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KEEPING AHEAD OF THE LEARNING CURVE

AT A GLANCE:

- 1 Demand for financial information is likely to soar once the Budget pension reforms begin in April
- 2 Many employers help staff to plan their retirement
- 3 A financial education programme can prove cost effective all round

The March Budget promised widespread reforms to pensions, including a guarantee of financial guidance. Many employers feel duty bound to help their staff, says **Nic Paton**

THE phrase ‘perfect storm’ tends to be overused, not least by journalists, but it can be argued that, for reward and benefits professionals, that’s precisely what they’re facing in April when it comes to pension provision and planning.

First, there will be the arrival of the government’s “guidance guarantee”, offering anyone retiring on a defined contribution pension guaranteed access to free, impartial guidance.

Second, in the biggest change to pensions in a generation, from April anyone aged over 55 will be able to take all or part of their pension pot as a cash lump sum, or the right, as pensions minister Steve Webb so notoriously put it, for people to splash their retirement nest egg on a Lamborghini should they so wish to do.

Combine these – and financial consultant Hargreaves Lansdown in October estimated that as many as 200,000 people may cash in pension pots in one go during the year – and it’s not hard to see why many reward professionals are seriously worried.

Equally, we might find a massive upsurge in interest from employers offering financial education, especially retirement and pre-retirement education, to their staff.

As Darren Laverty, sales and marketing director at financial adviser Foster Denovo, explains: “Financial education is not a responsibility for employers, but many feel morally obliged to do something. So there is an enormous amount of interest in this at the

moment. In the past 15 years I’ve not seen such a high level of interest.”

There is certainly room for this market to grow. Research published in October by Foster Denovo’s employee benefits arm, Secondsight, found that half of employers did not provide any financial education to their staff, with two-thirds of employees complaining they had no access to this sort of employer-funded education.

“We’ve just completed our annual research, and the proportion of organisations in the process of introducing financial education has increased by 205% since this time last year,” adds Tim Perkins, director of financial education specialist Nudge Global.

“We are inundated with requests from employers asking for help on this,” agrees Jonathan Watts-Lay, director of financial education provider Wealth at Work.

Worryingly, even before the lure of being able to gain easier access to the pension pot, a poll conducted by Wealth at Work concluded just 13% of 104 employers surveyed believed their staff were saving sufficiently for their retirement.

There was, it concluded, widespread ignorance among employees as to what income they would receive from their pension at retirement.

Watts-Lay says: “The big fear is that April is not that far away and what happens when all those employees pick up the phone to their pension department and say ‘I’d like to take some money out, please’?”

“That raises a whole host of questions. Are you just going to allow people to take money out of the occupational scheme and, if you are, what sort of functionality are you going to need to allow it to happen?”

“If you’re 55 and want to take, say, £10,000 out of your pension for a holiday or a new car, will the scheme allow you to? And what if you come back in six months wanting to take out another £10,000? Will trustees allow that money to be drawn from the scheme itself or will it need to be transferred to a third party?”

Clearly, there are a technical headaches galore here that pensions professionals will need to be working through. But, there is »

CASE STUDY
A PROACTIVE
APPROACH



THE UNIVERSITY OF LINCOLN offers a defined benefit pension scheme and so, at one level, it may be less buffeted by the government's pension changes than employers offering defined contribution schemes.

Yet if anything, as pensions manager Natasha Halsall points out, the fact its scheme is generous has made it even more important the university is proactive about educating its 1,500 employees about its benefits.

"For many years we tried to organise workshops but always found it really hard to get people to come along, and certainly anyone under 35," she concedes.

"We are conscious that within higher education there is more and more sessional work and fixed-term contracts, so people can be worried about their finances. Yet a lot of people, even in a workforce like ours that is highly intelligent, just do not understand how their pension works.

"We were finding people were opting out which, given that it's a final salary scheme, you just think 'hang on a minute'. So it's about explaining what's a massive benefit," she adds.

Three years ago the university hired Wealth at Work to develop a new financial education programme. The university runs four different types of workshops twice a year, aimed at people at different stages of their careers.

"We have done a lot to promote them: posters, banners, regular emails, word of mouth and so on. It is about being a caring employer, and making people appreciate the fantastic benefits they have available to them," says Halsall.

The events have proved highly popular – and are normally sold out – so much so the programme is being extended to students, including focusing on issues such as auto-enrolment and the importance of starting saving early.

"It comes down to perseverance. It's not going to be immediately attractive. So it can be important, for example, to think about the title. 'Tax and pensions workshop' is probably not going to grab people's attention. You need to think of something catchy," she adds.

» also a growing recognition among employers that one way to manage the transition to this new landscape may be through improved financial education.

THE BASIC QUESTIONS

The Wealth at Work survey, for example, indicated employers increasingly regard financial education and retirement planning as something critical to their businesses rather than as simply a "nice to have", with 83% making this point.

Equally positively, nearly nine out of 10 (87%) of employers believe the pension changes will lead to more demand for financial education, according to a poll by Jelf Employee Benefits.

