# pension changes survey.

# our survey results 2017.

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**Jonathan Watts-Lay**
**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.

The results from this survey have provided an interesting insight into how employers have adapted to the pension freedoms and what they are doing to support their employees through this process.

Our results show that employers continue to believe that only a small minority of employees are making adequate retirement savings. With contribution rates for auto enrolment set so low, I believe that there is still a long way to go until we are at a stage where the majority of employees are producing adequate pension savings for a financially secure retirement.

Investment returns are clearly an important contributor to the value of an employee's pension savings. As employees have more choice around their retirement income options, it's clear that employers need to address issues around employee glide path options; such as making sure employees are on the most suitable investment route for their desired method of generating income in retirement.

Results indicate that there is a lack of support available for employees at-retirement, so it is no surprise that many employees at this stage are unaware of the various retirement income options available to them. Financial support at-retirement must be made a priority given the enormity of the decisions that employees face at this stage of their life.

There is help available to provide employees with the support needed in the lead up to and at-retirement. Providing access to financial education, guidance and advice; including the ability to provide all retirement income options e.g. income drawdown, annuity or a combination, will make a huge difference in helping employees achieve good outcomes from their workplace pensions.

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


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> "financial support at-retirement must be made a priority given the enormity of the decisions that employees face at this stage of their life."

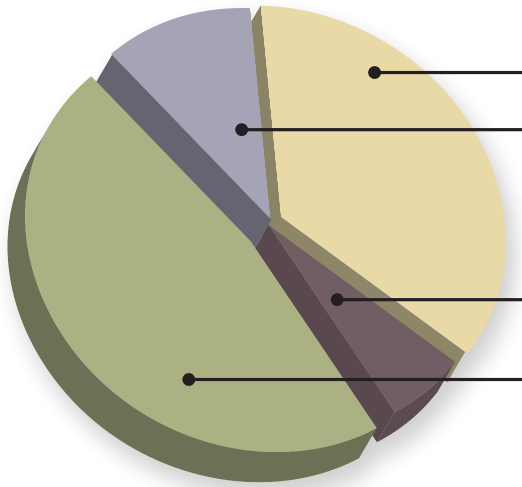
# aims of the survey.

In our Pension Changes Survey results 2015, we looked at the initial effects that the pension changes had on the workplace. Now that it's almost two years since the flexibilities came into force, we investigate to see what's changed in the workplace.

Many employees start working life with only basic financial knowledge. So, how do we help them understand what they need to do to produce adequate savings for retirement? Also, as employees are now looking at a wider range of retirement income options, have investment glide paths changed to adapt to this? Finally, what options do employees have at-retirement, how are employers supporting employees with this, and what effect does this have on employee decision making?

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 10% of employers believe their employees are saving enough for their retirement.
- 39% of employers confirmed that if employees do not select a glide path, the default investment option will be targeted to an annuity.
- Only 20% of employers provide a full retirement income service for employees at-retirement.
- Almost half (48%) of employers believe that their employees are not aware of the various retirement income options available to them at-retirement.
- More than half (55%) of employers either provide no support or information only for employees at-retirement.

## about the survey.

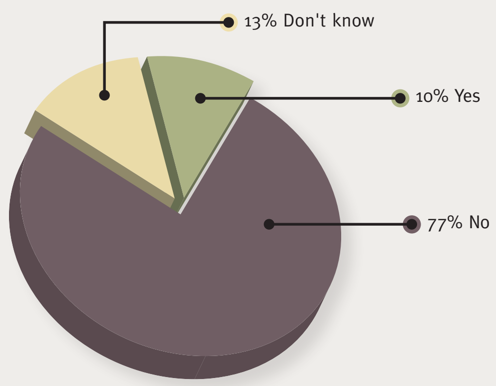
In total, the research received 108 responses which were completed online and via paper over 4 months from August to November 2016. The survey targeted key HR, Rewards & Benefits and Pension professionals. 11% of respondents were from the FTSE 350, 36% were from large companies with 500 employees and more, 6% were from SMEs and 47% of respondents chose to remain anonymous.

