8. Equity release and personalised advice

The complexity of the benefits system outlined in Chapter 7 makes it particularly important that there is good quality, affordable financial advice for older people interested in releasing wealth from their home. This chapter considers the extent to which this is available. It finds:

- There is inadequate financial advice available for asset-rich, income-poor pensioners. Independent product-specific advice is expensive and of variable quality. Free, generic financial advice is not widely available.

Financial advice can help avoid the risk of equity release mis-selling to a potentially vulnerable group, and can ensure that equity release and trading down are options that are considered by retired homeowners on low incomes. There is therefore a role for government in filling the advice gap:

- Regulation of product-specific advice needs to be improved. The FSA should conduct an annual deterrent mystery shopping exercise.
- Government should establish 'MoneyDoctor', a generic financial advice service for older people. This should offer a combination of telephone and face-to-face advice, and carry strong independent branding.
- This service should be used to facilitate *pro bono* work by independent financial advisers, by providing client-matching, training and insurance – as LawWorks does for the legal profession.
- Government should encourage equity release providers and other financial services firms to support the scheme, as one way of reducing the widespread distrust of these products that is constraining take-up.

For pensioners thinking about releasing wealth from their home, getting financial advice is a necessity rather than a luxury. But it is one that few can afford, and is poorly provided by the market. The Financial Services Authority (FSA) recommends that all individuals taking out an equity release product should seek independent financial advice from an FSA-authorised adviser, and with good reason. They are complex legal contracts, and releasing wealth from the home can have significant implications for the size of an estate and tax liabilities.

Significantly for those on low incomes, releasing housing wealth can affect benefit eligibility in ways that are not easy to predict. So financial advice is important in making sure that older people do not buy inappropriate financial products. This is particularly the case for asset-rich, income-poor pensioners on benefits. It can also help older people living on low incomes consider alternatives to equity release, for example by claiming benefits they may be entitled to but are not receiving. Equity release and trading down are two options of many, and older people may need advice as to whether they are the most effective option for them.

The financial advice market

Financial advice falls into two categories, generic advice and product-specific advice. Generic advice helps consumers to identify and understand their current financial position and needs, and helps them to plan their finances accordingly, but stops short of recommending a particular product. Because of this, it is unregulated, although the Financial Services Skills Council is in the process of developing industry performance standards for generic financial advice, as part of the FSA's work on financial capability (Financial Services Skills Council 2006).

In contrast, product-specific advice goes one step further, identifying a specific product for a client seeking financial advice, and is therefore regulated by the FSA. It can be delivered by independent or tied advisers:

1. *Independent* financial advisers (IFAs) offer a range of products from the whole market. They offer advice on a fee or commission basis.
2. *Tied* advisers offer advice on the products of one particular provider.
3. *Multi-tied* advisers offer advice on the products of a selection of providers, but not on the whole market.

Advice is currently inadequate for asset-rich, income-poor homeowners

Although it is particularly important that asset-rich, income-poor pensioners are able to seek financial advice, their options are very limited. Independent product-specific advice is expensive and of poor quality. And a market for generic financial advice does not yet exist. We explore these further below.

Why is the market failing to serve these pensioners? The underlying problem is that the cost of providing financial advice is related to adviser time rather than the value of the product bought.

Conversations with product providers and advisers suggest that it takes just as long, if not longer, to arrange an equity release product, as it does to arrange much larger loans in the form of conventional mortgages, or set up investment products and pensions. Thus, there are similar charges, even if the amounts of money involved in equity release loans are much smaller than for conventional mortgages and investments. As a percentage, these costs will be more significant than for other products. The market sets a high price for good quality financial advice because there are people, who are perhaps wealthier and buying a different kind of product, willing to pay it.

Others have argued that the people who are least well-served by markets in financial advice are those who do not earn enough to be profitable for the industry to advise, but who are, nevertheless, largely independent of welfare support and so do not receive financial counselling and advice from the state (The Resolution Foundation 2005). While this is true for *investment* decisions about how best to accumulate assets – those whose income is mostly comprised of welfare support are unlikely to benefit substantially from advice about how best to invest their income – it is not necessarily true for decisions about how to decumulate assets in older age.

