Growing guidance

Jonathan Watts-Lay considers how support for guidance pathways at retirement is growing

Over the past few weeks the support for guidance pathways at retirement has really grown. Speaking at the Personal Investment Management and Financial Advice Association annual conference, the Treasury Select Committee Chair Nicky Morgan has called for the introduction of default guidance before individuals are allowed to access their pensions.

This stance was also supported by a recent poll by WEALTH at work, which found that 86 per cent of respondents believe that employees should not be defaulted into a decumulation pathway at retirement without financial guidance.

These findings are not necessarily surprising as defaulting individuals into something without any support or guidance raises questions over whose best interest it's in. Many will argue that it's a win for the provider because they keep hold of the member's assets but it may not be a great option for the member.

Not only this, there's a danger that freedom and choice in pensions will be destroyed if individuals don't make active choices at retirement. It also discourages shopping around, which again suggests the winners are the providers. Additionally, as many retirees will have more than one pension, if they all default based on individual pots rather than the collective value, the likely outcome for many will be sub-optimal and less income at retirement.

Before any decisions are made at retirement, individuals really need to understand what their options are and the generic advantages and disadvantages of these options. So to default members at retirement, without them really understanding what they are defaulting into, could lead to many retirees ending up with less income in retirement than they could have achieved if they had made an informed decision.

Latest insights are a worrying sign that many individuals don't understand the implications of accessing their retirement savings. Reportedly, over a quarter (27 per cent) of individuals over the age of 55 don't realise that they have to pay tax on their pensions if they take the money as cash, and the FCA found in the last report of its Retirement Outcome Review series this year that 62 per cent of individuals in drawdown were not sure, or had only a broad idea, where they were invested. Coupled with this, the Office for Budget Responsibility has recently reported that revenues raised from the pension freedoms this year will be 50 per cent more than forecast, suggesting that individuals are often paying tax when it could have been avoided.

Providing financial education and guidance for members and employees at-retirement can help with this and will enable able them to make informed choices, including being able to decide if they need to further support such as regulated advice – and therefore lead to better outcomes.

Our experience is that following financial education and guidance, individuals emerge more confident, knowledgeable and more able to make informed decisions; it has been no surprise to see significant numbers changing their retirement plans, increasing pension contributions and seeking out regulated advice as a result.

Therefore, we are calling for the pensions industry to take note and before more defaults are created ensure more effort is made to make financial education and guidance the norm.

Your say

There have been growing concerns since freedom and choice in pensions came in, that individuals are making decisions at retirement without really understanding the consequences of them. This includes fully cashing in pensions without realising the tax implications.

Therefore, for our next poll we are interested in determining your view and ask 'Do you believe that employees understand the tax rules when withdrawing money from their pension?' Have your say by completing our poll at www.wealthatwork.co.uk/corporate/your-say/

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