

SPONSOR'S COMMENT

Employees must take advantage of flexibility in pension options



Jonathon Watts-Lay, director of Wealth at Work, explains how staff must play a more proactive role in managing their future income requirements

With the demise of defined benefit (DB) pension schemes, the risk of ensuring that savings are likely to meet future income requirements now lies firmly with employees. Employees need to manage contribution levels, their ongoing investment strategy, and be aware of investment returns and growth.

However, although these are key factors in any defined contribution (DC) pension arrangement, there is a more significant consideration in helping employees to secure their long-term financial wellbeing – flexibility.

Employees may contribute to a pension via payroll deductions. However, additional contribution flexibility may support them in achieving greater value. For example, does the existing pension arrangement easily facilitate one-off contributions, such as a cash bonus? Also, are pension contributions made via salary sacrifice with potential national insurance savings? And if employees take part in share schemes, does the pension facilitate in-specie transfers from HM Revenue and Customs-approved shares schemes with potential income tax savings?

In most cases, employees will purchase an annuity to provide them with an income in retirement. However, additional income flexibility supported by information and education may ultimately ensure that they achieve a greater income in retirement. For example, are employees made aware of the retirement income options available to them, including unsecured pension? Does the existing pension arrangement support such alternatives? And do employees have access to tools and advice that will help them determine the most competitive and appropriate income in retirement?

Increasingly, organisations are considering the

range of savings vehicles that are made available to employees. Although a pension represents the core of an individual's retirement savings strategy and is most likely to continue to do so, other opportunities may provide staff with savings flexibility and, indeed, encourage them to develop the savings habit.

For example, would access to an individual savings account (Isa) with a subscription limit of £10,200 help those seeking to save tax efficiently, yet retain access? Should HM Revenue and Customs-approved share schemes become an integral part of an employee's savings, providing the importance of investment diversification is highlighted? And will a deposit account with a preferential rate of interest support those with a shorter investment time horizon, such as saving for a deposit to purchase property?

Delivering the flexibility referred to above requires two main ingredients: the capability to deliver the various elements, and the need to engage and educate employees to ensure their opportunities are maximised.

Existing provision must be assessed to determine where enhancements can be made and whether additional flexibility can be delivered by existing providers. Achieving true flexibility depends on presenting contribution, income and new savings flexibility in a cohesive way where it is viewed by employees as a single benefit.

Simply providing access to additional flexibility will not be sufficient in itself; employees need to understand the value of flexibility and how it will assist them in securing their long-term financial wellbeing. Employees need to take ownership to manage the risk of ensuring savings are likely to meet future income requirements – a risk that is now theirs to manage ■

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