Improving outcomes

Jonathan Watts-Lay looks at the steps employers can take to support employees at retirement

Employees approaching retirement will have a number of decisions to make, given freedom and choice in pensions, and many will turn to their workplace for support with this. In turn, employers are now realising that providing support around retirement decisions is vital but aren't quite sure where to start. Therefore, we have listed six steps on what can be done to help.

1) Encourage employees to create a retirement plan

Employees should consider how much income they will need in retirement to meet their day-to-day living expenses (household bills etc), discretionary income (holidays, hobbies etc) and how their income needs may change over time. They should then work out whether they have sufficient savings to meet their needs by looking at all their assets, including all pensions, ISAs, shares and general savings, and what they are all worth.

2) Help employees understand their retirement income options

Employees who have a defined contribution (DC) pension will need to decide how to access their income, whether that is through income drawdown, buying an annuity, taking it as a cash lump sum or indeed a combination of these options. Employees must also understand what each option means and which approach best suits their needs in order to make a decision.

3) Ensure employees understand the tax rules

Do employees realise that typically, only the first 25 per cent of a DC pension is tax-free (calculations for defined benefit schemes will differ) and that the remaining 75 per cent is taxed as earned income? It is important that employees take the time to understand these rules as it may be possible to save significant amounts in tax.

4) Promote shopping around

Employees should be encouraged to shop around before making any decisions about purchasing any retirement products. It is crucial that employees do as much research as possible to find a solution that enables them to access the right amount of cash as and when they want it, and for as long as they need it.

5) Make employees aware of scams

Scammers often use highly professional looking websites and marketing literature and tend to sound completely legitimate. It's easy to see why so many people are fooled, and it isn't small amounts of money which are being taken. Findings from the FCA and The Pensions Regulator show that victims of pension scams could lose 22 years' worth of savings within 24 hours. So, whatever employees are planning to do with their retirement savings, it's really important that they understand the risk of scams and how to protect themselves. They should check whether a company they're planning to use is registered with the FCA and also visit the FCA's ScamSmart website, which includes a warning list of companies operating without authorisation or running scams.

6) Highlight the importance of regulated financial advice

Many people are concerned about the cost of regulated financial advice without realising that when they buy retirement products such as annuities, through for example online brokers, there are commissions to be paid that can cost just as much, if not more, than getting advice. Employees should understand the importance of seeking regulated financial advice. After all, research from the International Longevity Centre carried out in 2019 suggests that those who took advice were on average over £47,000 better off than those who did not. Regulated financial advice also provides the benefit of consumer protection for the advice given, as well as a retirement plan tailored to an individual's needs.

Ultimately, before any decisions are made at retirement, employees need to understand what their options are and the generic advantages and disadvantages of these, as well as considering any associated risks such as tax inefficiency, longevity, losing money to scams and ultimately running out of income sooner than expected. Employers can offer support to their employees in terms of financial education, guidance and regulated financial advice, so that employees are better informed at retirement, which will lead to improved outcomes for all.

Written by Jonathan Watts-Lay, director, WEALTH at work

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