

# I know the questions but what are the answers?

1. What are my options and what are the advantages and disadvantages of each?
2. What is right for me given my personal circumstances?
3. How do I implement my chosen option(s)

Three key questions individuals will ask when it comes to the new retirement income options include:

1. What are my options and what are the advantages and disadvantages of each?
2. What is right for me given my personal circumstances?
3. How do I implement my chosen option(s)?

The answers to these questions start with financial education, not exams.

By now there can be few alumni of the professional pensions fraternity that haven't studied the detail, such as it is, of the pension changes announced in March. We have considered the potential impact of what the pensions industry currently provides for scheme members. Most that I have spoken to since the Chancellor took us all by surprise have strong views about the consequences for scheme members of freedom and choice in pensions, particularly when it comes to the (unintended) taxation outcomes of their decision making at the point of retirement.

As April fast approaches, I have spoken to many employers about their plans to deal with the challenges that the changes will bring.

Unsurprisingly a lack of preparedness is evident with many only at the very early stages of working out what, if anything they will do; after all there is no compulsion to do very much at all.

Whilst this may be true for employers and schemes in the short-term, for those retiring from April or who have been deferring decisions to access funds until then it is not. There is the need to understand the options and consequences that freedom and choice brings now. This greater flexibility to decide how to take income from pension savings may be good news for pension savers, but without the right financial education and advice, they will be left vulnerable to making poor decisions.

## How so?

I'd liken making retirement income choices to taking an exam. There are a number of questions that need answering and usually a finite number of answers to those questions.

We think there are three main questions: What do I need to know? What is right for me? How do I do it once I know what is right for me?

BB (Before Budget) the traditional options for defined contribution (DC) retirees were an annuity or an income drawdown plan.

AB (After the Budget) the new options will be an annuity or income drawdown plan or a combination of both.

Come April, drawdown is open to all and restrictions on triviality are being removed. As a result many scheme members will need to understand a set of risks and answer questions they previously have not been examined on. These include: 'How long do you need your income for?' (longevity risk), 'How much income do you want to take now and do you want it to keep its buying power?' (income risk) and 'Where do you want to keep your pension money after you retire?' (investment risk).

Perhaps the best way of thinking about this exam is to consider a multi choice question; BB it might have had four answers, one of which was right.

In the AB world we have six answers, all of which are right but at different times.

## So the exams have just got harder

We're all used to taking exams, either at school or college or in our professional lives. We're all used to exams being made more difficult to make sure they are not too easy to pass and to protect the value of grades. We're all used to studying to pass those exams with the support of professional educators. When we find a subject difficult there's a revision class or additional support available. Just now my ▶



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youngest son is studying for his GCSEs. As well as his normal lessons there are extra-curricular sessions during lunch hours, 'night owl' classes after the school day, on-line support and specialist tutors to improve his chances of answering the questions he is asked to the best of his ability.

Schools and professional bodies like the PMI recognise that exams are pretty hard and a long term and structured programme of education will deliver the best results.

At the same time there is a get out clause in our exam structures known as re-sits. So if you have had to resort to cramming because you didn't get the structured education needed then phew, you can take a re-sit.

Unfortunately this isn't often the case when our pension scheme members take their retirement income exams. If they don't understand the question properly and pick the wrong answer it can be impossible to change. This was and is true of annuity purchase; right for many people BB and AB but wrong for possibly just as many, especially by type and timing.

### **Are our scheme members and employees ready for these exams?**

Each year we carry out a retirement income options survey and publish the result; it's completed by HR, reward and pension management professionals and we ask a number of questions to find out what those professionals think their employees understand about their options and what support they give to employees preparing to take their retirement benefits.

This year's results are generally in keeping with previous years when it comes to grading the level of knowledge they believe employees have when it comes to retirement income options and retirement planning.

At best I would say this is D. It's no surprise that only 15% of respondents believe employees are saving enough. I think it's a commonly held view that not enough saving is taking place. At the same time less than a quarter think employees understand what income their own pension scheme will give them and whilst nearly 90% of those surveyed think professional retirement planning including financial education is really

important, nearly 60% didn't think or didn't know if their employees would know where to go to get advice.

This is important because more than 50% did not think their employees knew what retirement income options solutions were available or knew the pros and cons of the various options.

The changes we are all grappling with add more layers of complexity and challenge to an already difficult exam. As well as defined benefit (DB)/DC/annuity/drawdown, we have additional risks to think about including shapes of income, new taxation rules and HMRC requirements.

To help with this added complexity the Government announced the Guidance Guarantee. In principle this is a good idea but as a stand-alone option at the point of retirement it just won't help me get my pass rates up.

It is going to cover retirement options - like annuity and drawdown and debt management and long-term care and consumer risk of DIY retirement planning and...and on it seems to go.

If anything this is too much too late rather than too little too late. It is likely to make the nervous exam taker realise they should have done a bit more revision than just the night before.

For it to be useful it needs to be the last step of an education journey that starts years before in the workplace. Rather like a helpful tutor covering the key revision points over time rather than the crammer trying to force it all in last minute.

A financial education journey, as envisioned by the Pensions Regulator in their DC guidance, would give the retirement student coursework and homework long before the final exam. This would help them understand the complexity of the options available. By listening to specialist retirement tutors and being guided to regulated advisers, more suitable decisions can be made and the right answers given to that complicated final exam.

Whilst this tuition is taking place we should find room for a little extra curricular maths to help people really understand the value of advice over doing it oneself. If you're happy to pay 2% of that DC fund to a broker to source an annuity, surely you'd be happy to spend the same amount asking a regulated adviser to tell you what the correct answer is.

Unlike your GCSEs, you can't re-sit retirement. ■