

Working together to drive informed decisions at-retirement

✓ **Jonathan Watts-Lay, director, WEALTH at work, a leading provider of financial education, guidance and advice in the workplace, reflects on the latest industry findings since 'freedom and choice' in pensions came into play**

It's been over two years since the introduction of the pension changes and it seems that many employees are still confused by their options.

Recent findings from the Financial Conduct Authority (FCA) are a worrying sign that many individuals do not understand the implications of accessing their pensions. According to its *Retirement Outcomes Review* over half (53 per cent) of retirees who accessed their defined contribution pensions chose to withdraw their entire pension pots, resulting in an unexpected chunk of money going straight to the taxman.

HMRC has recently stated it's collecting far more in tax from individuals cashing in their pots than it anticipated – a clear sign that tax planning needs to be the top of every agenda.

Of these fully withdrawn pensions, 52 per cent were transferred into other savings or investments, thereby losing the valuable tax benefits available in the pension scheme.

By simply transferring pension income into other savings or investments, individuals are seriously risking paying too much tax, losing out on investment growth, or worse, being scammed out of their savings – ultimately resulting in reduced income in retirement.

The same report found that drawdown has become much more popular than annuities, with twice as many pots being moved into drawdown than annuities (compared with 90 per cent of pots moving into annuities and only 5 per cent into drawdown before the pension freedoms). Individuals also typically chose to take the 'path of least resistance' and purchased drawdown from their current pension provider, without shopping around.

Whilst income drawdown is a popular option for those who want greater control and freedom over how they access their pension savings, without careful planning many could be at risk of paying too much tax or not getting a good deal.

In the past many people automatically bought annuities from their pension provider, even though there may have been better rates available elsewhere. This mistake now appears to be repeating in itself in the drawdown market. With huge differences between scheme structures and fees charged, employees need to make sure they shop around when looking for providers.

A final but alarming finding from the report revealed that many individuals are increasingly accessing drawdown without taking financial advice. Almost a third

(30 per cent) of drawdown plans have been purchased without financial advice since the pension changes, comparing with just 5 per cent prior to the freedoms.

It's concerning that such a staggering number of individuals take such monumental decisions without taking appropriate financial advice, particularly when we also consider that pension scams are rife and evidently on the rise.

For example, according to the City of London Police, pension scams have hit a record high. Its figures reveal that £42 million has been lost to 'pension liberation fraud' since April 2014.

Furthermore, Age UK has found that 53 per cent of people age 65 and above believe they have been contacted by fraudsters.

Financial advice not only offers additional protection measures should anything go wrong, but it also protects employees from paying unnecessary tax. It will take into account an individual's personal situation and that of any partner, and also all assets and savings – not simply their pension pot, but also ISAs, shares and so on. It will then look at how all these savings can work together in a way to achieve the most tax efficient retirement income.

These findings are a clear indication that the pensions industry needs to work together with employers to ensure that employees are receiving appropriate and timely guidance and support around the decisions that they are making about their retirement.

Employers are perfectly placed to provide their employees with access to a breadth of services including financial education, guidance and advice, to help drive informed decisions that cuts through the complexities and results in financial security in retirement.



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