

Survey results reveal employers have still not adapted to pension changes

The pension freedoms changed the face of retirement income options for many members of defined contribution (DC) schemes. It is clear that both employers and employees need to adapt to these changes to benefit from the flexibilities and to make the right choices in the lead up to and at the point of retirement. Now the dust has settled, what are employers doing to support their employees through this process and how far have they come with adapting to the changes?

WEALTH at work, a leading provider of financial education in the workplace, supported by guidance and advice, conducted a survey to explore this. Jonathan Watts-Lay, Director, explains some of the key findings including how employers still have a long way to go to adapt to the pension changes and where they can go for support.

Employees heading towards retirement income disaster?

Survey results reveal that, when no glide path is selected by employees, 43% of employers will still default employees to an annuity tracked glide path, this is despite a significant fall in annuity purchase as a preferred option for employees.

This is pretty alarming given the significant fall in annuity purchase over the last 18 months. In the new world of freedom and choice, in pensions, an annuity tracked glide path might not be the most suitable option and it may leave many on an investment route which is not correctly aligned to their retirement plans. This could potentially result in a reduced income in retirement, with what may be for some almost disastrous consequences. It is crucial that employers provide financial education about the different glide path options available in order for employees to make appropriate selections to help optimise income at-retirement.

The survey results also show that only 11% of employers believe their employees are saving enough for their retirement.

It is deeply worrying that employers believe that employees are simply just not saving enough. Whilst this is a concerning problem, there are also increasing numbers of employees auto-enrolling at levels which are almost certainly too low to provide sufficient savings for a secure retirement.

Employees unable to access the new pension flexibilities through their workplace

The results reveal that over a quarter (26%) of employers do not allow their employees to take money from their pension (from age 55) whilst they are still working for them.

This is not a surprising finding as employers must be worried about the effects of pension depletion; their employees may not be able to afford to retire when they want to, if they access their pension pots early.

Additionally, results reveal that almost one third (32%) of employers do not provide access to the new pension flexibilities in their scheme at-retirement.

The fear of employee pension depletion, coupled with the increased cost of administration or simply not having the infrastructure in place to provide full access, could explain why employers are not providing the new pension flexibilities.

Finally, the survey also found that 40% of employers do not offer their employees financial education around the pension flexibilities at-retirement.

It is essential that employers provide financial education around the pension flexibilities as without this, they could be left vulnerable to making poor decisions. Professional financial advice following education will further help avoid suffering the consequences of making poorly informed decisions.

But it's not all bad news as there are providers like us who can deliver a full service, from financial education and guidance, supported by regulated advice and then ensuring the appropriate service provision is available to implement all options at retirement – whether that is an annuity, drawdown, a cash withdrawal, or indeed a combination of options over time. ■



Jonathan Watts-Lay
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WEALTH at work

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All statistics quoted are from the WEALTH at work: Pension Changes Survey - Our Survey Results 2015. This is available at www.wealthatwork.co.uk/corporate/2015/12/03/pension-changes-survey-our-results-2015/