



do your
employees
need to
rethink
retirement?

our survey
results.

WEALTH at work

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The decision an employee makes at retirement is increasingly turning into the biggest financial decision of their lives. Combined with various legislative changes, employees should now rethink their retirement.

The removal of the default retirement age and the removal of the effective requirement to buy an annuity, together with revised drawdown pension options, mean that the provision of financial education and access to specialist advice is more important than ever - especially if employees are to make appropriate decisions in relation to their retirement.

This study sought to determine the approaches and opinions of a range of UK companies in responding to these issues. I would like to thank the many clients and contacts who contributed to our survey, and I hope you find the results to be interesting and informative. I would very much welcome your feedback in relation to any of the issues raised.

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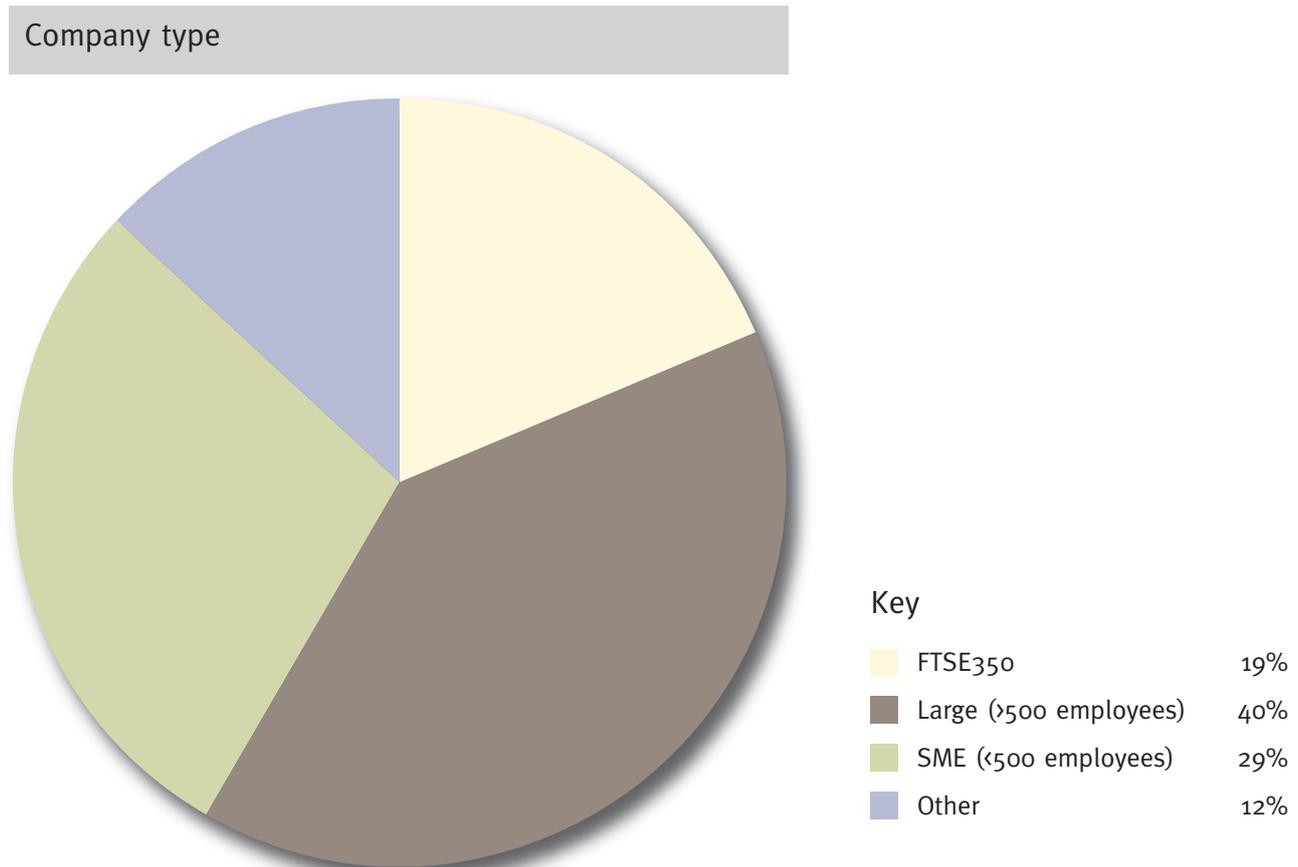


Jonathan Watts-Lay

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aims of the survey.

