An important engagement

Jonathan Watts-Lay explains why pension engagement is crucial for prosperity in retirement

Many employees face financial worries at one time or another during their lives, and concerns over retirement can be a big part of this. In fact, our research found that 32 per cent of working adults worry about being unable to afford to retire when they want, and 41 per cent know they are not saving enough for a comfortable retirement.

Employees are often ill-prepared for the complex challenges that lie ahead as they approach retirement and many struggle to understand essential information such as tax, inflation risk or how investments and retirement income products even work. Our research found that these issues are a great concern for trustees with 89 per cent worrying that their pension scheme members don't understand the tax implications of accessing their pension and 70 per cent are concerned about a lack of engagement with members at retirement.

It is imperative that employees understand their pensions throughout their working life, as well as understanding the choices that are to be made at the point of which they wish to retire.

So, what can be done?

It's clear that early pensions engagement is crucial for prosperity in retirement. Many workplaces now provide interventions through financial wellbeing programmes that include financial education and guidance which can be segmented by career stage:

Early-career – getting in the savings habit: Auto-enrolment has helped enormously to ensure people are contributing to pensions. However, support is needed to understand what level of income this may generate in retirement and whether contribution levels should be increased – perhaps with additional contributions from the employer. This can be difficult when the monthly budget is tight so broader money management issues may need to be considered too.

Mid-career – staying on course: A mid-career 'financial MOT' can help people to see if their pensions and other retirement savings are on target, and what to do if they're not. Topics can include reviewing financial goals as well as starting to understand how income may be generated in retirement and ensuring investments are being managed in line with this e.g. an investment glide path to cash and bonds is probably not appropriate if wishing to go into drawdown.

Pre-retirement – retiring well: In the years before retirement, support should be provided to help with planning for retirement and understanding retirement income options, clearing debt and maximising pension benefits and other savings in a tax efficient way. Then, around a year or two before retirement, people may also need help to implement their plan including thinking about their retirement goals, how to generate retirement income, understanding the risks, tax planning and how to seek further guidance and regulated financial advice.

We find that individuals who access such programmes emerge more confident, knowledgeable and more able to make informed decisions about their retirement; it has been no surprise to see significant numbers of members taking action and changing their retirement plans, increasing pension contributions and seeking out regulated advice as a result. For example, we find that about 80 per cent of seminar attendees request a callback for further guidance or advice following a retirement financial education session.

But what's the best way to do it?

Whilst companies may provide some information via a website or leaflet, actually having someone to speak to about their pension savings and retirement income options is far more engaging. In fact, some of the UK's leading employers are using either virtual or face-to-face seminars to help their employees. A number of other methods are also available to support staff depending on their preferred learning style and work environment such as interactive tools, videos and animations, and an online 'Financial Healthcheck' covering areas such as understanding savings options including pensions, and the income options at retirement.

Additionally, one-on-one guidance or financial coaching sessions could be delivered via a video call or via the telephone, which are particularly useful for those at retirement as it helps people gain a deeper level of knowledge around their options. This provision can also help employees to decide if they would like further support such as regulated financial advice.

It is vital that employers take steps to help their workforce take control of their finances, especially when it comes to securing financial security in retirement. This should lead to better outcomes for all.

Written by WEALTH at work director, Jonathan Watts-Lay