Pensioners in receipt of benefits do not get financial advice from the state about the implications of releasing wealth from their home. Thus, the financial needs of low-income pensioners should be prioritised alongside the needs of younger individuals who are also unprofitable for the financial services industry.

Independent product-specific advice is expensive and poor quality

It was suggested in our seminars that the number of IFAs offering advice on equity release is insufficient to meet demand. In a survey of its members, which account for 95 per cent of the market share in equity release products, Safe Home Income Plans (SHIP) found that the majority felt that there was a shortage of specialist IFAs prepared to offer advice on equity release. Reasons identified included the amount of regulation, the fact that there is a longer sales process than for other products, the risks of mis-selling versus the rewards offered, and a lack of education and awareness about equity release (SHIP 2006b).

However, the availability of qualified (but not necessarily specialised) advisers does not appear to be a problem: there are enough advisers taking qualifications in equity release products, and enough firms who list equity release as one of their top areas of business.

In February 2006, 3,744 IFAs had taken the relevant qualifications in lifetime mortgages since their introduction in November 2004 (Chartered Institute of Insurance 2006, Institute of Financial Services 2006). The FSA has made these qualifications compulsory for all newly qualifying advisers offering advice on lifetime mortgages. Each qualified adviser would have only had to sell on average six to seven products in 2005 to meet the market volume of 26,654 (Key Retirement Solutions 2006), assuming all these products were sold through intermediaries (this represents an overestimate as many are actually sold directly from providers).

Looking at IFA firms, 1,746 of the 8,800 firms on the online listings site IFA Promotion had registered equity release as one of their top eight areas of business (IFA Promotion 2006). IFA Promotion contains 80 per cent of market share by number of firms (Kempson and Collard 2005). Market volume would only require each of these firms to have sold 15 to 16 products each year on average, again assuming all products were sold through intermediaries. Even though most IFA firms tend to be small (Mintel 2003), this is not a large number.

But when we phoned a selection of IFAs who had listed themselves on IFA Promotion as advising on equity release, many admitted that they actually had little experience of selling these products.

Evidence from the FSA suggests that the quality of financial advice in this area can be very poor. Because of its concerns in this area, the FSA conducted a 'mystery shopping' exercise of 42 IFAs, product providers and mortgage brokers in May 2005 (Financial Services Skills Council 2006). More than 70 per cent of financial advisers did not gather enough information about their customers before offering them advice on equity release, and 74 per cent failed to ask about benefit eligibility (see Box 8.1). It also found that lifetime mortgage consumers were being advised to borrow to invest the equity released in high-risk products unsuitable for their needs.

Box 8.1: The low quality of equity release advice currently available

The FSA's mystery shopping exercise, with 42 IFAs, product providers and mortgage brokers in May 2005 found:

- 70 per cent of advisers did not gather enough information about their customers before offering them advice on equity release.
- 79 per cent failed to ask whether customers had considered alternative methods of raising the required funds.
- 79 per cent failed to ask about health and life expectancy.
- 83 per cent failed to ask about preferences for the customer's estate.
- 83 per cent failed to ask whether customers had the need for a stable income.
- 64 per cent failed to ask about future life plans (for example, moving home).
- 74 per cent failed to ask about tax status.
- 83 per cent failed to ask about Pension Credit eligibility, and 74 per cent about eligibility for other benefits.
- 60 per cent failed to ask about other debt.
- 67 per cent failed to ask about savings and investment.
- Most advisers failed to discuss the terms and conditions of equity release schemes – 52 per cent did not explain what would happen if the customer or their partner died or went into a residential or care home, and 57 per cent did not explain what would happen if the customer wanted to move house later.

Yet 64 per cent said that the customer would be eligible or suitable for an equity release scheme.

Source: Financial Services Authority (2005c)

Many of the mystery shoppers involved in this exercise would have been mis-sold an equity release product.

These problems are not unique to the market for lifetime mortgages. Research for the Department for Work and Pensions (DWP) has shown that similar problems exist in the financial advice market for retirement planning (Kempson and Collard 2005). Although almost all of the 45 financial advisers interviewed in depth for this study said that they would offer advice to anyone who sought it, regardless of their income level, in practice, most of them advised very few people on low incomes, if at all.

