

# overcoming the risks at retirement.

Survey results 2022

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# introduction.



**Tim Middleton,**  
Policy and Affairs Director,  
Pensions Management Institute

Historically, Trustees have not needed to give much consideration for the needs of members who are approaching retirement age. In the era of defined benefit (DB) pension schemes, members had no significant decisions to make: a default retirement age would determine when benefits would commence and there was no significant choice as to the form that benefits would take.

Since 2015, however, the landscape has been very different. In the private sector, DB schemes are commonly closed to future accrual, and members with benefits retained within them are a shrinking minority. Active accrual is most commonly through defined contribution (DC) arrangements. George Osborne's Freedom and Choice reforms opened up the decumulation options available and have been sufficiently attractive to persuade many members with DB benefits to transfer to a DC arrangement in order to take advantage of them.

The range of choices available – and the increasing scope for mistakes and exposure to fraud – has made Trustees aware of the duty of care that they have to members approaching retirement age. The minefield of choice has given members the opportunity to use their retirement benefits in ways that closely match their specific requirements. However, with this choice comes a range of risks. Members are commonly unaware of the tax implications of their choices, and many fail to understand the nature of longevity risk.

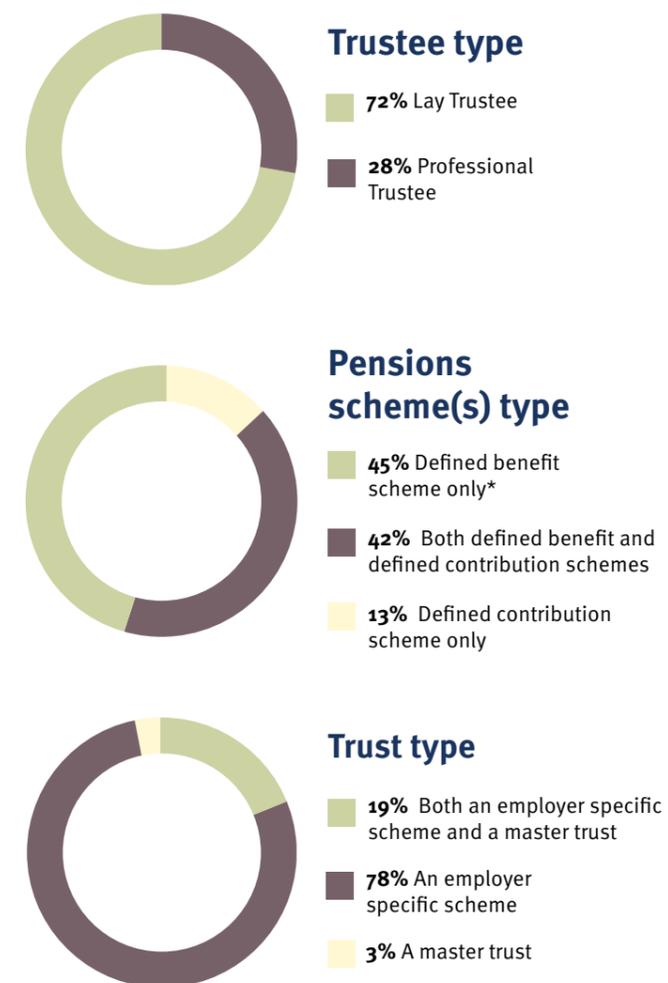
Our new survey examines the extent to which Trustees are aware of the risks faced by members making retirement decisions and assesses how Trustee boards seek to manage those risks. It is a detailed and thorough analysis of the steps taken by Trustees to guide retiring members through the most hazardous phase of scheme membership and provides a priceless insight into the Trustee strategies concerning members' retirement options and their effective management.

## About the survey

Pension scheme members now have to grapple with a multitude of risks which have become increasingly complex and uncertain. The pension freedoms and shift from defined benefit to defined contribution pensions has transferred more risk to pension scheme members, many of which lack the financial awareness to be able to manage them.