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

# part one: pension accumulation.

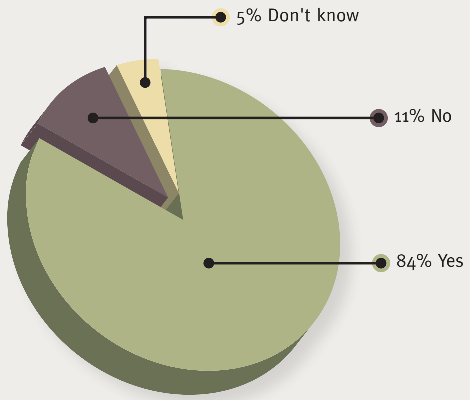
**Employees save for many years to fund their retirement income but do they know how much they should be saving to get a good retirement income?**

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




Only 10% of employers believe their employees are saving enough for their retirement. Whilst this may be due to affordability or simply choice, it may also be as a result of employees not understanding their pension scheme options or the financial benefits of saving more, particularly where there are matching contributions available.

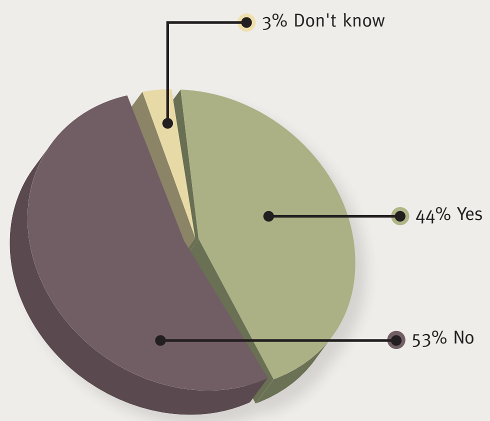
Do the majority of employees in your defined contribution (DC) pension scheme use the default investment option?




84% of employers confirmed that the employees in their pension scheme select the default investment option. Whilst this remains the investment destination for most, 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?

*By financial education we mean a learning experience in a live environment such as a seminar or webinar




Freedom and choice in pensions legislation has made the need for providing employees with financial education even more important. With 53% of employers yet to put something in place, there is still work to do.

## Key considerations:

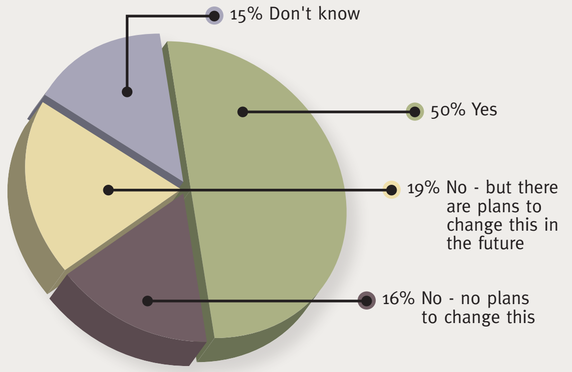
- How can you help employees save an adequate amount into their pension to get a good retirement income?
- Do employees understand what the default option is and is it the most appropriate option for them?
- Do employees understand all of the income options available to them as they save for retirement?

# part two: pre-retirement.

**The pension flexibilities mean more savers are looking at a wider range of retirement income options such as taking some form of drawdown, buying an annuity or even a combination of options. Have your investment glide path* options for employees changed to adapt to this?**

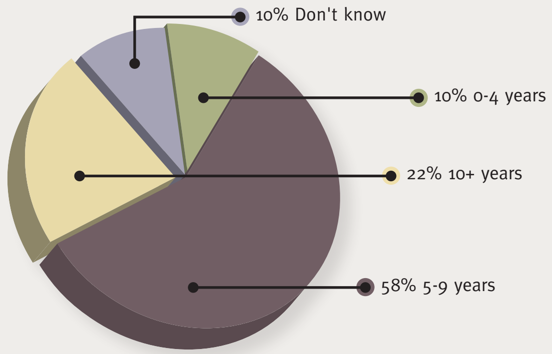
* By glide path we mean how pension savings are invested in the years leading up to retirement.

