



**Survey results 2021**

# overcoming the risks at retirement.

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**Jonathan Watts-Lay**  
Director, WEALTH at work

The pandemic has affected nearly all of us and none more so than pension scheme members who are approaching retirement. Redundancies have led to many individuals deciding to retire early and therefore access their pension for perhaps the first time. Others have found that they have to delay their retirement plans in order to rebuild their pension pots that have been adversely impacted by investment market fluctuations. Not only this, pressure on household finances has made it very tempting for those over 55 to reach for their pension savings to supplement their income.

Many members lack the resources to assess the multiple risks around accessing their defined contribution pensions which the pandemic has put glaringly into focus. Most people underestimate how long they will live and are not equipped to deal with market volatility or taxation. Scamming, particularly of the over 55s, is widespread and a lifetime's savings can be lost in a blink of the eye.

These risks also equally affect defined benefit members who are considering transferring their pension for an alternative form of income, which is unlikely to match that security.

In the current climate, it is not surprising to see that Trustees have so many concerns for their pension scheme members as they approach retirement.

These risks and the retirees' decision-making process could be alleviated by financial education, guidance and access to regulated financial advice, as well as helping members to implement their chosen retirement income option(s). It's encouraging to see that an increasing number of Trustees are facilitating these services for members. Ultimately, empowering members by providing them with access to appropriate support can help them become more financially resilient and should lead to better outcomes for all.



**Tim Middleton,**  
Director and Policy and External Affairs, PMI

The Social Security Act 1986 (SSA 86) changed the nature of workplace pension provision, although much of its legacy is not remembered fondly. For the first time, employers could not make membership of their occupational pension scheme a condition of service and gave members a statutory right to transfer accrued pension benefits. At the same time, the Act created personal pension plans, whose providers were hungry for new business. As a consequence, millions of employees were inappropriately persuaded to transfer out of well-funded defined benefit occupational schemes in order to contribute to an inferior alternative. The personal pensions mis-selling scandal cost almost £12 billion in compensation costs and is remembered as one of the most serious regulatory failures within the financial services sector of the modern era.

Over thirty years later, the statutory right to transfer remains a cause of significant anxiety. Members are presented with a bewildering array of options on retirement, and many of those options involve a pension transfer. Without the provision of appropriate support for members, we are perhaps on the cusp of a second major pensions transfer scandal.

The extent to which members are able to make a suitably informed decision about their retirement options is a particular concern for scheme Trustees, and this is demonstrated by this latest research project. Here, Trustees demonstrate their awareness of the importance of high-quality education and guidance as well as the provision of regulated advice if members are to select a suitable retirement option. Whilst some employers and schemes ensure that suitable support is made available, this is not always the case. PMI is able to help with this through the provision of a retirement-focused financial education and guidance service provided by WEALTH at work. This can equip members with the knowledge to understand their retirement income options and how to mitigate any associated risks, so that they are more able to make well-informed decisions, leading to improvements in their overall financial wellbeing and improved outcomes for all.

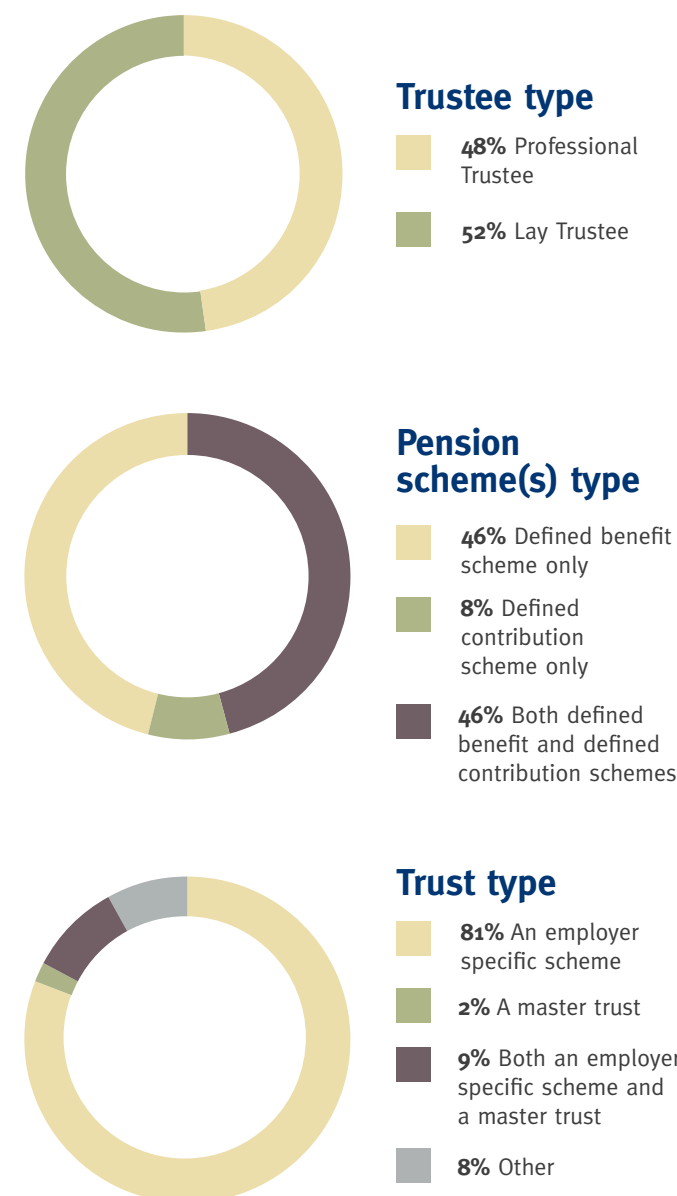
# introduction.