Levels of knowledge about Pension Credit were low, although higher among tied and multi-tied agents than IFAs – many advisers had never even heard of Pension Credit. Very few said they felt able to advise clients on the implications of Pension Credit entitlement for retirement planning. Knowledge of Council Tax Benefit and Housing Benefit was even lower than that of Pension Credit.

Quality is not the only problem. Independent product-specific advice can also be very expensive, so consumers can end up paying significant fees for bad advice. It is difficult to produce a representative figure for the cost of financial advice, because costs can be opaque and there are different methods of paying for independent financial advice – on a fee basis, a commission basis, or a combination of the two.

According to IFA Promotion, typical hourly fees are in the region of £50 to £200. We phoned a random selection of 25 IFAs from five different areas listed on IFA Promotion. They quoted flat-rate fees that varied from £100 to £1,000, and hourly rates from £90 to £250. For an older person seeking to take out a small loan in the region of a few thousand pounds, an upfront fee in the region of a few hundred pounds is substantial.

There is little generic advice available

While independent product-specific financial advice is expensive and of variable quality, there is very little generic financial advice from trained specialists available to older people. There is ample generic *information* about releasing wealth from the home, available from different agencies such as Help the Aged, Age Concern and the FSA, detailed in Box 8.2. But generic information cannot fill the need for generic advice, personalised to each individual's situation. There is no generally available free source of personalised advice for older people seeking to release wealth from their homes.

Generic financial advice might not wholly be able to replace the need for consumers to seek the independent *product-specific* advice that the FSA recommends all consumers undertake before buying an equity release product. But it does have the potential to:

1. significantly reduce the potential for mis-selling of equity release products to some older people for whom they may not be appropriate

2. ensure that individuals are aware of the different kinds of product-specific advice available, and of the need to shop around for the best prices if buying from tied or multi-tied agents who do not source the whole market.
3. explore the appropriateness of equity release products or trading down for older people seeking to increase their income.

Nor is generic advice provided well by the market. The FSA Financial Capability Working Group on Generic Advice held a consultation on the provision of generic advice in 2004/05 (Financial Services Authority

Box 8.2: Information on releasing housing wealth is easy to find, but generic advice is not personalised

1. Factsheets
Age Concern, Help the Aged and the Financial Services Authority all publish free guides to equity release, available online and by post. These guides contain information about the different kinds of equity release available, alternative income-raising measures such as trading down, and the implications of equity release, including for benefit entitlement. Age Concern has also published a book on raising capital from the home. These organisations suggest that all those interested in taking out an equity release product seek financial advice.

2. Helplines
Age Concern and Help the Aged also operate free telephone helplines for older people. These helplines give out generic information from their factsheets, but do not offer advice tailored to an individual's situation.

3. Face-to-face information
Citizens Advice Bureaux (CAB) provide advice on a wide range of topics, including money advice and debt counselling. But they are not authorised to give clients financial advice under the Financial Services and Markets Act 2000 (Citizens Advice 2003, Paxton *et al* 2005), so cannot advise clients on the suitability of equity release products for their situations. In an FSA survey of CAB advisers, most said that if generic financial advice were to be offered in CAB, they would need extensive training (Financial Services Authority 2004). A small FSA and CAB pilot has provided *pro bono* advice from IFAs through the CAB network to clients (Widdowson 2005). Additionally, around 200 out of 400 of Age Concern's local branches provide general advice and information services, but like the telephone lines, this face-to-face service generally consists of replicating factsheet information – it does not constitute one-to-one generic advice (source: personal communication).

2005a). Respondents to the consultation gave a wide range of reasons as to why they thought the market had failed to fill the gap. On the demand side, they cited a lack of understanding of what financial advice had to offer and a resulting unwillingness to pay for advice, and a lack of trust of the financial services industry. On the supply side, reasons given included the difficulty of providing generic financial advice commercially to make a reasonable profit, or even break even, and a concern that generic financial advice could slip into regulated territory.

Improving the quality and availability of affordable financial advice

The lack of suitable advice should be an area of major concern for both government and industry. First, it means that equity release and trading down might be underexplored as options for pensioners who are asset-rich and income-poor, which has consequences for the Government's objective to reduce pensioner poverty. But, more significantly, it creates a real risk of mis-selling of equity release products.