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



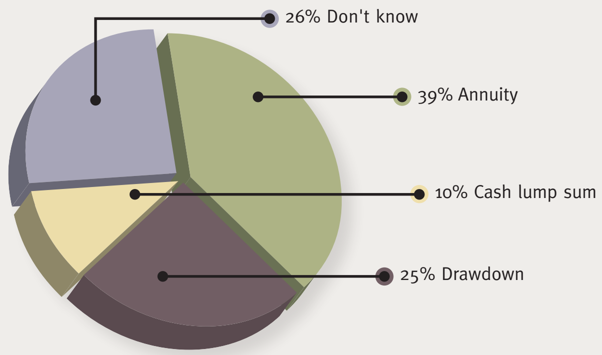

35% of employers do not provide a choice of glide path covering the three core retirement options, but over half of these have plans to change this in the future. Whilst scheme demographics and pot sizes play a key role here, an employee's glide path should be in line with their planned method of generating a retirement income and take into account all of their pension savings. Making changes to the scheme's investment options offers a great opportunity to engage with members so they understand and make better choices.

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




58% of employers believe that employees should make a choice about their glide path 5-9 years from their expected retirement date, whilst just less than a quarter (22%) 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.

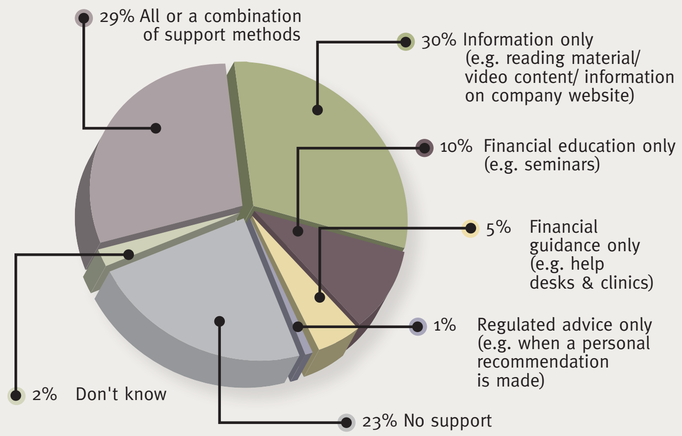
## If no glide path is selected by employees, what retirement income option will the default investment option be targeted to?




39% 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 since the pension freedoms took effect. 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.



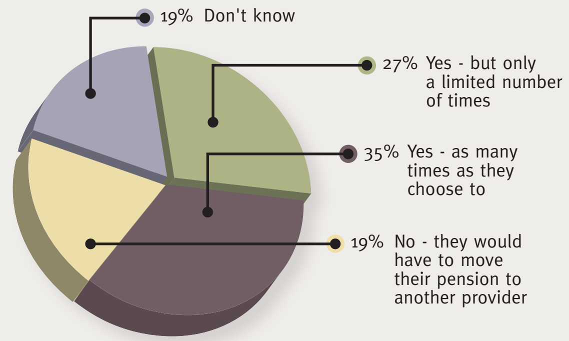
## Do you provide any retirement support for employees pre-retirement?




53% of respondents provide either no support or information only for employees pre-retirement, which we believe is not enough and an ongoing concern given the complexity of choice and high risk decisions that many will have to contend with. However, it is encouraging that almost a third (29%) provide all or a combination of support methods, as we consider a mixture of financial education, guidance and regulated advice is the best level of provision.

