

Arming members with the facts

✓ **Jonathan Watts-Lay offers guidance for how to protect pension members from knee-jerk decisions**

The turbulent markets experienced due to Covid-19 are concerning for everyone but especially for members of defined contribution (DC) pension schemes who are looking to retire. This, coupled with the fact that household incomes have come under extreme pressure, has meant that scheme members could easily be tempted to make rash decisions such as accessing their pension savings early.

However, significant risks exist if members rush to make knee-jerk decisions without seeking appropriate guidance or regulated financial advice first.

Employers and trustees have a duty of care to ensure that members have an understanding and awareness of the implications of early withdrawal and the potential risks involved. Many members will be unaware of the implications of the Money Purchase Annual Allowance (MPAA) and tax charges. Those who fully encash pots over the £10,000 limit will trigger the MPAA, reducing their annual allowance from £40,000 to £4,000.

Also, accessing a pension whilst working runs the risk of paying a lot of unnecessary tax. If members take cash from their pension while still working, 75 per cent of the sum withdrawn will be added to their earnings, which may push them into a higher tax bracket.

It is important for members to know that whilst they may be in need of extra cash, there are other options available such as reducing costs through



the government-backed mortgage holidays ending in late October and debt repayment deferrals, through to looking at alternative savings that may be more appropriate to access.

For those members about to retire and who are tempted to withdraw their entire pension in one go, the same tax rules apply. So by taking their entire pension as a lump sum, 75 per cent would be taxed as earned income and potentially result in an unexpected hefty tax bill. In addition, members need to understand the implications of no longer having a pension invested in a tax free environment to provide them with an income throughout their retirement.

Scammers also see such turbulent times as an opportunity to con savings from members. In July, Action Fraud reported that victims of coronavirus-related scams had lost over £11 million, with it previously stating that pension scams had been among the most common type of fraud during the crisis. Victims of pension scams can be left approaching retirement with a

significantly reduced income and in some cases, entire life savings can be lost.

Arming members with the facts on what they can and cannot do with their pension and the potential risks involved, will help them avoid making costly mistakes.

Trustees are the first line of defence in protecting retirement funds and have a key role in ensuring members make informed choices. Since the virus

emerged, the Financial Conduct Authority and The Pensions Regulator (TPR) have issued comprehensive guidance on what employers and trustees should be doing to help deal with the increasing risk of scams and are expecting them to step up to the task.

TPR has advised trustees to urge members 'not to rush decisions and provide them with clear, relevant and timely information so they can make informed decisions'. They also instruct trustees to follow the Pension Scams Industry Group (PSIG) code of good practice – 'Combating Pension Scams' which is based on three key principles;

1. To raise awareness of pension scams for members and beneficiaries.
2. To have robust processes for assessing whether a scheme may be operating as part of a scam.
3. To be aware of the known current scam strategies.

Ultimately, employers and trustees need to actively facilitate access to financial education and guidance at retirement to help members make informed choices. This can involve using free services such as Pension Wise or more tailored services from workplace providers.



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