With the various pension changes introduced recently, employees need to be made aware of the different retirement income options now available. The aim of this survey was to determine the approaches and opinions of a range of UK companies in response to these changes and whether support is provided to employees.



Key Findings

- Only 21% believe their employees are saving enough for retirement
- Only 23% of employees are aware of the various income options available to them at retirement
- 85% will provide some sort of support through a combination of communications and/or financial education and/or advice
- 60% believe there will be an increased requirement for specialist advice at retirement

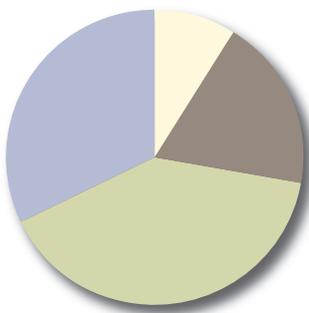
about the survey.

This research was conducted online throughout May and June 2011, targeting key HR, Reward & Benefits and Pensions professionals. The research received 80 responses. 19% of respondents were from the FTSE 350, 40% were from large companies who employ over 500 employees and 29% were from SME's. The remaining balance of 12% were respondents from other companies who chose to remain anonymous.

part one: your schemes.

What type of pension schemes do you have? Do you believe your employees are making sufficient retirement savings?

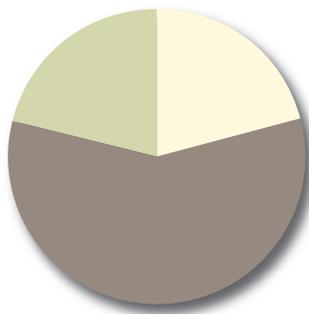
What type of pension scheme(s) do you have?



“40% had both a defined benefit and defined contribution pension scheme.”

Defined Benefit	9%
Defined Contribution	19%
Defined Benefit & Defined Contribution	40%
Personal Pension Scheme	32%

Do you believe the majority of your employees are making sufficient retirement savings?



“Only 21% believe their employees are making sufficient retirement savings.”

Yes	21%
No	58%
Don't know	21%

The closure of defined benefit pension schemes has transferred risk from the employer to their employees. Employees must now ensure their retirement savings are sufficient to meet future income requirements. Our survey confirmed this shift with 40% of respondents operating both defined benefit and defined contribution pension arrangements.

The move to defined contribution pension provision creates a need to make employees aware of their responsibility to save during their working lives. It also adds complexity to the decisions employees must make at retirement with a variety of income options available.

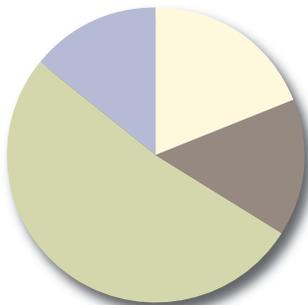
The survey results provided a resounding verdict and highlighted that the majority of employees are not making sufficient provision for their retirement, with only 21% of respondents believing their employees are saving enough.

New limits and rules for tax relieved pension savings provide greater flexibility in how individuals can save for retirement. An awareness of the new limits and rules will ensure employees focus on their retirement and the need to save. New forms of pension drawdown offer greater choice in how benefits are taken, all of which must be communicated to employees so that they can make the most appropriate choices.

part two: changing landscape.

The various new legislative changes now means that companies and their employees will have to rethink retirement - but what might some of these issues be?

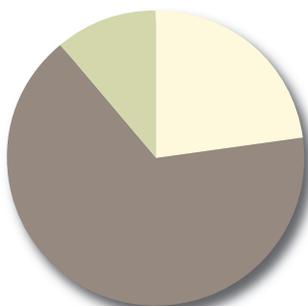
How do you anticipate auto enrolment will be greeted by most employees?



“Generally, 52% believe that auto enrolment will be greeted both positively & negatively. This increases to 67% of FTSE 350 respondents.”

