Risky access

Jonathan Watts-Lay explores how to help employees understand the risks around accessing their pension

According to the FCA, over half (53 per cent) of retirees who accessed their defined contribution (DC) pensions chose to withdraw their entire pension pots. Whilst it may be tempting for employees to take advantage of the pension changes and cash in their pension, have they really thought through what's involved?

Our top five pointers can help employees consider what's involved before they access their pension to protect them from making costly mistakes.

1. Do employees understand the tax implications?

Tax planning should be at the heart of any pension transaction. Only the first 25 per cent of the amount drawn from a pension pot is tax free and the remaining 75 per cent is taxed as earned income. If individuals cash in a pension during a tax year when they are still working, 75 per cent of the sum withdrawn will be added to their earnings for that tax year and may push them into a higher tax bracket. Employees may therefore want to consider withdrawing smaller amounts from their pot.

2. Do employees understand how long they will need to make their retirement saving last?

It's crucial for employees to think about if they will have enough money to last the duration of their retirement. For example, a 65-year old man now has a 50 per cent chance of living to 87 and a woman of the same age has the same chance of living until she's 90, so making retirement savings last is key. It's advisable that employees regularly review their choices throughout retirement as their needs evolve.

3. Do employees understand the risks around pension transfers?

Since the pension changes we have seen a rise in employees wanting to transfer their defined benefit (DB) pension scheme into a DC pension to access the cash.

However, pension transfers are complex – there are many things employees should consider before they make any decisions, including if the transfer value being offered represents good value. Transferring from a DB pension scheme can mean that employees will be giving up valuable guaranteed benefits and they might find themselves worse off.

It is a legal requirement for individuals to take regulated financial advice for transfers on DB schemes valued at £30,000 or more but those with smaller pots may also want to take advice to ensure they're making the right decision.

4. Are employees switched onto pension scams?

Employees getting scammed out of their retirement savings is a real issue. The problem is many of these scams look perfectly legitimate so are not easy to spot. Others offer investment returns that are too good to be true but people easily get sucked in. They often have very professional-looking websites and literature.

Whatever employees are planning to do with their retirement savings, they should check before doing anything that the company is registered with the FCA *[https://register.fca.org.uk/]*. They can also

visit the FCA's ScamSmart website which includes a warning list of companies operating without authorisation or running scams *[www.fca.org.uk/scamsmart]*.

5. Do employees realise that financial advice can be better value than no advice?

Many employees don't realise that when they buy retirement products such as annuities, through for example online brokers, there are charges deducted that can cost just as much, if not more, than getting advice. A financial adviser will look at an individual's personal circumstance, objectives and attitude to risk and then, after considering all of the retirement income options available, will make a specific recommendation to address their needs; they will then have the benefit of consumer protection for the advice given. After all, according to research by Unbiased, UK savers who take advice save on average £98 more every month and receive an additional income of £3,654 every year of their retirement, based upon a pension pot of £100,000.

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