## About the survey

It is now over six years since the introduction of Freedom and Choice which transformed the pension landscape, opening up new and sometimes bewildering options for retirees. Pension scheme members now have to grapple with a multitude of risks which have become increasingly complex and uncertain due to the pandemic: financial education, guidance and regulated financial advice is needed more than ever before.

With this in mind, WEALTH at work conducted a survey with PMI to investigate the concerns Trustees have for their pension scheme members in the run up to their retirement and what support provisions they have in place.

The survey received 63 respondents from a range of Trustees which were completed online from June 2020 to April 2021. Figures have been rounded to the nearest whole number.



## Key findings

**94%** of Trustees fear their members approaching retirement will be targeted by scammers.

**89%** of Trustees are concerned that their members may not understand the tax implications of accessing their pension.

**80%** of Trustees have concerns about their members' lack of understanding of the risks they face if they transfer out of their defined benefit scheme.

**70%** of Trustees worry about a lack of engagement with their members at retirement.

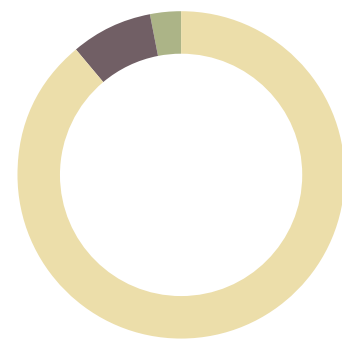
**60%** of Trustees are apprehensive that their members' money will run out too soon in retirement.



# part 1: concerns and risks.

Trustees were asked to indicate if they agree, disagree or remain neutral on the following statements:

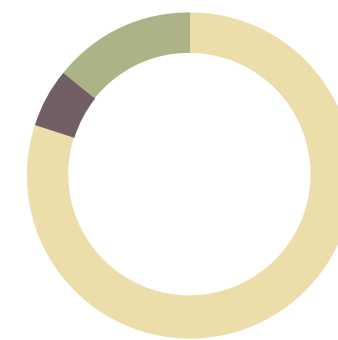
## I am concerned about members not understanding the tax implications of accessing their pension



89% Agree 8% Disagree 3% Neutral

Nine out of ten Trustees (89%) worry that their members will not understand the tax implications of accessing their pension. Individuals can accidentally incur huge tax bills when accessing their pensions, all of which can have a material impact on income levels in retirement. Members need to be aware of the tax traps which include moving into a higher marginal income tax rate when cashing in defined contribution pension pots, triggering the Money Purchase Annual Allowance, or losing out on the ability to pass on a pension inheritance completely free of tax.

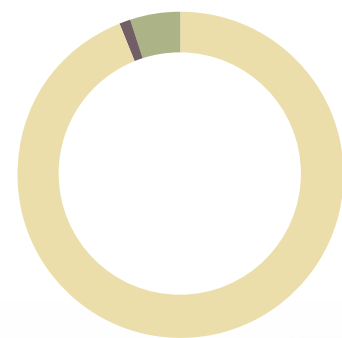
## I am concerned about members not understanding the risks around transferring out of their defined benefit pension scheme



80% Agree 6% Disagree 14% Neutral

XPS Pension Group suggests some pension schemes are seeing an increase in defined benefit (DB) transfer requests in the wake of Covid-19. However, LCP data suggests the trend in actual transfers is towards a smaller number of higher value transfers, with the average hitting £480,000 in 2020. Eight out of ten Trustees (80%) are aware that their members may not understand the risk of transferring out. Assessing whether it is right to transfer is highly complex with multiple risks to consider around how to manage the money once transferred. Ensuring access to appropriate advice is key, which is of course, a requirement for anyone looking to transfer a DB scheme over the value of £30,000. Many Trustees now facilitate access to reputable advisory firms having gone through a due diligence exercise.