Positively	19%
Negatively	15%
Both positive & negative	52%
Don't know	14%

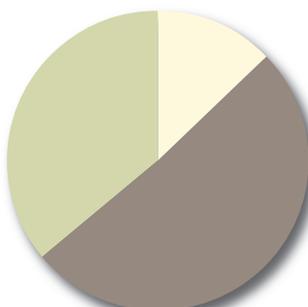
Do you believe employees are aware of the various income options available to them at retirement?



“Only 23% of employees are aware of the various income options available to them at retirement.”

Yes	23%
No	66%
Don't know	11%

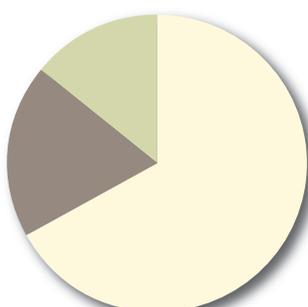
Are employees aware that they no longer have to purchase an annuity?



“Overall, 51% believe that employees are not aware of the removal of the need to buy an annuity. This increases to 60% of FTSE 350 respondents.”

Yes	13%
No	51%
Don't know	36%

The removal of the default retirement age (DRA) will see a significant number of employees choosing to work longer.



“Generally, 67% think that the removal of the DRA will see a significant number of employees choosing to work longer.”

Agree	67%
Disagree	19%
Don't know	14%

The introduction of auto enrolment will no doubt be viewed as an unwanted government legislation by many companies and their employees, particularly in the current economic environment where budgets are stretched. Respondents provided a mixed response with the majority 52% predicting that auto enrolment will be greeted both positively and negatively by employees.

Employees need to understand the importance of saving for retirement. Effective communication and financial education will be required so that employees do not view the introduction of auto enrolment simply as a pay cut. Instead, a positive outcome will arise with those affected beginning to make essential provision to secure their long term financial well being.

Only 23% of employees are aware of the various income options available to them at retirement. In many cases, the shift from defined benefit to defined contribution pension provision has not been accompanied by an increase in the extent of employee support provided, leaving employees with little explanation of the income options available to them including annuities.

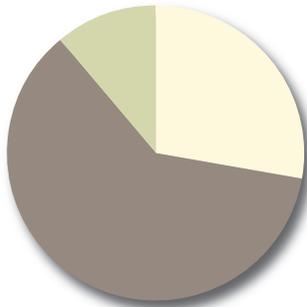
The effective removal of the requirement to buy an annuity is not a change that many employees are aware of according to respondents, with 51% stating that employees will not be aware, whilst only 13% believe employees will possess knowledge of the change. In fact, part of the government's consultation response relating to the change identified that there was poor awareness in relation to annuities themselves, with general agreement that the value of annuities is not understood and that annuity outcomes could be improved by increased take up of the open market option. This would allow an individual to shop around when purchasing an annuity. Action clearly needs to be taken in relation to annuity selection, so that employees are not simply opting for the default annuity option, making an irreversible decision.

The expectation amongst respondents is that the removal of the default retirement age will see a significant number of employees choosing to work longer. A more flexible approach to retirement is likely, with many individuals taking part of their pension benefits and continuing in part-time employment. Others will carry on working, in order to enhance their retirement savings which is an inevitable outcome, given that the evidence suggests that many employees are not saving enough for their retirement.

part three: responding to the changes.

What will be the impact of the changes on existing pensions? Will employees be aware of the Retirement Income Options available to them?

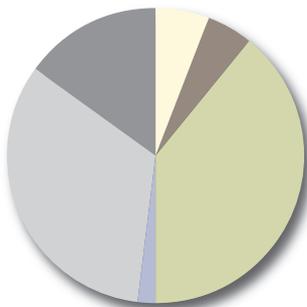
How would you describe the impact of the various legislative changes on your existing pension scheme(s)?



“Overall, 61% described the various legislative changes on existing pension schemes had had 'some impact'. This increases to 73% of the FTSE 350.”

Significant impact	28%
Some impact	61%
No impact	11%

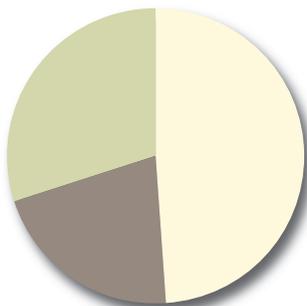
Will any of the following support be taking place within your organisation?



