

Survey results 2019

overcoming the risks at-retirement.



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Jonathan Watts-Lay
Director, WEALTH at work

Pension scheme members nearing retirement face some unique challenges. For many, their pensions will represent the largest sum of money they will have ever had access to, indeed their most valuable asset - even more valuable than their home. The retirement income options open to each member can confuse and bewilder even the savviest person.

Defined contribution pension scheme members now face an array of risks such as - will their savings last the duration of retirement? How do they manage market volatility? What is a safe rate of withdrawal? What is the impact of inflation? And so on! As our survey shows, Trustees have concerns that their members' money will not last their entire life in retirement.

These risks also equally affect defined benefit (DB) members who are considering transferring their pension which provides a guaranteed income for life, for an alternative form of income which is unlikely to match that security. Indeed, the majority of Trustees in our survey have concerns on the risks their members face if they transfer out of DB schemes.

Another key finding of our research is that a significant majority of Trustees fear their members nearing retirement will face predatory attention from scammers. This comes as no surprise when we consider the scale of the problem.

Taxation is another minefield with most Trustees believing members are not equipped to deal with the taxation implications of accessing their pensions, which unfortunately could result in many paying tax when it could be avoided, and consequently losing out on valuable retirement income.

Our report suggests that all these risks could be mitigated by providing more support for members at-retirement which includes offering financial education, guidance and access to regulated advice, as well as helping members to implement their chosen retirement income option(s). An increasing number of Trustees are now turning to specialist retirement service providers to help their members navigate the maze of options at-retirement.

After all, providing support for pension scheme members is vital if they are to optimise their income and achieve good outcomes in later life.



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Freedom and choice in pensions has presented challenges and opportunities for both Trustees and pension's scheme members alike. Consequently, as this research shows, Trustees have many concerns for their pension scheme members who are at the point of accessing their retirement savings.

It's evident that members are at great risk of pension scams. Coupled with this there are concerns that members don't understand the risks around defined benefit pension transfers. We have seen examples of poor practice around this. For example, the FCA carried out a review into the quality of pension transfer advice given to members and found that of the cases it reviewed, less than half (48%) of the advice given was suitable, meaning that most of these pension transfers shouldn't have gone ahead.

A lack of understanding around tax issues at-retirement was also a concern Trustees have for their members. Individuals do not necessarily understand the impact of tax regulation on their retirement saving so many will need support around this.

Trustees are now increasingly considering putting in place formalised retirement processes to help their members understand all these issues and to prevent them from making costly mistakes at-retirement. As the report suggests, this could include financial education and guidance to help members understand all of the various options at-retirement, as well as what the risks of each of these may be. Offering members access to regulated advice and a means of implementing their retirement income option(s) is also a great way to help members access reputable providers - rather than leaving them in dark.



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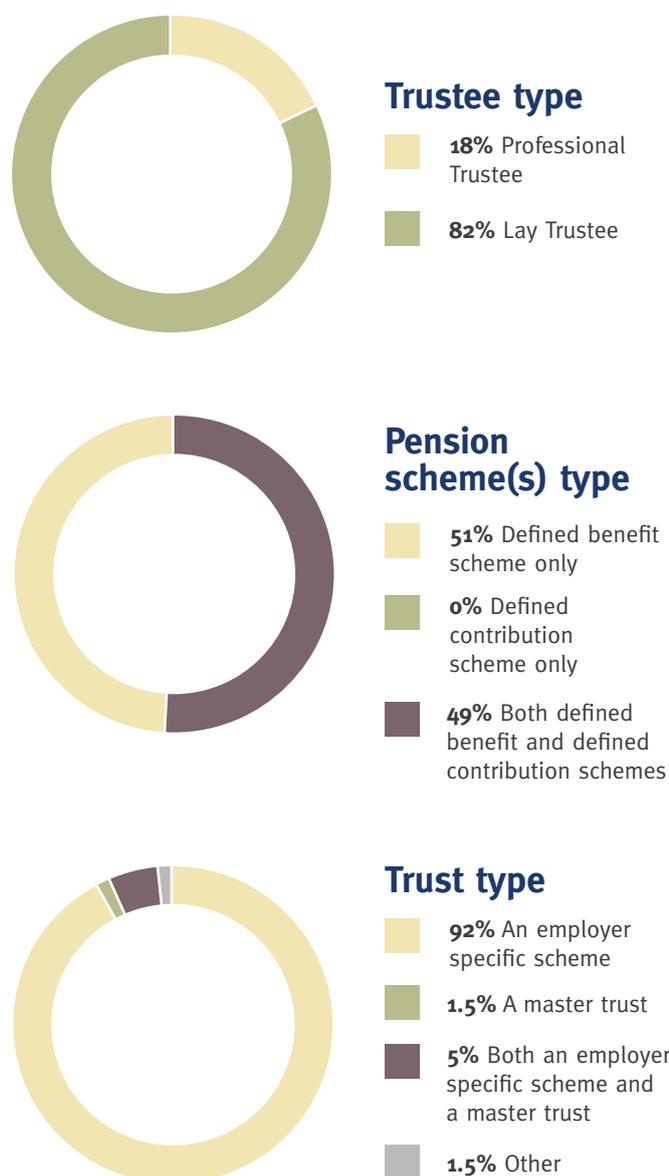
introduction.

