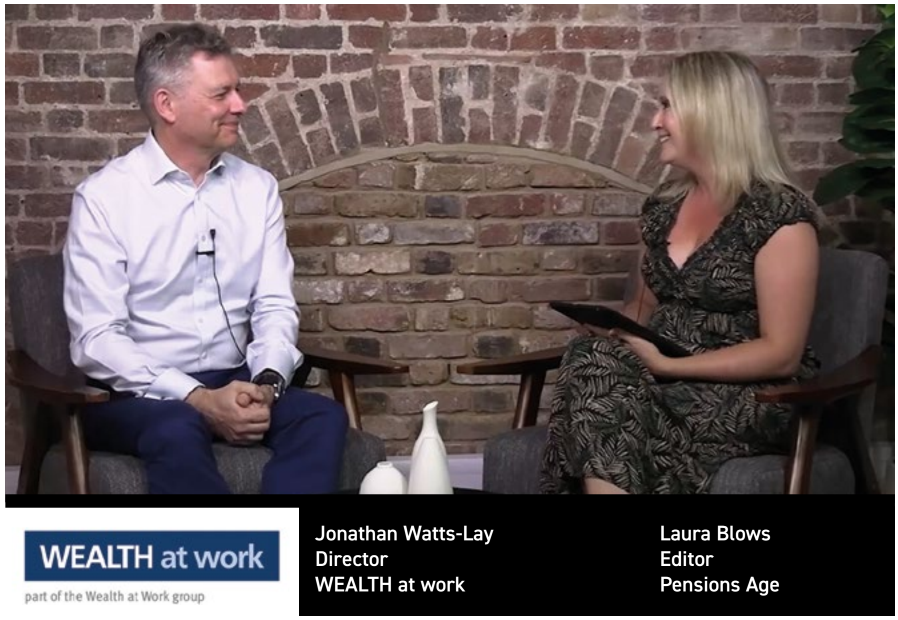
Supporting retirement decisions

Laura Blows discusses retirement saving levels in the UK, and the support required for members, trustees and employers, with Wealth at Work director, Jonathan Watts-Lay



The latest Retirement Living Standards help to illustrate the gap between what people may like to have when they retire and what their current saving levels may actually deliver for them. How would you describe the current level of savings and why there may be that gap?

I think one of the key reasons is the cost-of-living crisis, which is still going on and seems to have been with us for many years now. It's quite difficult for people to save more, even if there's an opportunity to receive matched contributions from their employer, if they're struggling to meet weekly or monthly household bills.

Of course, we've also got the other side of the coin, which is auto-enrolment. Auto-enrolment is still at 8 per cent, which I think most people in the industry would say is not really enough and needs to be higher. People who are saving that 8 per cent are doing a great job, but it's never really going to deliver the standard of living that perhaps people would want or expect.

A lot of the work we do is around helping people manage their monthly budget, the things they can they do to free up money.

It's about moving away from the notion that pensions should only be considered in the context of pensions, and instead thinking about pensions within the broader context of monthly budgeting.

Recent research from Wealth at Work found that 38 per cent of employees fear they may never actually get to retire. But on the flip side, many were also confident that the amount they are saving is enough. What do you think that says about engagement with pensions?

The problem now is, as you say, this polarisation. Some people think they'll never retire, while others think they've got plenty of money.

But have they really got plenty of money? Or do they simply not understand what that pension pot is actually likely to provide as an income in retirement?

We often see people with, let's say, £100,000 in a pension. That feels like a large amount of money, particularly relative to what they earn, so they think, "I'm fine for retirement". But as soon as you explain what that amount is likely to provide as a monthly income, they suddenly say: "Hold on a minute, that doesn't sound like much at all." That's why engagement is so important.

It's unfortunate that so much of the industry has decided it's simply too difficult.

When we engage members, the comment we hear most often is: "Why has nobody ever taught me this before?" For many employers and pension schemes, that's frustrating because they'll say: "We've got a website and all the information is on there." But that doesn't engage people.