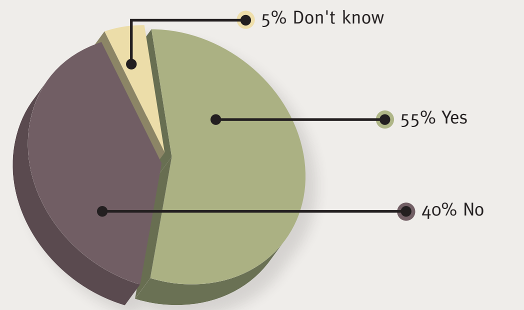
**The pension changes allow DC scheme members to access their savings from the age of 55, whether they intend to retire or not. This means employees may want to access some or all of their workplace pension savings long before they retire.**

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




Nearly two thirds (62%) of employers allow employees to take money from their DC pension (from age 55) whilst they are still working for them, with over half of these allowing employees to do this as many times as they choose to. However, almost a fifth (19%) do not allow employees to take money from their pension and require them to move their pension to another provider. This may be because employers are worried about the effects of pension depletion on employees' retirement plans (and so by insisting on a transfer they discourage employee from taking funds out) and increased administrative burdens to the scheme.

## If they have to move their pension elsewhere, is the employee allowed to re-join your main scheme and receive the same employer contributions going forward?




Of those employees who have to move their workplace pension elsewhere to access it, 40% are not allowed to re-join and receive the same employer contributions going forward whilst still working. Whilst this may be a mechanism to cause employees to think carefully about accessing their savings, it highlights the need for financial education and guidance so decisions are informed. After all, this could have a significant and detrimental effect on an employee's overall saving levels for retirement and employees may not be able to retire at their expected date if their pension pot is reduced.

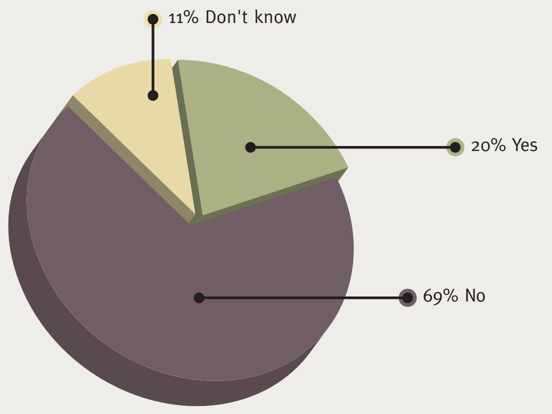
## Key considerations:

- 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 and how does that impact on your workforce planning?

# part three: at-retirement.

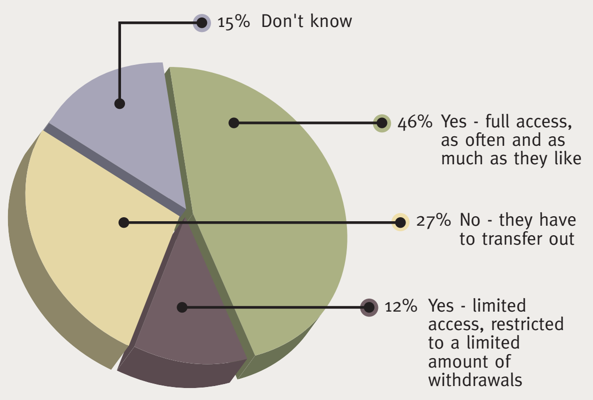
**DC pensions are now more accessible and most individuals have total freedom over how they can take income. However, as there is no requirement for a scheme to provide this flexibility and give direct access to the pension freedoms - What options do employees have? What support is available for employees? And, does this effect employee decision making?**

Do you provide a full retirement income service for employees at-retirement? This should include the provision of financial education, guidance and advice; including the ability to provide all retirement income options e.g. income drawdown, annuity or a combination.



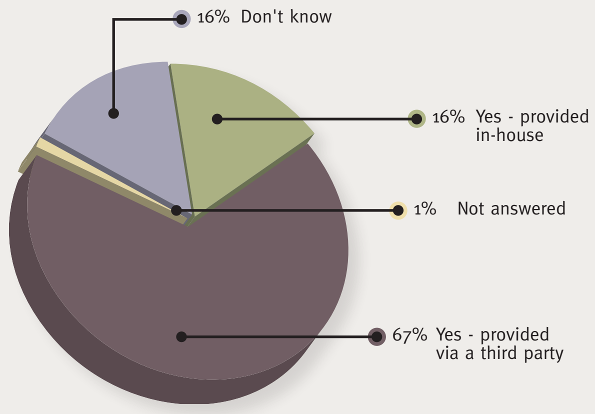

Only 20% of employers provide a full retirement income service for employees at-retirement. For many employees this will mean making decisions about transferring their pension savings to get the right option for them. Without appropriate financial education, guidance and advice many employees will make poor decisions, which lead to unexpected tax consequences or the risk of being scammed and reduced income in-retirement. If employers do not want to offer a full retirement service themselves, there are providers available to facilitate this.