## I am concerned about members being scammed out of their retirement savings



94% Agree 1% Disagree 5% Neutral

According to the Pension Scams Industry Group, £10bn may have been lost to pension scams by 40,000 people since 2015. With some pension pots worth hundreds of thousands of pounds, criminals are targeting those age 55 and over with scams or even stealing their pension pot outright. Reduced household income caused by the pandemic has meant that some members are more vulnerable than ever. Our finding that nearly all Trustees (94%) are concerned about their members being scammed out of their savings reflects these dangers.

## I am concerned about the impact of a lack of engagement with members



70% Agree 5% Disagree 25% Neutral

Gone are the days of looking at an annual benefit statement once a year and simply receiving a guaranteed income at retirement. Now members have perplexing and often complex choices. Many simply procrastinate action or put the paperwork in the 'too difficult' file. This experience is mirrored in our findings which show seven out of ten Trustees (70%) are concerned over a lack of engagement with their members. Financial education and guidance play a fundamental role in improving engagement with members. Whilst information may be available for members on websites or literature, having someone to speak to about their pensions is far more engaging. While social distancing rules mean that many have had to restrict attendance at face-to-face seminars, digital solutions such as interactive online seminars, and telephone support for guidance has become increasingly popular.

## I am concerned that members will run out of money too soon in retirement

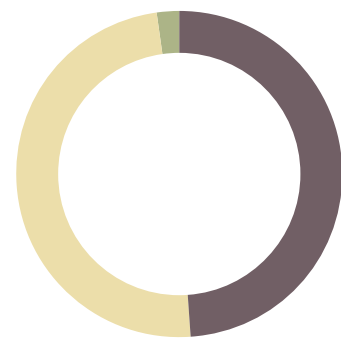


60% Agree 16% Disagree 24% Neutral

Six out of ten Trustees (60%) fear that their members will run out of money too soon in retirement. This may be due to a number of reasons including poor decision making at retirement, not saving enough throughout life, underestimating life expectancy or simply not managing their investments appropriately during what may be 30 years or more in retirement. Research has found that most individuals live longer than expected and according to the Institute for Fiscal Studies, those in their 50s and 60s underestimate their chances of survival to age 75 by around 20%, and to 85 by around 5% to 10%. It's important members understand this as part of their retirement planning.

# part 2: member support.

## Do you provide or facilitate financial education for members at retirement (e.g. seminars delivered to groups of members)?



49% Yes 49% No 2% Don't know

Almost half of Trustees (49%) provide financial education for members at retirement. Encouragingly, this is an increase of 14 percentage points since our survey in 2019, where 35% of Trustees reported that they provided financial education. Financial education is a first line of defence in helping members understand their options at retirement, as well as alerting them to the risks that Trustees are concerned about. Topics should include areas such as understanding the different pension types, how much income someone can realistically expect to generate in retirement, the risks such as paying too much tax or making inappropriate investments, how to manage income levels over the course of retirement, and how to seek further guidance and regulated financial advice.

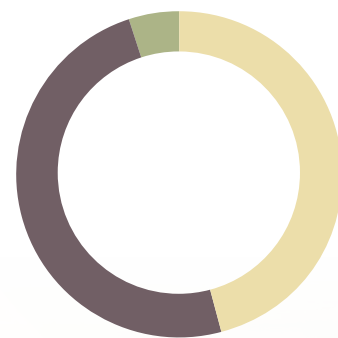
## Do you provide or facilitate regulated financial advice for members at retirement (e.g. when a personal recommendation is provided)?



30% Yes 68% No 2% Don't know

Nearly a third of Trustees are facilitating regulated financial advice for their members. Royal London research has shown that individuals who took advice were on average over £47,000 better off a decade later than those who did not. If robust and thorough processes are in place, facilitating access to regulated financial advice does not carry the risk that some presume. This includes checking whether the firm is regulated, researching experience, reviewing compliance processes and checking pricing structures.

## Do you provide or facilitate financial guidance for members at retirement (e.g. one-to-one support to discuss options but not to make personal recommendations)?



46% Yes 49% No 5% Don't know

Almost half of Trustees (46%) provide or facilitate financial guidance for members at retirement. This has seen an 18 percentage point increase from 28% since the survey was last carried out in 2019. Financial guidance is useful for members who need one-to-one support to better understand their situation and gain a deeper level of knowledge around their retirement income options but do not wish to take full regulated financial advice.





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