pension changes survey.

our survey results 2015.

WEALTH at work

KNOWLEDGE | EXPERIENCE | OPPORTUNITY

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Director, WEALTH at work

I would like to thank the many clients and contacts who contributed to this survey and trust you will find the results interesting and informative.

Now the dust has settled since the pension changes, this survey has provided an interesting insight into how employers have adapted to the changes and what they are doing to support their employees through this process.

Our results show that employers believe that only a small minority of employees are making sufficient retirement savings. Whilst this is a worrying problem, there are also increasing numbers of pensions savers auto-enrolling at levels which are almost certainly too low to produce sufficient savings for a secure retirement.

As more savers are now looking at a range of retirement income options, findings suggest that more needs to be done around employee glide path options, so that they are on the most suitable investment route for their desired method of generating income at retirement. We also believe that employers will need to consider the alternative options available if they are not going to facilitate the pension freedoms in-house, to ensure that flexibility can be delivered to employees.

It is positive that many employers are providing financial education during the various stages of retirement planning. However, when taking our findings into account, I believe that there is scope for more employers to offer a tailored programme of financial education delivered in the workplace, supported by access to regulated advice, which I consider the best level of provision.

I very much welcome your feedback in relation to any of the results or issues raised. Please do not hesitate to contact me if you wish to discuss further.

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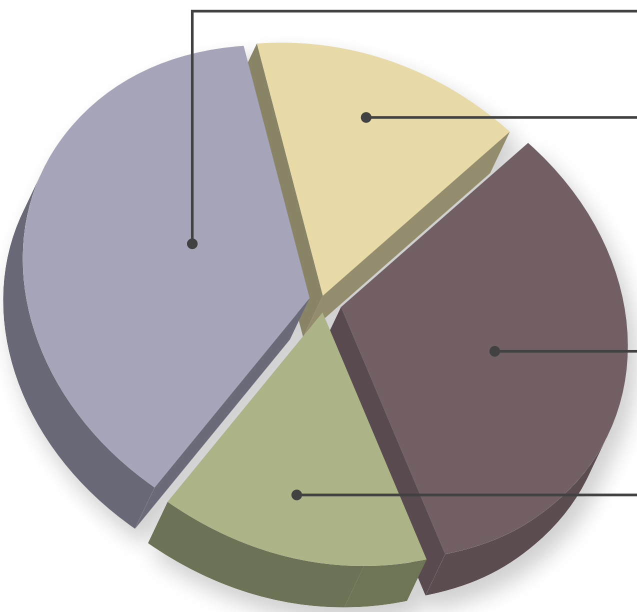
aims of the survey.

The pension changes mean a whole new world of choice for many employees on how to draw income in retirement. Whilst the changes are a positive way forward for retirees, the increase in flexibility and choice has also brought more challenges for employers and employees.

As many employees start working life with only basic financial knowledge, are they equipped to make confident and informed decisions about their pension savings, not just at the point of retirement but in the years leading up to retirement and beyond?

The aim of this survey was to understand the approaches and opinions of a range of UK companies in recognising the need to support their employees as they approach and reach retirement.

Company type



Key findings

- Only 11% of employers believe their employees are saving enough for their retirement.
- When employees do not select a glide path, 43% of employers will still default employees to an annuity tracked glide path, this is despite a significant fall in annuity purchase as a preferred option for employees.
- Over a quarter (26%) of employers do not allow employees to take money from their pension (age 55) whilst they are still working for them.
- Almost one third (32%) of employers do not provide access to the new pension flexibilities in their scheme at-retirement.
- 40% of employers do not offer their employees financial education around the pension flexibilities at-retirement.

about the survey.

