

Lack of support around pension transfers

✓ **Jonathan Watts-Lay discusses how the lack of support around pension transfers is posing a real threat to employees**



The flexibility to withdraw pension income as and when needed has seen an increasing number of employees and members wanting to transfer their defined benefit (DB) scheme into something more accessible.

For example, 83 per cent¹ of UK advisers reported an increase in the demand for pension transfers in the past 12 months and the latest figures from The Pensions Regulator reveal that an estimated 80,000 people transferred out of their DB scheme between April 2016 and March 2017, with numbers expected to rise in the future.

This surge is also thought to be down to the very high transfer values being offered, with reports of forty times the annual income, or even higher.

For example, being offered a £800,000 lump sum as opposed to £20,000 a year in retirement (40 times) is very tempting, but what many employees and members don't realise is that it carries risk and isn't always going to equate to a good deal.

Even though financial advice must be sought to transfer a DB pension if its value is £30,000 or above, there is

no requirement to take ongoing advice once the transfer has been made, which is posing a real threat to employees and members. This is because there are no guarantees that future income needs will be met, unless the transferred money is managed well, and by transferring out the member takes on all of the future risk associated with managing the pension such as longevity, inflation, tax and investment risk.

The numbers who suffer these risks are likely to be exacerbated by employees and members with transfer values of less than £30,000, as they don't need to take advice on the initial transfer or on how to manage the money going forward. As we know there is a general reluctance for individuals to take financial advice, with over a fifth² (22 per cent) of employees aged over 55 stating that they don't need it at-retirement and so we can surmise that the majority of these members will act without first seeking an adviser's support.

But findings show that when individuals choose to take their DC pensions without financial advice, many are leaving themselves open to

costly mistakes. For example, according to the Financial Conduct Authority's (FCA) interim findings of its Retirement Outcomes Review, 53 per cent of individuals who accessed their DC pensions chose to withdraw their entire fund; with over half of these funds (52 per cent) simply then being transferred into other taxable savings or investments.

This isn't the only concern. Findings indicate that pension scams are rife with reports of potential scam activity behind 1 in 12³ of pension transfer requests. Furthermore, between April and June this year, almost a fifth (18 per cent)⁴ of individuals over the age of 50 were reportedly targeted by potential scammers offering unsolicited pension advice or investment opportunities.

It may seem understandable why so many are racing to cash in their pensions to 'take control of their own finances' but without the right guidance or ongoing support, we are likely to see a great number of employees and members making poor decisions, including paying too much tax or 'investing' in cash at net negative rates, ultimately resulting in reduced income at-retirement.

It's clear that the pensions industry therefore needs to work together with employers to ensure that employees are receiving appropriate and timely guidance and support around the decisions faced at-retirement.

Employers are perfectly placed to provide their employees with access to a breadth of services including financial education, guidance and advice from industry experts who can help drive informed decisions that cut through the hype and actually make retirement savings stretch further.



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In association with



¹ Old Mutual International adviser survey, May 2017

² Capita, Pensions and Retirement Employee Insight Series, 2017

³ Xfinity Group, September 2017

⁴ Censuswide, June 2017