Do you allow employees to take income from their pension once they have reached their scheme retirement date?



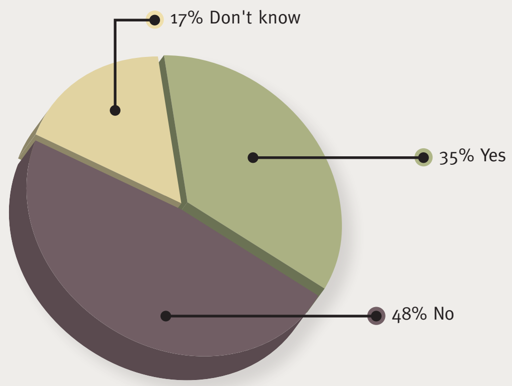

Over a quarter (27%) of employers do not allow employees to take income from their pension once they have reached their scheme retirement date and they have to transfer out to access it. There are a number of reasons for this; employers are not equipped to facilitate the pension flexibilities, or they do not want to because of the administrative burden or service risks. Others reduce the administrative strain by limiting access to a set number of withdrawals, for example two withdrawals spread over a couple of years.

Do you provide the administration for the retirement income service?



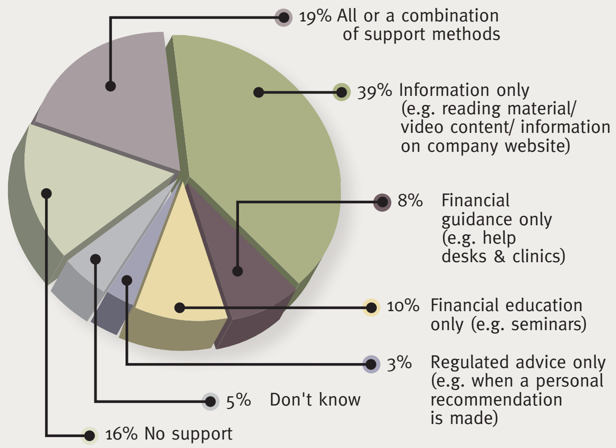

Most employers (67%) provide the administration of their pension schemes and retirement services via third parties like master-trusts, insurance companies and pension administration services.

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



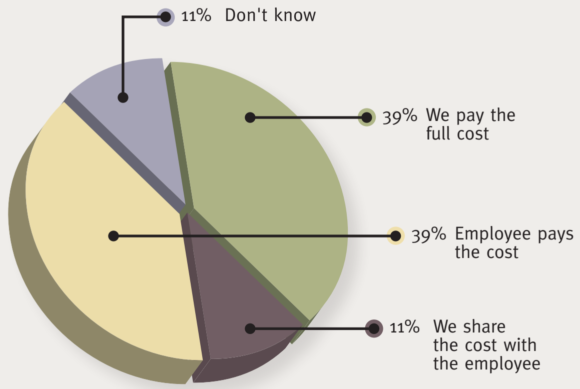

Almost half (48%) of employers believe that their employees are not aware of the various retirement income options available to them at-retirement. This may be due to the lack of support available in the workplace as indicated in the following results. Without even a basic level of understanding of their options it is hard to see how employees can secure a good outcome when they are vulnerable to making costly mistakes.