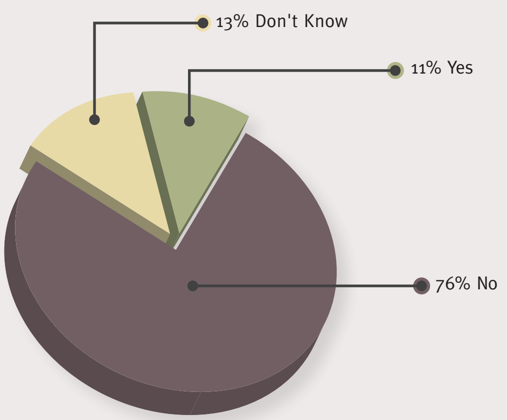
In total, the research received 94 responses which were completed online and via paper over 3 months from August to October 2015. The survey targeted key HR, Rewards & Benefits and Pension professionals. 15% of respondents were from the FTSE 350, 33% were from large companies with 500 employees and more, 15% were from SMEs and 37% of respondents chose to remain anonymous.

Please note, figures have been rounded up and down to ensure results total 100%.

part one: pension accumulation.

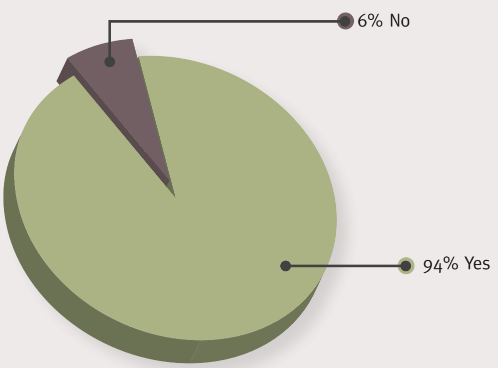
Most workplace pension schemes offer a range of investment options for employees to choose from. However, decision making can be complex and so, many offer default funds. But do employees understand how much they should be saving to achieve their desired level of income in retirement and is the default fund still suitable in the lead up to retirement?

Do you believe your employees are saving enough for their retirement?



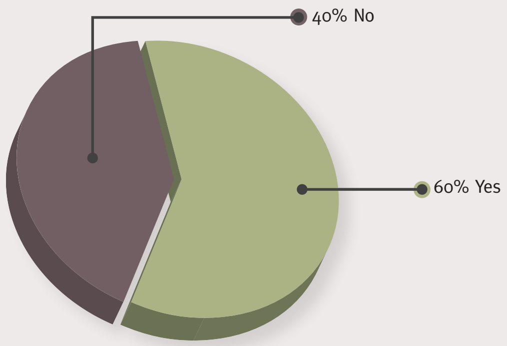
Only 11% of employers believe their employees are saving enough for their retirement. This may be due to affordability or simply choice. However, it may also be a result of employees not understanding their pension scheme options or the financial benefits of saving more, particularly where there are matching contributions available.

Do the majority of employees in your pension scheme use the default investment option?



94% of employers confirmed that the employees in their pension scheme select the default investment option. This is not surprising but employees need to understand what they are defaulted into and whether this is appropriate for their retirement plans, or in line with other pension savings they may have.

Do you provide financial education to help employees during the pension accumulation stage?



The pension changes have made the need for providing employees with financial education even more important. With 40% of employers yet to put something in place, there is still work to do.

Key considerations:

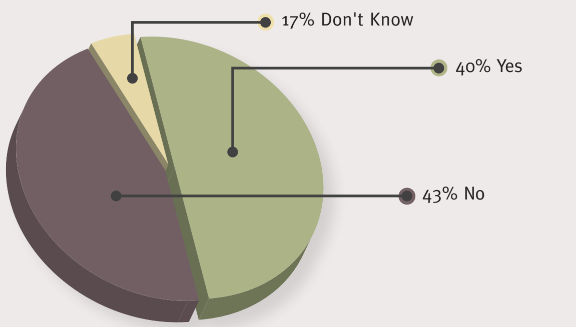
- Do employees know how much they should be saving into their pension to get a good retirement income?
- Do employees understand what the default option is and is it the most appropriate option for them?
- Do employees understand all of the income options available to them as they save for retirement?

part two: pre-retirement.