One of the questions the industry has to ask itself is how we change the approach so that people actually engage, because it can be done.

I know you've spoken before about the risk of people simply sleepwalking into retirement decisions that may not be right for their circumstances. Engagement clearly has an important role in helping to minimise that risk. What do you think needs to be done to avoid it?

I think many people do end up sleepwalking into decisions because they reach the point where they can access their pension – they might not even be retiring – and they don't really know what to do.

The one thing we do know, from both our own research and other studies, is that people almost always know about tax-free cash. They may get the percentage wrong, but they understand the concept.

Then you get people saying: "Right, I'm just going to take that money", often because they're influenced by headlines about pensions and negative stories.

It has become even more complicated because there are now far more pension pots following the introduction of auto-enrolment. People receive different messages from different providers, who all explain things in different ways, which makes things even more confusing.

The Pension Schemes Act has also helped to accelerate the discussion around the need for guided retirement. I believe your research with the PPI also looked into this, and you advocated for guided retirement to be an ongoing process rather than a one-off conversation or decision. How can that actually happen? How can trustees and employers make member communication and guidance more of an ongoing process?

At a high level, while it's good that there may be retirement defaults for people, if you go back to the proliferation of pension pots people may have and different schemes having different defaults, on what basis is that individual being defaulted? They may also have ISA savings, and they may want to take into account other assets, including those held by their spouse.

These are exactly the kinds of issues that come up during our guidance calls. Unless you have some personal interaction, you can imagine that the downside of these defaults could ultimately be what I describe as 'spaghetti'. In other words, you've got different pension schemes guiding people in different directions because there isn't a single, holistic picture.

We've already seen this with some of the larger schemes. We've already got one major scheme signed up and another that's about to sign up. They're recognising that people are going to need to speak to someone in order to make the right decisions. Otherwise, people will simply end up with the default provided by each scheme, without ever looking at all of their assets, retirement objectives and goals together.

At Wealth at Work, you don't just talk about these issues, you also help implement solutions, for instance through your guided retirement service. When you were creating that service, what issues were you hoping to address, and how can it actually help people?

When we developed the service, the key question was how much information and support can you give an individual without crossing the line into regulated advice?

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At a high level, the service takes people through a questionnaire. It asks about their pensions, and the retirement benefits available within those schemes.

The questionnaire also asks about other assets, retirement goals, the age they want to retire, their current age, the level of income they hope to generate, and whether those retirement goals are achievable based on the assets they have.

The aim is then to produce a report that provides a clear overview of their situation. It doesn't provide recommendations, because if it did, it would become regulated advice. Instead, it simply presents their position in an easy-to-understand report so they can clearly see where they stand. We present these graphically in a table, highlighting the advantages and disadvantages of each default and each available benefit.

People can then consider those options in the context of whether they're thinking about drawdown, taking tax-free cash, buying an annuity, or using some form of hybrid approach.

The aim is for people to make more informed decisions about the default options available across their pension schemes because, for most people, there won't be just one scheme.

How do you see the landscape developing as we become more familiar with providing these services?

One of the things we need to remember about the guidance duty is that, for those of us who remember the period before the pension freedoms, people would often simply default into the annuity offered by their pension provider.

I'm sure we all remember the Financial Conduct Authority saying that people needed to shop around because they were losing significant value and retirement income by simply accepting the default option.

One of the issues we face now, and one that the schemes we're speaking to recognise, is that we could end up in a very similar situation with the guidance duty.

People may simply say: "I'm not going to do anything", and end up accepting whatever default retirement option their scheme offers, without realising they could have obtained the same type of solution elsewhere on better terms.

That's why it's so important that schemes understand this, employers understand it, and, most importantly, members understand it. I think that will encourage more and more schemes and employers to recognise that they need to put the right support in place. Otherwise, we'll end up with a sense of déjà vu. I can imagine people saying in five years' time, "no one is shopping around, and they're ending up with poor-value retirement solutions again".

This is an edited summary.
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