Supporting members to take the right course of action

Jonathan Watts-Lay looks at the challenges members may face in the year ahead, including the continuing pressure from rising costs and how this may impact pension savings, as well as the key considerations for members approaching retirement. With this in mind, he also outlines how schemes, trustees and employers can help members take the right course of action to optimise their retirement outcomes

Many households have faced severe financial pressures from rising costs over recent times. Yet, as we look to the year ahead, whilst inflation is expected to gradually continue falling, it seems that the strain on household budgets is set to continue for some time. In fact, our latest financial wellbeing research[1] found that employers are expecting financial pressures such as high childcare costs (64%), rental costs (66%) high consumer inflation (75%), and energy prices (77%) will continue to be a risk to the financial wellbeing of employees.

Increasing costs have meant for some that making regular contributions into a pension pot has become more of a challenge. Our research last April[2] showed that 13% of working adults had reduced or stopped pension savings because of rising costs. Yet more worryingly, 29% said that they may consider stopping payments in the future, while 30% said that they may consider reducing future payments.

The current environment is also causing disruption to the retirement plans of many, with our research finding that 33% of working adults thought that they won't ever be able to afford to retire. Not only this, 83% were concerned that the cost of-living crisis meant that they would have to work longer before retiring.

There are also others who are considering dipping into their pensions early to alleviate current financial pressures. Our research found that 31% of those eligible to withdraw pension savings, either intend to or may consider doing so in the future to supplement their income. However, this really should be a last resort and members must understand the dramatic impact this will have on their retirement savings to be used in later life.

However, as the year continues, those involved in the pensions industry will need to closely monitor member behaviour to see what the longer-term impact of rising costs may have on pensions.

What do members need to know?

It's important that members understand how their pension schemes work, what they should be contributing, what funds they should be selecting, and ultimately, what size of pot they need or want when they get to the point of retirement.

Then once at-retirement, people need to understand the options available to them for creating retirement income from pensions they have accumulated, as well as other savings such as ISAs or other investments. Understanding what their state pension will be and when they will receive it is also crucial.

There are common pension mistakes that members could make as they approach retirement, and it's important they understand these so that steps can be taken to avoid them. This includes withdrawing savings from a pension too early, or if a member's pension investments or 'glide path' isn't in line with their planned method of generating a retirement income, as well as not shopping around for product providers to get the best deal.

In addition, as many individuals will have more than one pension (not forgetting other available savings and investments such as ISAs or shares), it's important that they are looked at holistically to avoid paying more tax than necessary. Those with multiple pensions may also be better off consolidating their pensions to ensure a joined-up investment strategy.

There is also a real risk that people either underspend or overspend by underestimating or overestimating life expectancy, and devastatingly, that they lose their pension savings to scams. It's estimated that £2.5 trillion worth of pension wealth in the UK is 'accessible' to fraudsters, which represents a 'huge target base for criminals'.

For many, the decisions that are made at-retirement may be the biggest financial decision they make in their lives and as these pension pitfalls show, it could so easily go wrong. Yet our research showed that 51% of employees either spoke to family and friends or no one at all when getting support with their pension. This highlights the need to ensure members are guided by reliable sources.

What should be done?

It's exceptionally important that schemes, trustees and employers collectively work together to ensure that pension scheme members and employees are making the right decisions when it comes to their pensions.

Firstly, supporting individuals with their day-to-day needs, especially in the current environment, should be an area of focus. This should sit alongside support around longer-term needs such as pensions and retirement savings. Offering financial wellbeing programmes that help with a full range of money matters from debt and money management to preparing for retirement can really help. Many leading companies now deliver this sort of support through financial education workshops, one-to-one guidance or coaching sessions, digital tools and helplines, as well as providing access to regulated financial advice.

In fact, when it comes to retirement provision, the good news is that employers are viewing the ageing workforce as increasingly important, with 29% citing that it will be a driver of financial wellbeing strategy over the next two years. 44% say that they plan to offer targeted support for the over 55s during the same period – which has grown from 17% and represents a 159% increase in the past two years. Specifically, pre-retirement planning is set for a boost with 68% of employers either currently offering it or planning to do so.

But before proceeding with a programme, carrying out due diligence on providers is crucial. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. Due diligence on regulated advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process e.g. compliance checks of 100% of cases, pricing structure, and experience of working with employers and trustees.

Ultimately, empowering members by providing them with access to appropriate support at the right time can improve financial capability and resilience. This can help members to navigate any challenges that may lie ahead which should result in better retirement outcomes for all.

Written by WEALTH at work director, Jonathan Watts-Lay

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[1] The REBA and WEALTH at work Employee Financial Wellbeing Survey 2023 was carried out online between March and May 2023 and was launched on 26 September 2023. Responses were received from 195 wellbeing, HR and employee benefits specialists working at organisations representing over 1.5 million employees

[2] Are rising costs impacting pension savings and retirement plans? The research for WEALTH at work was carried out throughout April 2023 amongst a panel resulting in 2,025 UK adults aged 22+ in full time employment responding