Paving the way

Jonathan Watts-Lay explores how to achieve better outcomes at retirement

Whilst freedom and choice in pensions is popular with individuals, the downside is that this comes with increased risk and responsibility for all to ensure members do not fall for a scam, pay too much tax and indeed understand the dangers associated with DB pension transfers. There are a number of ways trustees can help their members achieve better outcomes at retirement, so, let's start by looking at some of the key areas below.

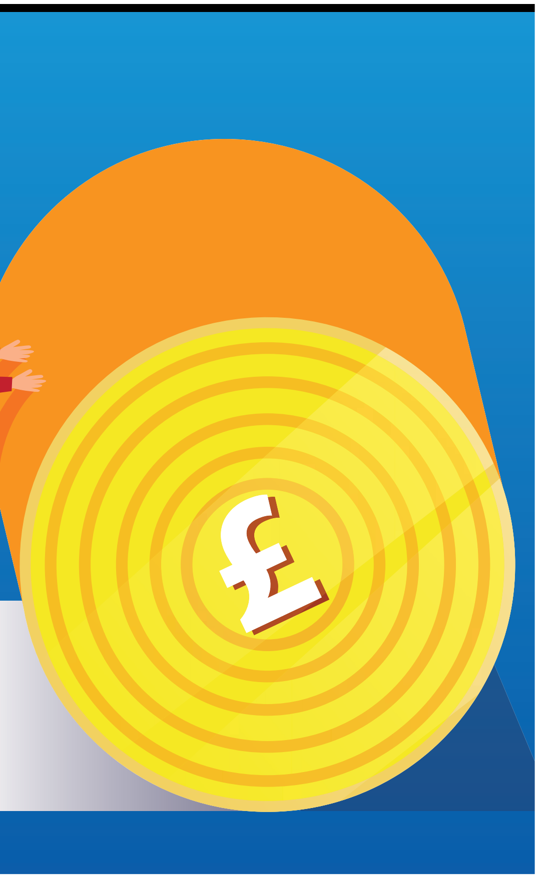
Protecting members from scams

This is a topic we know trustees are concerned about as research carried out by WEALTH at work and the Pensions Management Institute (PMI) last year highlights that trustees worry about members facing predatory attention from scammers. Concerns around this are warranted as the impact of falling for a pension scam can be life changing.

Findings from the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR) show that, although it could take 22 years for savers to build a pension pot of £82,000 (the average amount victims lost to scams in 2018), it could take just 24 hours for this to be lost to a scam, as one in four people surveyed admitted to taking 24 hours or less to decide on a pension offer. This overconfidence with such an important decision can be detrimental to an individual's retirement income if they are not aware of the risks involved.

The research also highlighted that 63 per cent of those surveyed would trust someone offering pension advice out of the blue, which is one of the main warning signs of a scam. With life savings at stake, it is vital that pension scheme members are aware of the dangers to look for when considering pension transfers. Whilst members bear the bulk of the responsibility for their decisions, there is a duty of care and a regulatory requirement for trustees to have processes in place to help them understand how to protect themselves and make informed choices.

Informing members is also the number one principle in The Pension Scams Industry Group (PSIG)'s *Code of Good Practice*, which states that trustees, providers and administrators should raise awareness of pension scams for members and beneficiaries of their scheme. A good way to do this is providing examples



of scams to members to highlight how legitimate and professional they can appear.

Helping members avoid paying too much tax

Support doesn't just protect members from scams, it also helps them avoid making other costly mistakes, such as paying more tax than necessary or making ill-judged investment choices. Figures show that pensioners are paying £4.4 billion a year more in income tax on their pension than what the government had previously estimated; indicating that individuals are often paying tax when it could have been avoided with careful planning.

In fact, our research with the PMI indicates that trustees have taxation fears for their members at retirement, with eight out of ten (81 per cent) believing that members are not equipped to deal with the taxation implications of accessing their pension. For example, many don't realise that usually only the first 25 per cent taken is tax free and that the remainder is taxed at their marginal rate. So by taking income from their pension when their overall income is lower, such as in retirement, members can minimise the tax that would be due.

Also, some individuals are taking income from their pension when they might be better off using their other savings, which aren't growing tax free and are liable for income tax and inheritance tax. When deciding how to access retirement income, it is important for members to understand that it's not just about pension savings. All savings and investments, whether they be pensions, ISAs, or shares, should be considered to make sure they are being used in the most tax efficient way.

With this in mind, it was no surprise to see in our research that almost two thirds of trustees are concerned that their members' money will not last the duration of their retirement.

Highlighting DB transfer risks

The research also found that almost nine out of ten trustees (85 per cent) are concerned about the risks their members face if they transfer out of their defined benefit (DB) schemes. DB pension transfer values remain high, with the average value at £250,000 across the market, which is almost identical to the average house price in the UK. Whilst this may be tempting for members, assessing whether it is right to transfer is highly complex, with multiple risks to consider around how to manage the money once transferred. Members need to know where they can access information and support in order to make a decision that is right for them.

Achieving better outcomes at retirement

There are ways trustees can help achieve better outcomes for their members at retirement. Financial education and guidance is an excellent first line of defence to help members understand their options at retirement. Larger schemes are often supported by employer-sponsored financial education however, even the smallest schemes could offer members access to one-to-one financial guidance over the telephone in the months or even years before they access their pensions, as well as facilitating an introduction to a regulated financial adviser who has been through a due-diligence process. Thorough due-diligence processes include: sourcing a reputable firm and checking their regulatory record, speaking to other schemes or employers using their services, looking at member feedback and carrying out a site visit.

Receiving regulated financial advice can be invaluable to individuals planning for retirement as it provides them with a plan tailored to their needs and added consumer protection for the advice given to prevent them from making costly mistakes.

Ultimately, helping members to make informed decisions and supporting good member outcomes are central tenets of the regulatory framework in which DC trustees operate – and whilst the current regulatory requirements for DB schemes may differ, the principle does not. Good quality and timely financial education, one-to-one financial guidance and access to regulated financial advice are a far better path to achieving better outcomes at retirement than leaving members to go it alone.

Written by WEALTH at work director, Jonathan Watts-Lay

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