Since the pension changes were announced, many schemes have considered their approach to glide paths*. Previously, the industry standard for default investors was to aim at annuity purchase and switch scheme members from equities into bonds and cash leading up to their expected retirement date. The new flexibilities anticipate more savers looking at a range of retirement income options and therefore investment glide path options for savers are changing to adapt to this.

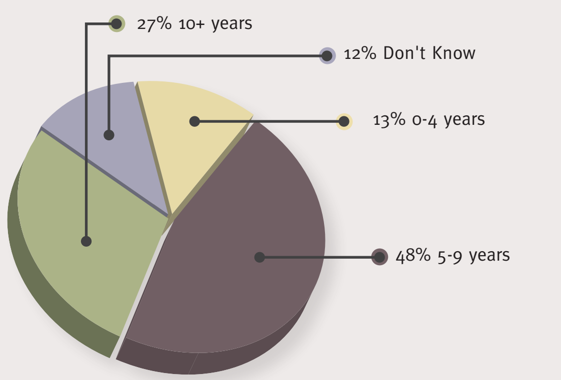
* By glide path we mean how pension savings are invested in the years leading up to retirement.

Do your employees have a choice of glide path covering the three core retirement options (drawdown, annuity, cash)?



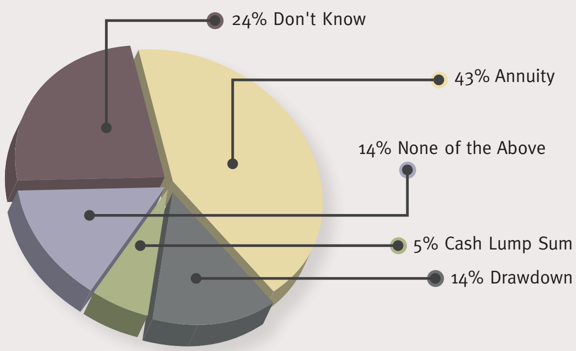
43% of employers do not provide a choice of glide path covering the three core retirement options. Whilst scheme demographics and pot sizes play a key role here, an employee's glide path should be in line with their planned method of generating a retirement income and take into account all of their pension savings.

How many years from their expected retirement date do you think employees should make their choice about their glide path?



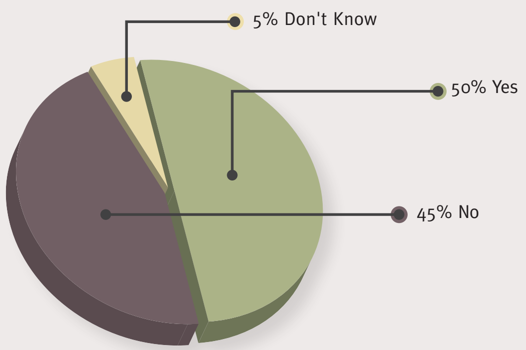
48% of employers believe that employees should make a choice about their glide path 5-9 years from their expected retirement date, whilst just over a quarter (27%) of employers believe that employees should make a choice about their glide path 10+ years from their expected retirement date. Whatever stage employees make their choices, they should be reviewed regularly as their circumstances may change before they access their pension savings.

If no glide path is selected by employees, what retirement income option will the default investment option be targeted to?



43% of employers confirmed that if employees do not select a glide path, the default investment option will be targeted to an annuity. This is surprising given the significant fall in annuity purchase in 2014 and 2015. An annuity purchase may not be the most suitable option and therefore, an investment route which is not correctly aligned may result in a reduced income in retirement. A regular review of options is recommended for all default fund users.

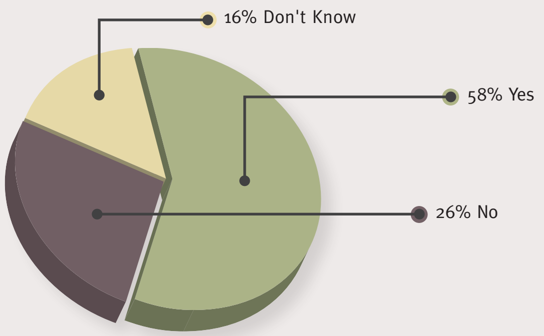
Do you use financial education to communicate these options? (i.e. those set out in the previous question.)



