Adapting to pension changes

Jonathan Watts-Lay reveals the findings of WEALTH at work's survey, which looked at how employers are adapting to pension freedoms

The pension freedoms changed the face of retirement income options for members of defined contribution (DC) schemes. And almost one year on, it is clear that employers and employees still need to understand the changes and adapt to them in order to benefit from the flexibilities. Making the right choices in the lead up to and at the point of retirement is no simple task and getting it wrong could be extremely costly. What are employers doing to support their employees through this process and how far have they come with adapting to these changes?

WEALTH at work, a leading provider of financial education in the workplace, supported by guidance and advice, conducted a survey to find out more.

Default funds not suitable for pension freedoms

Since the pension changes, some employers have adopted a three-pronged approach to their default funds, with defaults aimed at cash, annuity and drawdown. However, the survey results indicate that many employers are yet to address this. The findings reveal that when no glidepath is selected by employees (and employers believe more than 90 per cent of employees use the default investment option), 43 per cent of employers will still default employees to an annuity-tracked glidepath. This is despite the significant fall in annuity purchase as a preferred option for employees.

It is evident that an annuity-tracked glidepath may leave many on an investment route that is not correctly aligned to their retirement plans. Employers must address this. It is also important that employers provide financial education about the different glidepath options, in order for employees not to rely on the default option and to help them make appropriate selections.

Employees unable to access the new pension flexibilities through their workplace

The results also reveal that over a quarter (26 per cent) of employers do not allow their employees to take money from their pension (from age 55) whilst they are still working for them.

Employers worry about the effects of pension depletion as employees may not be able to afford to retire when they want to, if they access their pension pots early. When we consider that only 11 per cent of employers thought savings levels were adequate for retirement, it is no surprise that employers don't want to have to deal with this double whammy.

Additionally, almost one-third (32 per cent) of employers do not provide access to the new pension flexibilities within their scheme for employees at-retirement. The increase in administration costs, its additional burden, not having the infrastructure in place to provide flexible access, or concerns about recently raised fears of a legal comeback if an inappropriate option is 'promoted' explain why employers may not provide the new pension flexibilities.

A glimmer of light?

What is encouraging is that nearly 60 per cent of employers surveyed are providing financial education about the pension flexibilities at-retirement, and overall around half offer access to a regulated advice service at the point of retirement. Whilst the pension changes offer a great deal of flexibility to employees, we can be just as sure that they also carry a lot of pitfalls and risks for the unwary, especially around tax and investment loss.

So whilst the figures in the survey show some good signs, there is no doubt that some of these figures could and should be higher. This is especially the case for providing access to professional financial advice to help employees understand which options are the right ones for them to take, and to provide consumer protection over and above that available for those who choose to do it themselves.

Providers like WEALTH at work can support this, offering financial education, guidance and regulated financial advice to make available all income options at-retirement – whether that is an annuity, drawdown, a cash withdrawal, or indeed a combination of options over time.

All statistics quoted are from the WEALTH at work: Pension Changes Survey - Our Survey Results 2015. This is available at www.wealthatwork.co.uk/corporate/2015/12/03/pension-changes-survey-our-results-2015/

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