“Generally, 85% will provide some sort of support.”

Financial education	6%
Advice	5%
Written communications	39%
Financial education & advice	2%
Financial education, advice & written communication	33%
No support	15%

If not already available, do you intend to support flexible retirement?



“Overall, 49% already support flexible retirement with a further 21% intending to introduce it.”

Already available	49%
Intend to introduce it	21%
No plans to support	30%

Almost all respondents expect the various legislative changes to impact on their existing pension schemes, with 28% anticipating a significant impact, whilst 61% believe there will be some impact. Most significant will be the introduction of auto enrolment where employers will need to ensure existing pension provision complies with the new legislation.

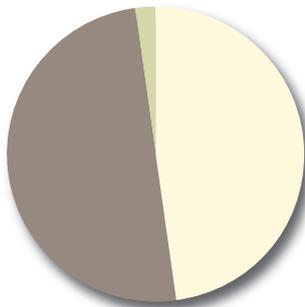
85% of respondents will be providing some form of support in response to the various legislative changes, which ranged from offering financial education and advice to written communications. Reference was made to the increasing need to provide support to individuals in a recent government consultation, with specific recommendation that specialist advice should be sought before entering drawdown products. The concern being that individuals may enter into drawdown products without a full understanding of the risks involved.

The removal of the default retirement age will see many choose some form of flexible retirement where they may take part of their pension benefits yet remain in employment, possibly on a part time basis. 49% of respondents already make this available to employees with a further 21% intending to do so. Yet, the remaining 30% do not intend to offer flexible retirement. The option to continue in work will help those who wish to continue saving for retirement beyond traditional retirement age which is likely to be out of necessity for some.

part four: supporting your employees.

What level of support is currently provided to employees?

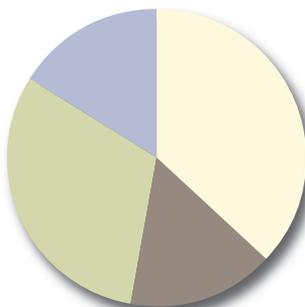
Is financial education provided for your employees at retirement?



“Overall, 48% provide financial education at retirement. This increases to 73% of the FTSE 350.”

Yes	48%
No	50%
Don't know	2%

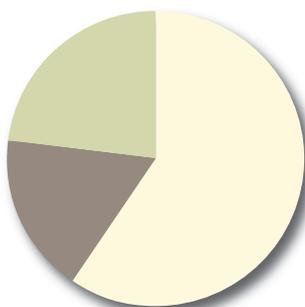
Do you anticipate increasing the level of financial education provided to employees as a result of the legislation changes.



“Generally, 37% anticipate increasing the level of financial education provided as a result of the changes.”

Yes	37%
No	16%
Remain the same	31%
Don't know	16%

Do you believe there will be an increased requirement for specialist advice because of the changes?



“Overall, 60% believe there will be an increase for specialist advice. This increases to 67% of the FTSE 350.”

Yes	60%
No	17%
Don't know	23%

All percentages have been rounded up or down to the nearest whole number.

The provision of financial education at retirement appears to relate to the size and profile of the company with 73% of FTSE 350 respondents providing financial education. This reduces to 35% for SME's. This is consistent with the findings of our 2010 survey which suggested that the largest quoted companies now provide financial education and indeed expect the provision of financial education and employee support to increase.

A broadly equal split existed across all respondent categories between those that expect financial education to increase and those expecting it to remain at the same level, in response to the various legislative changes.

The majority of respondents believe there will be an increased requirement for specialist advice, with 60% supporting this view. This support will be essential if employees are to make appropriate decisions given the irreversible nature of annuities and the complexity and risk associated with drawdown pension.

conclusion.

Our survey findings support the view that employees must now rethink their retirement and be supported by their employer in doing so. With access to comprehensive financial education and specialist advice, employees can make appropriate decisions, reflecting their personal circumstances.

WEALTH at work has collected over 30,000 feedback forms from employees of UK companies over the past five years, which provides empirical evidence to the positive impact of financial education. If you and your company would like to learn more, please do not hesitate to contact us for more information.

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WEALTH at work

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