"From the employee perspective there are three fundamental questions. First: 'tell me what are my options, and what are the pros and cons?'. To answer this it's a question of going into the workplace and outlining the options, especially helping people recognise that if they take money out they won't have it in later life. you need to explain the advantages and disadvantages of the trade-off," says Watts-Lay.

He goes on: "Second: 'Having listened to all that, now I need to work out what's right for me, including looking at all my assets, for example ISAs and any assets my partner holds'. That starts to go down the route of one-to-one, regulated advice or guidance.

"Third: 'How do I implement what I believe is the right course of action for me and where do I go to execute those options?'. That is about having access to a service provider who can execute against all three of these questions."

One of the big difficulties for employers is that, while they can provide education, they cannot directly offer the sort of financial guidance outlined in the guidance guarantee. At the same time, many in the financial industry are warning of a "guidance gap", where demand will exceed supply. Or, as Lavery puts it: "There's a lack of advisers just when the need for advisers is at its highest."

Perkins explains: "Employers know they need to be giving more support but they are petrified about 'advising' employees. So it's about giving people tools to help them make the right decisions for themselves.

»

» “Financial education has traditionally been about holding workshops. That has been useful for the minority who turn up, but they are often the ones who need the least support. It is the majority who have their heads in the sand that you need to be reaching,” he adds.

To this end, online financial tools delivered direct to the desktop are becoming more popular. Even if they’re unlikely to replace the in-depth discussion you’ll commonly get in a workshop, they can be valuable in kick-starting the awareness-raising process and offering basic strategies and solutions.

For example, financial education provider AHC provides tools, including a “cost of delay” calculator, points out head of engagement Karen Heath. “This demonstrates just how much you can lose by delaying being in a scheme, as well as helping to encourage people not to opt out.

“We also have a ‘small change’ modeller, which shows people how just a small change in their lifestyle – for example putting the money they’d otherwise spend on a morning coffee into their pension – can make a huge difference over time.”

CONSIDER THE WHOLE PICTURE

Financial providers are moving in a similar direction. For example, Robert Cochran, pension development manager at Scottish Widows, points to its new “retirement explained” tool.

“What we’ve built is something that can tell people what they could do with their pot of money but which also explains some of the other factors. For example, people often dismiss the contribution the state pension could make when in fact it might be one of their biggest pots on retirement.

“It’s about trying to encourage people to think about how they are going to spend their money in retirement. The fear is from April employers are going to be inundated with enquiries from staff wondering what they need to do with their pension assets. In reality hardly any employees will need to do anything differently, but the challenge for employers will be how to respond to that without giving advice,” he adds.

What then, finally, should employers therefore be thinking about when putting a financial education package in place?

The first thing, argue both Foster Denovo’s Lavery and Nudge Global’s Perkins, is to recognise the business case for making this investment.

Lavery, for one, calculates the £10,000-£20,000 ballpark cost of a programme for a company of around 500 people will commonly very quickly pay for itself by employees thinking more closely about their retirement options, and often as a result deferring when they take retirement.

Perkins cites the example of a firm he worked with recently that used a financial education programme as a springboard for relaunching its pension and refreshing a number of salary sacrificed-based benefits, both of which led to savings.

“You have to take a broad view. It is not just about providing another employee benefit: it can be an important driver in terms of creating return for the business, for example around awareness of things like salary sacrifice,” he points out.

Second, while it makes sense to target specific demographics within your workforce – and for a younger audience it might, for example, be a good idea to highlight things such as auto-enrolment – it is also important it is holistic, so not just covering pensions but the value and role of other assets within the retirement “mix”.

“Organisations are realising that there is no point in educating and supporting people on pensions in isolation; it has to be part of a wider context, alongside things such as mortgages, dependents, other assets and so on,” says Perkins.

“One of the things with financial education is that if you leave it to just before you retire, that could be too late as you just won’t have time to put things right. It has to be about building an ethos of financial education throughout your career,” agrees AHC’s Heath.

“It needs to be tailored to your workforce; if you’re going to engage people it needs to be done on a targeted basis. Employees need to see it as a way to empower them to take the actions they need to take.” **R**

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The new pension regulations come into force in April 2015 and bring a whole new world of choice on how to generate income in retirement. And it's not just about pensions - all savings will need to be taken into account (such as ISAs) if retirement income is to be properly considered.

We have a complete service offering to help ensure your employees are informed and can take appropriate action - not just at the point of retirement but in the years leading up to retirement and beyond.

1. What do I need to know?

Financial education can be delivered via many routes such as seminars, webinars or through online tools but the most important thing is it will be tailored to your employees based on the benefits you provide. It will help your employees understand the advantages and disadvantages of all the new retirement income options available. In other words, it explains to them what they need to know!

2. What is right for me?

Individual guidance and support can be provided including a helpdesk and fully regulated advice. Questions can be answered such as, 'should I retire now, delay retirement or work part time?' and 'how should I take my income?' Also, other considerations such as their partner's pension and savings can be taken into account.

3. How do I do it?

We can then help them implement their chosen retirement income plan in line with their requirements whether that is taking some form of drawdown, buying an annuity or a combination of options. Many employees may want to make a series of decisions over time rather than a single choice at retirement and we can support them through this.

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