Better outcomes

Jonathan Watts-Lay considers how to improve retirement outcomes in the year ahead and beyond

The pandemic has clearly affected people's retirement plans in different ways. We carried out research into this and found that more than a fifth (22 per cent) of workers approaching retirement (age 50+) say it made them want to retire earlier and as soon as they can. Conversely, 13 per cent wanted to delay retirement because they realised they enjoy working. However, just over one in 10 (11 per cent) said that they've had to delay retirement as they can no longer afford to. A study by Fidelity suggests 38 per cent of people will put back retirement by around two and a half years.

Whilst this uncertainty can make retirement planning very challenging, what is clear is that pension scheme members are going to need more support than ever as they prepare how to take their retirement income. After all, a report that we produced with the Pensions Management Institute indicated that trustees have great concerns for their members in the run up to their retirement, and it's easy to see why.

Tax implications

In particular, the research found that nine out of 10 trustees (89 per cent) worry that their members will not understand the tax implications of accessing their pension. This may be because members don't necessarily realise the multiple tax considerations to be aware of.

For example, the Financial Conduct Authority (FCA) recently revealed in its *Retirement income market data 2020/21* that 341,404 pots were fully withdrawn in 2020/21. Whilst 108,869 of these were worth less than £10,000, 1,499 people fully withdrew pots worth more than £100,000. Unfortunately, this could mean that many will be paying more tax than needed, ultimately resulting in less income in retirement than what could have otherwise been achieved.

Making retirement savings last

Another concern identified by our survey was that six out of 10 (60 per cent) trustees fear their members will run out of money too soon in retirement. Withdrawal rates could be part of the problem and the FCA's data shows that many retirees continue to draw down their pots at rates of 8 per cent and over.

For example, 43 per cent of regular withdrawals were made at an annual rate of 8 per cent or more of the pot value in 2020/21, up from 42 per cent in 2019/20. Not only this, even fewer took advice than a year earlier. This could be a very risky strategy with many retirees finding themselves running out of money sooner than expected.

Coupled with this, many people live longer than they expect, and so members may underestimate how long they think their savings need to last. For example, The Institute for Fiscal Studies found that those in their 50s and 60s underestimate their chances of survival to age 75 by around 20 per cent, and to 85 by around 5 per cent to 10 per cent. This raises questions around not only what decisions members make at the point of retirement but also the future decisions as they progress through retirement.

Pension scams

Our survey also found that nearly all (94 per cent) of trustees are concerned about their members being scammed out of their savings. This is not surprising when we consider that more than £2 million has been reportedly lost to pension scammers between January and May 2021, according to Action Fraud. It also stated that during this period average losses totalled almost £51,000 which is more than double the average in 2020 (£23,689).

The new regulations that came into force in November, giving trustees and scheme managers the power to intervene and stop suspicious transfers, are really good news for pension savers and an important defence against scammers. However, whilst it might be an effective measure to help prevent pension transfer scams, there is still the issue of members needing a clear understanding of whether the pension transfer they are planning to make is suitable.

Furthermore, it's noteworthy that whilst The Pensions Regulator recognises that not every pension scam can be prevented, it does ask trustees, providers and administrators to pledge to do more to protect scheme members and follow the principles of the Pension Scams Industry Group Code of Good Practice, which is based on three key principles, including raising awareness of pension scams for members and beneficiaries, having robust processes for assessing whether a scheme may be operating as part of a scam, and being aware of the known current scam strategies.

DB pension transfers

The FCA's latest retirement income market data shows that there were over 30,000 defined benefit (DB) to defined contribution (DC) transfers during 2020/21. Our survey found that this is an area of great concern for trustees, with 80 per cent of them having worries about members not understanding the risks around transferring out. This isn't surprising given that XPS Pension Group reported that in November 2021, half of prospective transfers showed one or more warning signs of a potential scam or likelihood of poor member outcomes. Ensuring access to appropriate advice is key, which is of course a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

What role do employers and trustees play?

Trustees and employers play a key role in ensuring members make informed choices concerning their pensions. This includes providing financial education and guidance as it can help members understand their options and what red flags to look out for. It can also help them to decide if they would like further support such as regulated financial advice.

There is currently no legal obligation to provide access to regulated financial advice to members and for a long time there has been a concern that it carries risk. However, a discussion paper from Eversheds Sutherland and Royal London suggests that this theory only looks at 'the risk of doing something and not at the risk of doing nothing'. It highlights that simply referring members to a list of advisers for them to choose from can lead to significantly poor member outcomes and therefore member distrust. In some cases, this can result in reputational damage as seen with British Steel.

It seems that this way of thinking is now becoming common place as on a positive note, our survey found that retirement support provision is on the up, with 49 per cent of trustees providing financial education (3 per cent in 2019), 46 per cent providing financial guidance (28 per cent in 2019) and 3 per cent providing facilitation to regulated advice for members at retirement (21 per cent in 2019).

Carrying out due diligence on providers can make the process far more robust. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. This can help members understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam. Due diligence on regulated advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process eg compliance checks on 100 per cent of cases, pricing structure, and experience of working with employers and trustees. The responsibility for the regulated financial advice given to members, and the consequences of that, will then rest with the chosen provider and not the trustee or employer.

Retirement planning is a specialist topic that many understandably don't have the skillset for. Ultimately, ensuring robust processes and providing members with access to appropriate support before they access their pensions, will lead to better outcomes for all in the year ahead and beyond.

Written by Wealth at Work director, Jonathan Watts-Lay

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