## What retirement support, if any, do you provide for employees at-retirement?



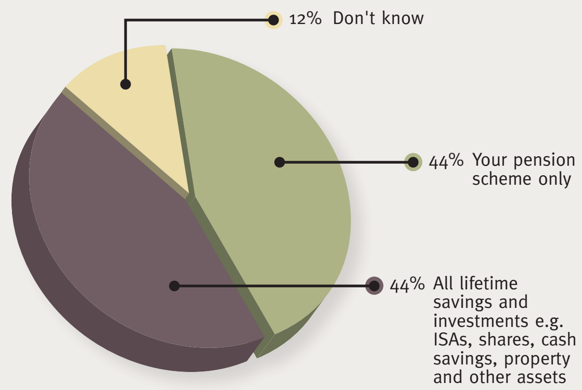

More than half (55%) of employers either provide no support, or information only for employees at-retirement. Only 19% provide all, or a combination of support methods. These are worrying results given the enormity of the decisions that employees face at this stage of their life.

## If you provide a regulated advice service for employees how is it paid for?




Of those who provide a regulated advice service for employees, 39% of employers pay the full cost and some (11%) share the cost with the employee. 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.

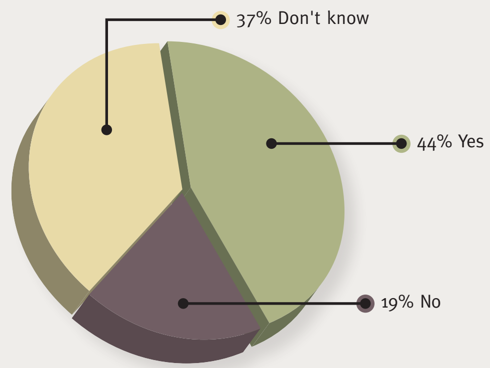
## What does the regulated advice service you provide for employees at-retirement cover?




Of those who provide a regulated advice service for employees, 44% of the advice provided covers the pension scheme only. A holistic view which looks at all lifetime savings and investments is the best level of provision, to appreciate how the various elements can work best together.

## Are your employees aware that retirement income is not just about pensions* and that they should take account of all lifetime savings and investments at-retirement?

*For example, ISAs, shares, cash savings, property and other assets




Less than half (44%) of employers believe that employees are aware that retirement income is not just about pensions. 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. With changes to savings and dividend allowances and the use of personal income tax allowances, ISAs, shares and pensions can be aligned 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 aligns all savings, investments and pensions to generate a tax efficient income at-retirement?

# conclusion.

Since the pension changes came into force, 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 leading up to retirement, as well as at-retirement. After all, without the right financial education, guidance and advice, employees will 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.

"this survey provides a vital insight into current levels of understanding about retirement income options."

The last four years have seen two hugely important reforms affecting workplace pension provision. Automatic enrolment and Freedom and Choice will have a huge impact on the industry in coming years, and it is important that employers and employees understand how it affects them.

Helping the next generation of retirees to achieve optimal retirement income will require employers to ensure that they provide adequate educational support to employees throughout their working lives and also at the crucial point of decumulation.

This survey provides a vital insight into current levels of understanding about retirement income options. It provides a clear indication of the level of understanding of lifetime savings in the workplace and of the work that still needs to be done. It is an excellent piece of research.

**Gareth Tancred**
**CEO**
**Pension Management Institute**

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

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

With much uncertainty in the current financial climate, it is vital that employees are reassured about their current pension provision and the benefits of pension planning in general.

Personal financial decisions must be made in a context of good information and understanding. For example, looking beyond pensions to other savings vehicles such as ISAs and shares and how these can be utilised to create a tax efficient strategy.

However, many cannot access these opportunities without help. Employers have an implicit obligation to support their workforce now more than ever, so that they can make the right choices. The best way to do this is through the provision of financial education, guidance and advice.

**Dr. David Gray**
**Academic Lead, Division of Accountancy**
**Finance and Economics**
**College of Social Science**
**University of Lincoln**

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# about us.

WEALTH at work is a leading provider of financial education in the workplace. It helps employees to understand how to maximise the value of their workplace savings and benefits by delivering financial education tailored to the needs of individual companies, ranging from large FTSE companies to SMEs. This involves targeting different segments of the workforce to enhance employee engagement.

This service is supported by guidance and advice when required which includes, for example, the linking of company share schemes to pensions and ISAs, retirement income planning for retirees and specialist support for senior executives.

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