About the survey

Freedom and choice in pensions revolutionised the world of retirement income and gave individuals greater control over their retirement plans – but with this comes increased risk and responsibility for all.

With this in mind, WEALTH at work conducted a survey with PMI to investigate what Trustees are doing to support pension scheme members as they make decisions to access their retirement savings.

The survey received 65 responses from a range of Trustees which were completed online and via paper over 4 months from December 2018 until March 2019. Figures have been rounded to the nearest whole number or to one decimal place where appropriate.



Key findings

85% of Trustees have concerns on the risks their members face if they transfer out of their defined benefit schemes.

88% of Trustees fear their members nearing retirement will face predatory attention from scammers.

81% of Trustees believe members are not equipped to deal with the taxation implications of accessing their pension.

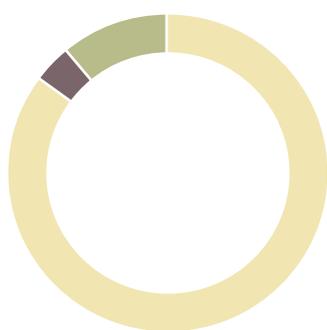
63% of Trustees worry about a lack of engagement from their members.

60% of Trustees are concerned that their members' money will not last the duration of their retirement.

part 1: concerns and risks.

Trustees were asked to indicate if they agree, disagree or remain neutral on the following statements:

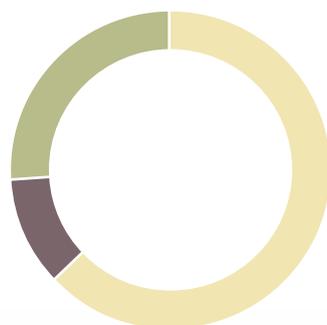
I am concerned about members not understanding the risks around transferring out of their defined benefit pension scheme



85% Agree 4% Disagree 11% Neutral

High transfer values continue to entice members to leave defined benefit (DB) schemes. Assessing whether it is right to transfer is highly complex with multiple risks to consider around how to manage the money once transferred including: market volatility, inflation and taxation issues and running out of money too soon. The decision once taken is irrevocable. In this climate, it is not surprising to see that nearly nine out of ten Trustees (85%) have concerns on DB transfer risks.

I am concerned about the impact of a lack of engagement with members



63% Agree 11% Disagree 26% Neutral

Nearly two thirds (63%) of Trustees are concerned about the impact of a lack of engagement with members. Members of pension schemes now face a complex array of options at-retirement, so many could be at risk of making poor decisions unless more support is provided.

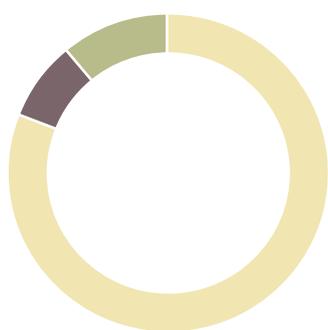
I am concerned that members will run out of money too soon in retirement



60% Agree 9% Disagree 31% Neutral

Most Trustees (60%) worry that their members' pension pots will not last the duration of retirement, which could result in financial difficulties at-retirement. This may be due to a number of reasons including concerns over members making poor decisions at-retirement, not saving enough during their working life, or underestimating how long they will live in retirement. Research has found that most individuals live longer than expected, so members will need to understand this as part of their retirement plans. 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% and to 85 by around 5% to 10%.

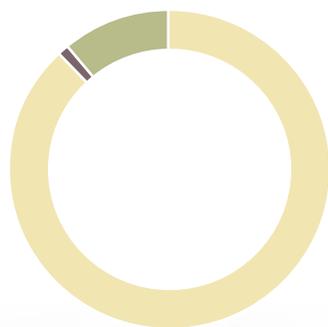
I am concerned about members not understanding the tax implications of accessing their pension



81% Agree 8% Disagree 11% Neutral

Eight out of ten Trustees (81%) have taxation fears for their members at-retirement. There are a number of 'tax traps' that pension scheme members need to be aware of when accessing their retirement savings - all of which can have a material impact on income levels. These can include moving into a higher marginal income tax rate when cashing in DC pension pots, triggering the Money Purchase Annual Allowance, or losing out on the ability to pass on a pension inheritance completely free of tax.

