

The need to rethink retirement



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

With new legislative changes such as the removal of the default retirement age and a greater degree of flexibility in how pension benefits are taken, employees need to rethink their retirement plans.

These changes require new learning and therefore can create uncertainty for many employees. This is encouraging more employers to provide financial education in the workplace to help employees understand the key facts so that they may make informed choices about their financial future.

It is also important that at the point of retirement individuals understand which income options are best for their

specific situation.

New regulation dictates that an individual will no longer need to convert a pension into retirement income by a certain date. Therefore, an individual must choose the most appropriate income option such as an annuity or pension drawdown. They need to understand the advantages and disadvantages of all retirement income options to be able to make an informed decision as a poor decision could adversely affect their retirement income for 25 years or more.

The key issue with this, is that employees need to rethink their retirement plans now – whether saving towards retirement 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.

WEALTH at work

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Lessons of New Lanark

Strangely enough, thinking about financial education has reminded me of a heritage site I visited when I lived in Scotland a few years ago.

Scottish history and financial education have, at first glance, little in common, but 150 years ago, the factory I visited in the picturesque village of New Lanark was seen as the epitome of utopian socialism – for looking after the financial interests of its employees, no less.

Its owner, Robert Owen, a Welsh industrialist and philanthropist, employed 2,500 people – mostly recruited from the poorhouses of Glasgow and Edinburgh – to run his cotton mills.

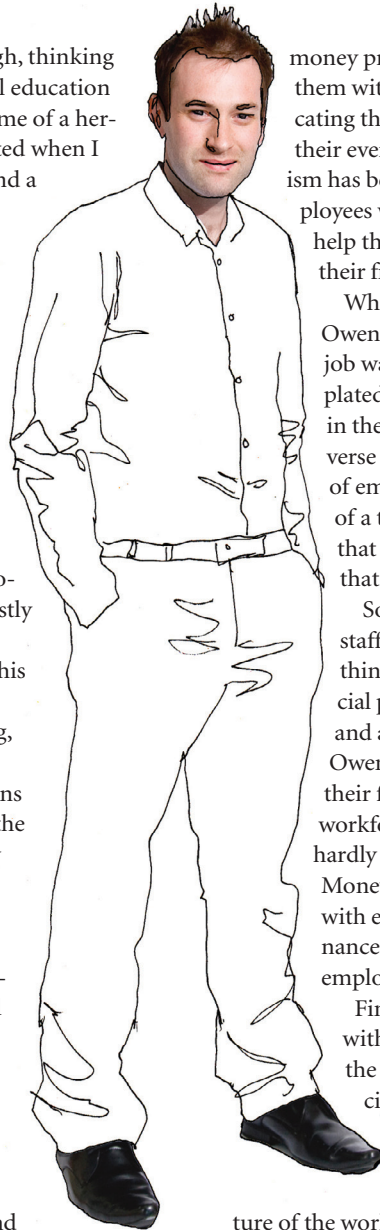
He provided them with housing, educated their children and gave them living and working conditions far advanced on the standards of the time. The results: a happy, healthy and vibrant workforce and a productive company.

While this is a lovely story, it seems like a fairytale for some employees – having all their financial problems just taken away – and a nightmare for others – having a controlling employer managing their finances and practically telling them what to do.

The term ‘paternalism’, where companies – such as Cadbury’s and Quaker – looked after their employees this way, has become almost an HR swear-word, in today’s fast-moving world of investments, mortgages and pensions. Staff don’t want to be patronised by their employer in having their finances arranged for them anymore.

In spite of this, the workforce is dealing with unprecedented financial problems as a hangover from the credit crunch and subsequent recession (page 54). A wealth of research (page 58) shows staff are looking to their employer for help on financial products and issues.

Nowadays, helping employees with their



money problems is not about providing them with housing, feeding them, educating their children and taking care of their everyday needs. New-age paternalism has become about empowering employees with the right information to help them make the right choices about their finances.

What’s in it for the employer? In Owen’s day, there was no NHS and a job was for life. Even 30 years ago, ‘gold plated’ final salary pensions kept staff in the same career. Since then, a diverse and ambitious new generation of employee has given rise to the idea of a transient workforce – and a belief that employees are always looking for that next career move.

So should employers be giving staff information, if it is just a nice thing to do? Research proves financial pressures lead to stress, illness and absenteeism (page 58) and, like Owen, employers who help staff with their finances will enjoy an engaged workforce that is more productive. It’s hardly any wonder then, that the Money Advice Service, which works with employers to educate staff on finances, has just trained its 200,000th employee.

Financial education doesn’t come without its own complications, so in the inaugural HR magazine financial education supplement, we have come up with some solutions for employers (page 62) and, in light of the diverse nature

of the workforce, we highlight the financial issues most likely to be facing the age and demographic groups in organisations, to better tailor your financial communications.

In the spirit of empowering, rather than controlling, we can educate – but not advise on the best course of action. The rest is up to you.

Let us know your thoughts on financial education by taking the HR magazine/Vebnet survey into employee benefits at: www.hr-magazine.co.uk.

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