge of accessing their pension benefits, often when decisions are rushed or emotionally charged. Lowe argues it should be "engineered into the customer journey" much earlier, with automatic appointments offered on an opt-out basis, rather than left to chance.

A possible reason for its low uptake is a lack of trust. A report from Canada Life and AKG reveals that 23 per cent of UK adults would resist financial advice even if it were free, citing reasons such as distrust in financial advisers and fears of aggressive sales tactics.

So, with various factors contributing to the advice gap, what's the solution?

Introducing 'targeted support' – a new approach proposed by the Financial Conduct Authority (FCA) to address the grey area between generic guidance and full financial advice. Unlike personalised advice, targeted support would offer tailored suggestions to groups of consumers with similar characteristics and needs. The FCA is actively consulting on implementing targeted support for pension savers, with a consultation paper published in December, serving as a framework.

Lowe suggests that targeted support "could be a game changer".

"It's a once-in-a-decade opportunity to transform the help people receive - and desperately need," he adds.

Others in the industry are also supportive of the proposals.

"This is the missing piece of the puzzle," says Ruparelia. "Generic guidance doesn't connect with people's real lives. Targeted support could make help more relatable and more likely to prompt action."

It's a long-overdue development, says Association of British Insurers (ABI) policy adviser, George Ritchie: "Targeted support would allow firms to offer tailored suggestions to groups of consumers with common characteristics across a range of scenarios," he suggests.

However, industry experts have warned that the reforms must strike the right balance.

"We've yet to see the final rules," says Parkin. "A key question is how firms can demonstrate that targeted support delivers better outcomes than if people did nothing – or acted alone.

Ruparelia adds that it's crucial to ensure that the support provided is as closely applicable to the member and their circumstances as possible: "If they cannot relate, they will not engage," she claims.

While there's broad consensus that targeted support could improve decision-making at the point of decumulation, others see wider potential when embedded in future pension infrastructure. In particular, the FCA has proposed targeted support for pensions dashboards as part of the advice/guidance boundary review.

"Targeted support and the pensions dashboard should go hand in hand," says Ritchie. "Dashboards will help savers make sense of what they've got, while targeted support will help them understand what to do next – whether that's increasing contributions, combining pots or making a plan for retirement income."

"If we can give people a clear view of their savings and tailored support to act on it, that's transformative," adds Parkin. "The challenge is making it simple, consistent and trustworthy."

Indeed, the boundaries between guidance, support and advice have raised concerns for some in the industry.

"The current definition of advice – both in law and FCA perimeter guidance – makes it risky to help customers based on any knowledge of them," argues

Ritchie. "Firms could inadvertently tip into regulated advice. Targeted support will only work if the rules are clear, and providers feel safe using it."

"It's just too blurred," agrees Ruparelia. "Providers aren't confident they don't fall the wrong side of the line. More could be done even within the current boundaries if there was clearer regulatory expectation."

One way to overcome this legal ambiguity could be a regulatory framework that is flexible and outcome-based to allow schemes to deliver support in whatever way best suits their members. This could include online journeys, decision trees, explainer videos, or in-person sessions. It is promising that in its proposals, the FCA does not prescribe a specific format for delivering targeted support, instead emphasising a focus on achieving positive consumer outcomes.

Meanwhile, much debate exists around how best to deliver targeted support to members.

"Digital is key," says Parkin. "It's not just about efficiency – it allows us to build an experience that helps people learn and make better decisions. We can guide people with simple visuals, real-life stories, and interactive tools. We can nudge, not just notify."

Ballard agrees that innovative technology will provide better retirement experiences: "We need flexible, trustee-led default options that guide members through retirement. AI and data can help us personalise that experience without overwhelming them."

Despite widespread optimism on the potential of targeted support, it should not be viewed as a replacement for a full pension education.

While more than half (53 per cent) of Brits claim to be knowledgeable about pensions, the majority cannot correctly identify the different types of pension schemes, research from Aviva reveals. Clearly, there needs to be a focus on understanding as well as advice.

Pensions Management Institute (PMI) president, Robert Wakefield, stresses the need for a broader approach: "Targeted support is welcome, but we also need to address financial literacy. That starts in schools and continues with campaigns that engage people throughout their lives. Many retirees aren't unwilling – they're just overwhelmed."

Echoing this, Richie adds that some people and situations will still require regulated advice.

"We'd like to see further work on simplified advice – making it viable for firms and accessible to consumers. But in the meantime, targeted support can close a big part of the gap," he says.

Looking ahead, Society of Pension Professionals Financial Services Regulation Committee chair, Amanda Cooke, says that the evolution of targeted support depends very much on the development of related policies, particularly on member value and decumulation policy.

"The implementation phase must resolve the advice gap for trust-based scheme members and ensure all workplace members have access to the same targeted support signposting.

"Whether it is a significant improvement to generic advice will also depend on providers' risk appetite and engagement, policy decisions around access to holistic member data and responsibilities for the targeted support recommendations," she adds.

Wakefield concludes: "If done well, targeted support could reshape how we help people plan, decide and act – not just at retirement, but across their whole savings journey."

When Osborne promised a revolution in retirement planning 11 years ago, he was not referring to targeted support. In fact, the concept had not even been proposed in the UK. Yet, 11 years later, if implemented correctly and given time and resources, the service could finally see Osborne's pledge fulfilled.

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