Further impetus for government action is created because the complexity of the benefits system adds to the problem. Interaction with means-tested benefits makes it more difficult for older people to accurately assess whether releasing wealth from the home would be appropriate for them. Financial advice needs to cover the interface between financial products and the benefits system. But, as the FSA mystery shopping exercise and the DWP study of IFAs show, few financial advisers understand the basics of the benefits system, let alone its complexities.

Government needs to do two things. First, the FSA needs better regulation, so that, when people pay for financial advice, they should be able to reasonably expect a certain standard of service. Second, there is a role for government in expanding generic advice as a partial substitute for product-specific advice for those who cannot afford to pay for it.

Better regulation of product-specific advice

There is clearly a problem with current standards of paid-for advice services, as evidenced by the FSA's mystery shopping exercise. Despite the FSA regulation of IFAs that advise on lifetime mortgages, which has been in place since November 2004, standards appear to remain low.

There is scope for the FSA to improve its regulation of paid-for financial advice. Although the consumer benefits of regulation must be traded off against its costs, both to government and industry, the quality of product-specific advice means it is currently unfit for purpose and is in urgent need of improvement.

Current FSA regulation with respect to financial advice on lifetime mortgages is detailed in Section 8 of the FSA Handbook (Financial Services

Skills Council 2006). These regulations state that a financial adviser must take reasonable steps to ensure that a product is suitable for a client before selling it to them. This includes determining the impact on entitlement to benefits, on tax liabilities, and considering whether other options may be more appropriate, such as home reversion schemes or local authority grants.

This regulatory framework needs to be built upon further. The FSA should undertake an annual mystery shopping exercise, not simply to investigate the quality of financial advice on offer, but to act as a deterrent to advisers who may be cutting corners. The FSA has already taken a step towards this by clarifying that the evidence collected in mystery shopping research projects can be used for supervision and enforcement purposes in the Supervision Manual (Mystery Shopping Exercise) Instrument 2005 (Financial Services Authority 2005b). It is also in the process of undertaking a further mystery shopping exercise that will report in autumn 2006 (Financial Services Authority 2006).

The FSA needs to go further, however, by committing to undertake an annual exercise on a larger scale than that carried out in May 2005. Failure to adhere to FSA regulations in this exercise should result in penalties high enough to act as an incentive for IFAs to improve standards. The FSA should:

- undertake an annual mystery shopping exercise to incentivise underperforming advisers to improve standards.

A benefits calculator should be made available free online to all

Chapter 7 recommended that the complexity of the benefit system merits the creation of an online benefits calculator for pensioners as an interim measure before more fundamental reform. Such a calculator could also improve the quality of financial advice offered by intermediaries to those on benefits. Currently, benefits software for intermediaries exists, but it is expensive, as outlined above. For a single user, the first year annual licence and training fee is £611 including VAT, with each further user charged at £545.[10] Alternatively, financial advisers can purchase the software on a single-use, per-case basis, at a price of £53 including VAT. To a financial adviser charging in the region of £200-£300 for advice on equity release, covering this extra cost would add a significant amount onto the price.

A free online calculator could be used by financial intermediaries and a generic advice service, which we consider below, in addition to being used by pensioners themselves.

10. Pricing correct as of 11 April 2006, information from www.ferret.co.uk/data/downloads/get file.aspx?path=guides/notes/&item_id=gui-note-fintal3 and www.ferret.co.uk/fintal-aspx/index.aspx?menu=fintalppc

Increase the supply of generic advice as a partial substitute for product-specific advice

More regulation, while improving the standards of paid-for financial advice, cannot solve the problem that some people will not be able to afford to pay for financial advice, or may be unwilling to do so. There is a chance that more regulation might even push up the cost of regulated advice further.

An affordable or free generic advice service could fill this affordability gap. There is a strong case for government to step in. It is unprofitable for industry to supply such a service at a price that consumers are willing to pay. In the absence of commercial provision, there is little third-sector provision of personalised generic financial advice for similar reasons: cost, and fears of straying into regulated territory. The advice black hole increases the risk of a mis-selling scandal, and also means that equity release and trading down may be underexplored options for asset-rich, income-poor pensioners.

