More DC choice calls for more guidance

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Radical changes to the retirement options for members of DC pension schemes have heightened the importance of employers offering quality financial education, says **Jonathan Watts-Lay**

The 2014 Budget changed the face of retirement options for members of defined contribution (DC) pension schemes, with perhaps the most radical pension proposals of our lifetime.

The changes have far-reaching consequences for employers, employees and pension trustees alike and introduce a level of flexibility and choice in a way that DC pension schemes have not previously seen.

It is proposed that from April 2015, there will be no restrictions on how savings from DC pension schemes can be taken from age 55, rising to 57 in 2028 when the state pension will be 67. Of course, other than tax-free cash allowances, it will still be treated as income however it is taken, and marginal rates of tax will apply.

Before then, and until the Finance Act receives Royal Assent, interim changes to pension regulations are already in force, which affect the choices individuals have, giving them more to consider.

Those that want to purchase an annuity or take income drawdown will still be able to do so. However, the ability to take entire DC pension funds as a cash payment from next year brings more complexity and risk to the decision-making process.

Removing restrictions

Removing the majority of restrictions for pension savings, and the compulsion to purchase an annuity for DC members has made room for a new compulsion: for providers and trustees of occupational DC schemes to provide a 'guidance guarantee' for pension savers when they come to retirement, supporting and encouraging them to make informed decisions that best suit their individual needs.

This will have a significant impact on what pension savers actually do with their money and how employers, pension scheme providers and pension trustees help them make wise decisions that last throughout their retirement.

The proposals detailed in the Treasury's consultation document *Freedom and Choice in Pensions*, published in March, outline a future where flexibility and choice is available to all DC pension savers over the age of 55, but they also recognise that with freedom and flexibility comes additional complexity and that offering choice alone is not enough.

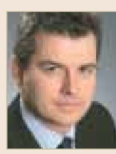
While there is much to consult upon before the rules around this are agreed and pass into law, it is clearly outlined that this guidance will be free and impartial and will include the right to face-to-face guidance with an expectation that individuals will then be able to make confident and informed decisions.

DC code of conduct

Before the Budget, in November last year, and in recognition of the need to provide more support and guidance to employees in the lead-up to retirement, The Pensions Regulator issued a new DC code of conduct and supporting guidance outlining a blueprint for trustees to provide a retirement journey that would result in better retirement outcomes for employees. Providing financial education about retirement options and access to guidance and advice at the point of retirement were central to this.

In our many years' experience, we believe that delivering financial education, guidance and advice to employees in the lead-up to retirement is essential and we welcome the new proposals. But giving employees more choice and flexibility is just the first step. Employers now need to ensure there is greater understanding and that employees are making informed decisions.

By ensuring staff go through a process of learning and are properly guided to make good financial choices, we should eradicate much of the confusion that many seem to have, leading to a more prosperous life in retirement.



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