Nearly half (45%) of employers do not provide financial education to support employees with choosing their glide path. Making pension investment choices are likely to be difficult for employees without good support being in place. Financial education and guidance can help employees make more informed and confident decisions about their options.

The pension changes allow defined contribution scheme members to access their savings from the age of 55, whether they intend to retire or not. This means employees may want to access some or all of their workplace pension savings long before they retire.

Do you allow employees to take money from their pension (aged 55) whilst they are still working for you?



Over a quarter (26%) of employers do not allow employees to take money from their pension (age 55) whilst they are still working for them. This may be because employers are worried about the effects of pension depletion on employees' retirement plans and increased administrative burdens to the scheme. Employees may not be able to retire at their expected date if they have significantly reduced their pension pot through early access.

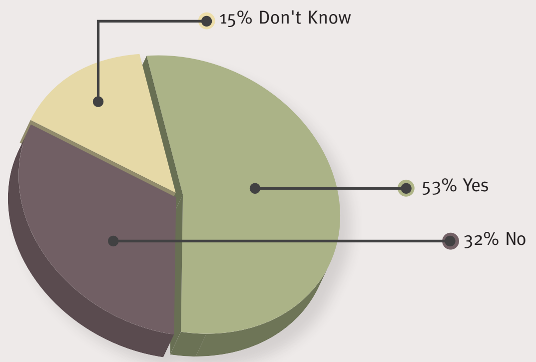
Key considerations:

- Have you offered employees appropriate glide path options in light of the significant fall in annuities as a retirement income choice?
- Is an employee's glide path in line with their planned method of generating a retirement income?
- Are your employees considering their glide path in good time before their anticipated date of retirement?
- Are your employees confident about the retirement income decisions they will need to make?
- If employees access their pension before they fully retire, will they have enough money to live on once they reach retirement?

part three: at-retirement.

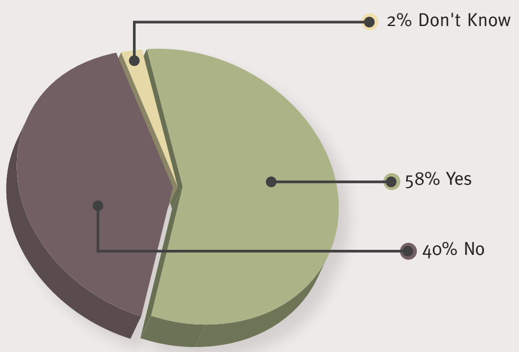
The pension changes have introduced more options for employees. This is because pensions generally have now become more accessible and most individuals have total freedom over how they can take income from their pension. However, there is no requirement for a scheme to provide this flexibility itself and give direct access to the pension freedoms.

Do you provide the new pension flexibilities in your scheme?



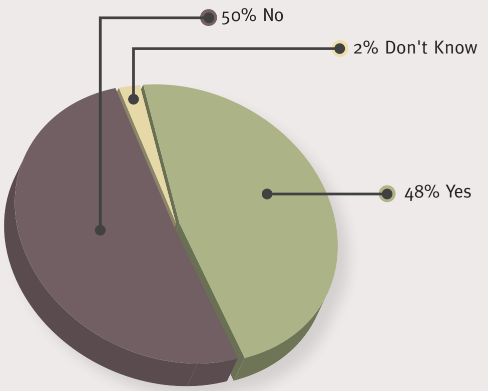
Almost one third (32%) of employers do not provide the new pension flexibilities in their scheme. This may be because employers are not yet equipped to facilitate the flexibilities, as they don't have the infrastructure or staff in place. Alternatively, others may choose not to because of the additional administrative burden. However, it is important that employees understand that even if they can't access the new flexibilities through their employers, there are providers available to facilitate this for them.

