

The need to rethink retirement

Advice and education is essential with the plethora of options open to employees at point of retirement, says Jonathan Watts-Lay

The changing pension and retirement landscape means that employees have a number of options to consider. Employees save for many years to fund their retirement income but are often left without any guidance at the point of retirement – just when they need to make what may be the biggest financial decision of their lives.

WEALTH at work recently conducted a survey* to determine the approaches and opinions of a range of UK companies in relation to retirement.

Only 23% believe that 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 employee support, leaving employees with little explanation of the income options available.

Over half (51%) stated that employees were not aware of the removal of requirement to buy an annuity, whilst only 13% believe employees will possess knowledge of the change.

The expectation amongst 67% is that the removal of the default retirement age will see a significant number of employees choose to work longer. A more flexible approach to retirement is likely, with many taking part of their pension benefits and continuing in part-time employment. Others may carry on working in order to enhance their retirement savings which is an inevitable outcome; given that the evidence suggests that many are not saving enough for their retirement. Indeed, only 21% believe their employees are saving enough for retirement.

Changes to legislation mean that there is now far greater

flexibility in how and when retirement income is taken. Those individuals with pension savings outside of a defined benefit pension scheme will need to be made aware of this, considering either annuity or drawdown pension options or a combination of the two.

“ Support will be essential if employees are to make appropriate decisions ”

Overall, 60% believe there will be an increased requirement for specialist advice at retirement. This support will be essential if employees are to make appropriate decisions given the irreversible decisions of annuities and the complexity and risk associated with drawdown pensions.

Employees need to rethink their retirement whether saving towards or taking an income to live in retirement. It is essential that employees receive financial education and suitable guidance in the workplace to understand their choices, what can be achieved and consequently make informed decisions.

*Source: WEALTH at work – Rethink Retirement Survey 2011.