A national generic financial advice service could take advantage of economies of scale in training and instruments. For example, advisers could make use of software designed for older people looking to increase their income, which could automatically process information about benefit eligibility and tax liability. Although such a generic advice service could not recommend a particular product because of liability issues, it could help to establish whether equity release or trading down might be an appropriate financial decision for older people. It could give information about different product types, with typical market conditions, interest rates and charges to enable clients to shop around providers for the best deal.

Such a service would need to fit into two broader government agendas, on financial capability and 'third-age' information. The importance of improving financial capability for widening financial inclusion has been recognised by this Government, and the FSA's Working Group on Generic Advice has stated that it would like to see a network of generic financial advice services readily available throughout the UK, provided for free or at an affordable price (Financial Services Authority 2005a, HM Treasury 2004a). Consultations held by this working group have indicated that the lack of generic financial advice available for *all* client groups, not just older people, is of universal concern.

Several organisations have been calling for free or affordable generic advice to be available to lower-income consumers of all ages, including the National Consumer Council, Which and Citizens Advice (Citizens Advice 2006, Consumers' Association 2002, National Consumer Council 2003). This has culminated in an independent organisation, the Resolution Foundation, currently researching and costing a national generic advice service (The Resolution Foundation 2005). The needs of *older people* should feature prominently in the design of any such service.

A generic financial advice service would also need to be fully integrated into the third-age information agenda. Financial advice is only one element of a broader range of advice that older people may need to seek, and they should be directed to the appropriate advice service from a central service.

The Government has announced plans for such a third-age information service, 'Link-Age Plus', which would eventually deliver a 'Sure Start' one-stop approach to older people's services, including social services, the Pension Service, health services, housing and local voluntary sector organisations (Department for Work and Pensions 2005b, Social Exclusion Unit 2006). Financial advice needs to be built into this model. Financial advice should also be integrated with a broader advice service on housing options that Care and Repair advocate for older people (Mountain and Buri 2005).

What might such a generic financial advice service look like? It is beyond the scope of this project on housing wealth to develop a proposal for a generic financial advice service that serves all sectors of the population, especially as the Resolution Foundation is currently in the process of a much larger piece of work on generic financial advice. But there are a number of features that any financial advice aimed at *older people* should incorporate, which we explore below.

A generic financial advice service that can cater for older people

Which features would a generic financial advice service need to have so that it could cater for older people? There are three main issues that need highlighting with reference to this group: cost to the client, the delivery medium and the importance of branding.

Cost to the client

For older people, in particular, it is important that a generic financial advice service should be provided free at the point of delivery. There will always be asset-rich, income-poor pensioners who simply cannot afford to pay the upfront costs of financial advice, even if it is provided on a not-for-profit basis.

One way of circumventing this affordability problem might be to charge on a means-tested basis. We have rejected this option because it would add yet more complexity to an already very complex financial decision. Means-testing would probably cost more in administration than it would save for a service that is likely to cost well under £100 per user, and the relatively low uptake of means-tested pensioner benefits (Department for Work and Pensions and National Statistics 2006) suggests that it might put older people off using the service.

Delivery medium

Generic financial advice could be delivered in a number of ways – for example, face-to-face, over the telephone, via the internet, or through any combination of these methods. Which method is likely to be most suitable for older people, while still remaining cost-effective?

An advice service based primarily on the internet can be ruled out because older people tend to have limited internet access. In May 2005, only 20 per cent of those aged 65 or over had accessed the internet in the last three months (National Statistics 2005b). Additionally, there is some evidence that those who lack financial confidence and are on lower incomes prefer one-to-one advice: in a survey of low-income consumers, 50 per cent said they would prefer to receive one-to-one advice compared to other forms (Jones and Barnes 2002). Such advice would need to be delivered face to face or over the telephone.