Do you offer financial education to support employees making choices around the flexibilities?



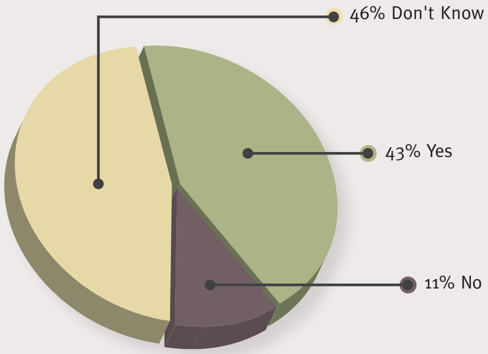
It is encouraging to see that more than half (58%) of employers offer their employees financial education around the pension flexibilities. Financial education can help employees understand the retirement income options available to them, and the advantages and disadvantages of each. Without appropriate financial education and guidance employees may make poor decisions and suffer, for example, unexpected tax consequences.

Do you offer employees access to a regulated advice service?



Half (50%) of employers do not offer employees access to a regulated advice service. Our experience shows us that many employees don't know where to begin looking for an adviser and look to their employer for support. Regulated advice will provide recommendations to employees based on their personal circumstances and highlights which retirement options are best for them and when they should be taken. Without advice many employees could be left vulnerable to making costly mistakes.

Are your employees aware that retirement income is not just about pensions and that they should take account of all personal savings and investments?



46% of employers don't know if their employees are aware that retirement income is not just about pensions and that they should take account of all personal savings and investments. Retirement decisions, which in the past would have mainly been about an annuity, should now be carefully considered as all savings need to be taken into account. ISAs, shares and pensions can be calibrated to provide a tax efficient retirement income. It is now important for all personal savings and investments to be aligned with pension savings to establish a tax efficient strategy when creating a retirement income.

Key considerations:

- Do your employees understand that even if they can't access the flexibilities through their workplace, there are providers available to facilitate this?
- Are your employees vulnerable to making costly mistakes at retirement due to their lack of knowledge surrounding their retirement income options?
- Do your employees know where to access regulated financial advice?
- Do employees know how to create a retirement income strategy, which calibrates all savings, investments and pensions to generate a tax efficient income at retirement?

conclusion.

Since the pension changes came into place, both employers and employees have had to adapt to the many new options and decisions that they now face. Although many employers recognise this, there is still much more that can be done to support employees in the years before retirement, as well as at the point of retirement. After all, without the right financial education, guidance and advice employees could be left incredibly vulnerable to making poor decisions.

We believe that there are three fundamental questions which employees will turn to their employer to answer. Firstly, what options do I have and what are the advantage and disadvantage of each? Secondly, what is right for me given my personal circumstances? And thirdly, how do I implement my chosen plan? These can be answered in turn by financial education and guidance, supported by regulated advice and then ensuring the appropriate service provision is available to implement all options - whether that is an annuity, drawdown, a cash withdrawal, or indeed a combination of options over time.

We are working with many companies to help ensure the three questions above can be answered in a meaningful way for employees. The services we provide not only answer the three questions posed but facilitates all of the changes the pension freedoms have introduced.

"personal financial decisions must be made in a context of good information and understanding."

Recent pension rule changes present both challenges and opportunities for both employers and employees. Decisions around retirement income options are now complex and life changing, and it is vital that the employee is helped to make the right choice. Personal financial decisions must be made in a context of good information and understanding. Larger employers have an implicit obligation to educate their workforce about their retirement income options and their implications. Smaller firms, where this is more of a challenge, should present options to their workforce, but one could understand their reticence at this time. One would expect that, as greater experience and wider knowledge of how to best utilise these new freedoms filters across industry, smaller firms will be more willing to participate in the process and perhaps pay for pensions experts to advise their workforce.

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