I am concerned about members being scammed out of their retirement savings

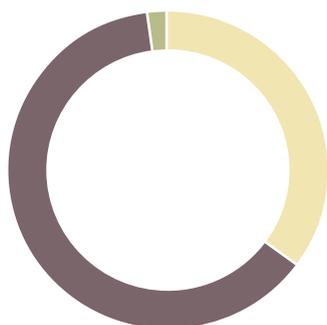


88% Agree 1% Disagree 11% Neutral

Our findings show that nearly nine out of ten Trustees (88%) have concerns over scams. This emphasises the huge problem fraud has become for pension scheme members and Trustees as well as for the regulators. A lifetime's savings can be lost in a moment with highly plausible fraudsters persuading members to move their retirement savings into unregulated high-risk or bogus investments that could result in them losing their entire pension. The amounts lost to pension scams can be significant with the FCA revealing that victims of pension fraud had lost £91,000 on average each, with some even losing more than £1 million to fraudsters. Pension scams also appear to be on the rise with a pension's consultancy firm reporting that potential scam activity had increased over recent years from 1 in 12 cases in 2017 to 1 in 8 cases in 2018.

part 2: member support.

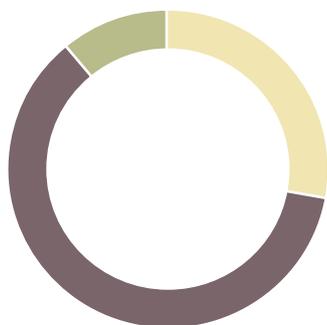
Do you provide or facilitate financial education for members at-retirement (e.g. seminars delivered to groups of members)?



35% Yes 63% No 2% Don't know

One third of Trustees (35%) provide financial education for their members. Financial education is an excellent first line of defence to help members understand their options at-retirement and avoid many of the risks Trustees are concerned with such as scams and tax mistakes.

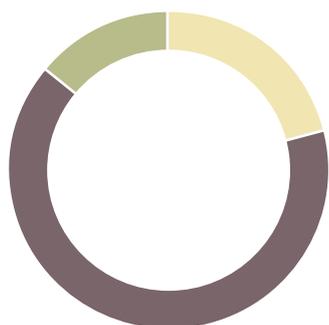
Do you provide or facilitate financial guidance for members at-retirement (e.g. one-to-one support to discuss options but not to make personal recommendations)?



28% Yes 61% No 11% Don't know

Disappointingly, nearly two-thirds (61%) of Trustees indicated that their schemes do not provide or facilitate financial one-to-one guidance for members at-retirement. This may be the last opportunity to help members to avoid making costly mistakes which could affect them for the rest of their life. Whilst signposting to free and impartial services like the Government's Pension Wise is a legal requirement for DC scheme Trustees, those with DB pension savings don't have the same requirement.

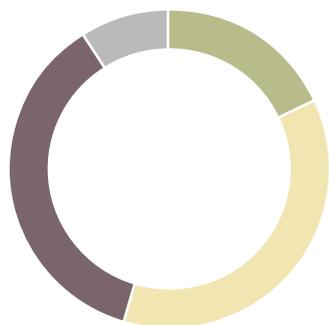
Do you provide or facilitate regulated advice for members at-retirement (e.g. when a personal recommendation is provided)?



21% Yes 65% No 14% Don't know

Just one in five (21%) Trustees are providing or facilitating regulated advice for their member's at-retirement. Studies have shown that those who take financial advice are more likely to increase their wealth than those who do not. For example, the International Longevity Centre revealed that those who receive financial advice are on average £40,000 better off than those who don't. As well as providing individuals with a plan tailored to their needs, regulated advice can also provide members with added consumer protection for the advice given and can prevent them from making costly mistakes.

What external services, if any, do you offer members in a DC scheme access to, in order to help them implement their chosen retirement income option?*



0% An income drawdown service only 36.5% An income drawdown and annuity broking service
 18% An annuity broking service only 9% Don't know
 36.5% None

**These results represent the responses from 33 survey participants as the remaining survey population answered 'not relevant'.*

Our research shows that over a third (36.5 %) of Trustees are offering an income drawdown and annuity broking service to help their members to implement their chosen retirement income option; whilst an equal amount (36.5%) do not offer their members access to any form of external support services. Offering this is an efficient way for schemes to help their members access reputable providers who have undergone due diligence, rather than leaving them to go it alone. It is of concern that some schemes are offering 'annuity only' as this may influence the member into an annuity when it may not be the best choice for them.



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