Many commentators who responded to the FSA consultation on generic advice think that the best way to give advice is face to face (Financial Services Authority 2005a). This is supported by an evaluation of the Home Equity Conversion Mortgage scheme in the US (see Box 3.3), which found that most advisers providing advice for older homeowners on equity release were strongly opposed to telephone advice where it could be avoided, because of the difficulty of using printed materials and the inability to read homeowners' reactions to the information presented (Rodda *et al* 2000). But face-to-face advice may be difficult to attend for some people, especially those with limited mobility, those with caring responsibilities and those living in rural areas. Telephone advice would be more accessible.

A generic financial advice telephone line could build on the experience of other government advice services delivered over the telephone, such as NHS Direct, Consumer Direct and Community Legal Service Direct.

The evaluation of the Community Legal Service Direct pilot found that many people would not have sought help had the telephone advice service not been available (Hobson and Jones 2003). However, it also showed that telephone advice was unsuitable for certain groups who might have trouble understanding information on the telephone, including those with learning difficulties, language problems and mental health issues. This suggests that a combination of telephone and face-to-face advice may be necessary, especially as some older people may be vulnerable and prefer to receive advice in person.

Trust

A generic financial advice service would need to have strong independent branding if it were to cater for older people. Evidence from the focus groups conducted for this project suggested that older people would be sceptical of an advice service provided by government, and that they would find it much easier to trust a service with an independent brand, such as Citizens Advice. This is supported by evidence from a small FSA and Citizens Advice pilot in 2005 to provide *pro bono* advice from IFAs through the CAB network. It showed that service users rated the impartiality of the service

Box 8.3: The Home Equity Conversion Mortgage (HECM) insurance programme in the US

The HECM insurance programme was set up in 1991 in order to provide older homeowners with a way to release equity in their homes without selling or moving. The federal government insures the loan, and subsidises pre-application 'counselling', consumer education and outreach for potential borrowers. By October 1999, 40,000 loans had been insured under the programme.

Financial advice ('counselling'), from a counselling agency pre-approved by the Department of Housing and Urban Development, is a prerequisite for obtaining a loan. The agency offering financial advice has to be independent from the lender.

Counselling is intended to ensure that borrowers fully understand the programme and its implications, and are fully informed of other options for meeting their financial costs. Legally, advice has to cover the financial implications of taking out an equity release loan, including on tax liabilities and benefit eligibility, and other options.

The financial advice must be provided in one-to-one discussions with the borrower, preferably in person rather than on the telephone. Once the counselling is complete, the agency issues a certificate to certify the borrower has received counselling. Only then can they proceed with taking out a loan.

Source: Rodda *et al* 2000

highly (Widdowson 2005). An independently-branded service could also be linked to a trusted third-sector brand such as Citizens Advice, Help the Aged or Age Concern.

Funding

The costs of such a service would ultimately depend on demand, and on how much time it would take to advise an older person on appropriate ways of maximising their income. In pilots for the National Debtline, the cost per call was £62 including set-up costs, or £40 excluding these costs (Gardner and Wells 2003). This compares to a cost of £32 per call for ChildLine, a volunteer-operated service. Initial unpublished research carried out by McKinsey on behalf of the Resolution Foundation suggests that a national financial advice service offered through a combination of the internet, the telephone and face-to-face meetings would cost in the region of £29 per user, based on a service that has 750 telephone advisers and 1,050 face-to-face advisers.

Further research is needed to accurately establish the demand that such a service is likely to generate. Pensioners who are not living on low incomes are much less likely to use the service.

If we assume that around a quarter of the one million asset-rich, income-poor pensioners, who are living below the Age Concern Modest but Adequate income level, but who own more than £100,000 of equivalised housing wealth, use the service, this amounts to a yearly running cost of around £7.25 million. Care and Repair's 'Should I Stay Or Should I Go?' pilot suggested that each full-time adviser in a housing options advice service could help between 90 and 100 older people per year, which would require 2,500 telephone and face-to-face advisers, slightly more than the number allowed for in the Resolution Foundation estimates (Mountain and Buri 2005).

Could such a service be partly funded by voluntary contributions from industry? Precedent does exist. The National Debtline, a debt counselling telephone helpline, is run by the Money Advice Trust, a registered debt charity that is partly funded by the credit and finance industry. But a clear financial case for industry funding exists here, because the provision of debt consolidation advice helps the industry to recover outstanding debt (Gardner and Wells 2003).

