

Financial wellness at-retirement

✓ **Jonathan Watts-Lay considers how creating financial wellness at-retirement is an essential element in the workplace**

The concept of financial wellbeing in the workplace is firmly on the agenda, with one of the most fundamental elements being retirement preparation. Helping employees to achieve financial security in retirement is no longer a 'nice-to-have' offering but is an essential element in the workplace.

This is because we are seeing increasing evidence that leaving employees to their own devices at-retirement can lead to them making costly mistakes.

A big part of this is due to a lack of understanding around pensions and retirement planning. The Institute for Fiscal Studies recently reported that only around half of individuals think they understand enough about pensions to make decisions about saving for retirement.

This lack of pension understanding carries many risks for employees. Not only will they struggle to choose the best retirement income option for their needs, many are also unaware of the tax implications involved when accessing their pension. Findings from our poll showed 91 per cent of employers believe their employees do not understand the tax rules when withdrawing pension funds.

Low pension knowledge also increases the risk of employees falling prey to scams and fraudsters. If an employee does not understand the basics around their pension options, they are more vulnerable to losing their pension to scams as they are unaware of the



warning signs to look out for.

An important part of supporting employees with their financial wellbeing at-retirement is making sure that they understand their options, as well as any associated risks.

Many employers are now realising that providing support around this is vital but aren't quite sure where to start. We have therefore listed five tips on what can be done to help.

Tips to help employers support their employees at-retirement

1) Educate employees on 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 or taking it as a cash lump sum or indeed a combination of these. Financial education can help employees understand these options to make an informed decision.

2) Help employees to understand the tax rules – Research we conducted last year showed 81 per cent of trustees believe members are not equipped to deal with the taxation implications of accessing their pension. This means that employees and members could find themselves paying more tax than they need to if they don't plan carefully. Providing support around this is crucial.

3) Encourage employees to shop around – The Financial Conduct Authority (FCA) found that those who go into income drawdown could increase their annual income by 13 per cent by

switching from a higher cost provider to a lower cost provider. It is important that employees shop around and do as much research as possible to ensure they select a retirement option that best suits their needs. This means finding 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.

4) Switch employees on to the dangers of pension scams – Scammers tend to sound completely legitimate and it's easy to see why so many people are fooled, and it isn't small amounts of money which are being taken. So, whatever employees are planning to do with their retirement savings, it's vital that they understand the risk of scams and how to protect themselves. They're best checking whether any company that they're planning to use is registered with the FCA <https://register.fca.org.uk> first and also that they don't appear on the FCA's ScamSmart website, which includes a warning list of companies operating without authorisation or running scams www.fca.org.uk/scamsmart. Regulated financial advice can also provide additional protection measures.

5) Empower employees to take action – Many workplaces now offer support to their employees in terms of financial education, guidance and regulated financial advice, so that employees are informed and empowered at retirement. This can help ensure that they are able to make better choices, which will lead to better outcomes for all.



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

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