While it is unlikely that a financial case exists to the same extent in the equity release industry, such a service would certainly be in the industry's interest. A financial advice service is unlikely to have a large direct impact on product sales, but sales could grow if it improves the very poor reputation the industry suffers from (Gay 2004, Rowlingson and McKay 2005). Government should encourage industry to contribute voluntarily on this basis.

Another way in which the cost to government might be reduced is by encouraging IFA firms or individual IFAs to donate their time to the provision of generic advice through a national advice service. The provision of *pro bono* advice has not developed organically in the financial services industry as it has in the legal profession (see Box 8.4). This is likely to be, in part, because the average IFA firm size is much smaller than in the legal profession, with 93 per cent of firms only employing one or two advisers (Mintel 2003).

However, an FSA and Citizens Advice pilot has shown that, on a small scale at least, *pro bono* work by IFAs can be an effective way of delivering generic financial advice (Widdowson 2005). This pilot ran in eight Citizens Advice Bureaux for eight months in 2005. In total, 244 enquiries were dealt with, 63 per cent of which were from those aged over 50. The service was primarily used by those on low and mid incomes, who would not have otherwise been able to access financial advice. Ninety-five per cent of users rated the service as 'very good' or 'good', and 79 per cent took action as a result of the advice they received.

Government could provide the infrastructure required to facilitate *pro bono* advice by making it possible for IFAs to donate time to a national generic advice service. In doing so, it would fulfil the function that LawWorks fills for the legal provision, effectively providing client-matching, training and insurance (see Box 8.4). It would build on the pilot outlined above, and fit with the Government's volunteering agenda (HM Treasury 2004c).

The success of this policy would be dependent on it generating sufficient interest from IFAs for it to be worthwhile. Initial evidence from the FSA/Citizens Advice pilot is promising. Feedback from participating IFAs was positive, and many said that it increased their awareness of problems faced by those who would not normally fall into their client group (Widdowson 2005). However, further work is needed to establish whether there would be enough IFA participation to establish a *pro bono* scheme on a wider scale.

Box 8.4: *Pro bono* work in the legal profession

Pro bono advice in the legal profession takes two forms:

- A donation of employee time by a legal firm.
- A donation of time by an individual solicitor or barrister.

Historically, many large law firms have provided *pro bono* advice, and some have specialised *pro bono* departments. There are three organisations that provide an infrastructure for smaller firms and individuals to undertake *pro bono* work: the Free Representation Unit (mainly student barristers), the Bar Pro Bono Unit (barristers) and LawWorks (solicitors) (Smith 2002).

LawWorks has around 2,000 lawyers carrying out *pro bono* work. It has a membership fee that ranges from £500 for an individual lawyer, to £5,000 for a large firm. In exchange, it provides the following benefits:

- Matching lawyers with referrals from advice organisations in the local area.
- Training on topics relevant for *pro bono* clients, such as debt counselling.
- Indemnity insurance.
- A Law Society waiver, needed for all lawyers who practise outside their normal workplace setting.

Conclusions

Pensioners need to seek independent financial advice before taking out equity release products, but good quality and affordable advice can be hard to find. There is a pressing need to fill this current gap, so as to avoid a potential mis-selling scandal and to ensure that equity release and trading down are not underexplored options for hard-up pensioners who own their homes.

More regulation of the paid-for financial advice sector would help to ensure that people paying for advice do receive advice of a minimum standard. As part of this, the FSA should commit to undertaking an annual equity release mystery shopping exercise on a wider scale than in May 2005. However, regulation alone cannot tackle the problem of affordability.

The time is right for government to fill the gap with a generic financial advice service – which might be called 'MoneyDoctor' – that can cater to the needs of asset-rich, income-poor pensioners. The Government should:

- establish 'MoneyDoctor', a generic financial advice service to cater for older people. This should be run through a combination of telephone and face-to-face advice, and carry strong independent branding.
- use this to facilitate independent financial advisers to work *pro bono*. In doing so, it would fulfil the function that LawWorks fills for the legal provision, effectively providing client-matching, training and insurance.
- encourage equity release providers and other financial services firms to support the scheme, as one way of reducing the widespread distrust of these products that is constraining take-up.