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

The survey received 64 responses from a range of Trustees that were completed online from January to April 2022. Figures have been rounded to the nearest whole number or to 1 decimal place where necessary.



\* This covers defined benefit schemes with an associated defined contribution AVC arrangement

## Key findings

**92%** of Trustees fear their members approaching retirement will be targeted by scammers.

**88%** of Trustees are concerned that their members may not understand the tax implications of accessing their pension.

**86%** of Trustees have concerns about their members' lack of understanding of the risks they face if they transfer out of their defined benefit scheme.

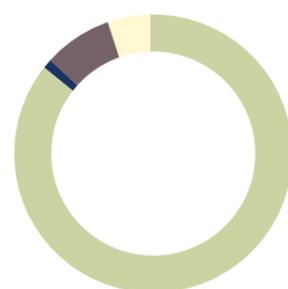
**73%** of Trustees are apprehensive that their members' money will run out too soon in retirement.

**70%** of Trustees worry about a lack of engagement with their members at 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 risks around transferring out of their defined benefit pension scheme

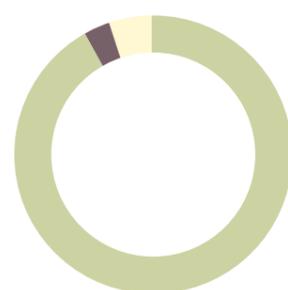


86% Agree 8% Neutral 5% Not relevant\* 1% Disagree

Our survey indicates that more than eight out of ten (86%) Trustees are aware that their members may not understand the risk of transferring out of a defined benefit (DB) scheme. According to XPS Pensions Group, the volume of DB pension transfers has continued to decline this year. It's unclear yet if this is related to the measures put in place to enable Trustees and scheme managers to block or pause suspicious transfers. However, whilst this might be an effective measure to help prevent pension transfer scams, there is still the issue of people needing a clear understanding of whether the pension transfer they are planning to make is suitable and how to manage the money once transferred. To help members make an informed decision before entering into a pension transfer, many Trustees now facilitate access to financial guidance or regulated financial advice having gone through a due diligence exercise.

\*I am a Trustee of a defined contribution scheme only

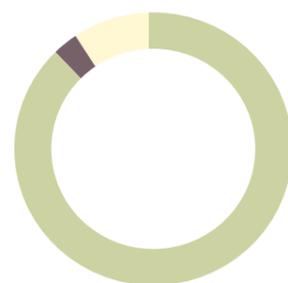
## I am concerned about members being scammed out of their retirement savings



92% Agree 3% Disagree 5% Neutral

Our survey found that nearly all (92%) of Trustees are concerned about their members being scammed out of their savings. Action Fraud reported a doubling of the average amount lost by pension scam victims in 2021 to £50,000 from around £23,689 in 2020. The strain on household finances caused by the cost of living crisis could mean that some members are more vulnerable than ever this year.

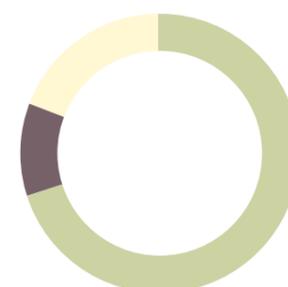
## I am concerned about members not understanding the tax implications of accessing their pension



88% Agree 3% Disagree 9% Neutral

Almost nine out of ten Trustees (88%) 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. There are various strategies which can be taken to create tax savings opportunities but members may not be aware of them.

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



70% Agree 11% Disagree 19% 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 to make whilst overcoming the reticence to engage with their pensions is a major challenge. This experience is reflected in our findings which show 7 out of 10 (70%) Trustees are concerned over a lack of engagement with their members. Empowering members with financial education and guidance is fundamental in improving engagement. Whilst information may be provided via a website or leaflet, actually having someone to speak to about their pension savings is far more engaging. This could include face-to-face seminars or digital solutions such as interactive online seminars, or even financial coaching over the telephone.

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



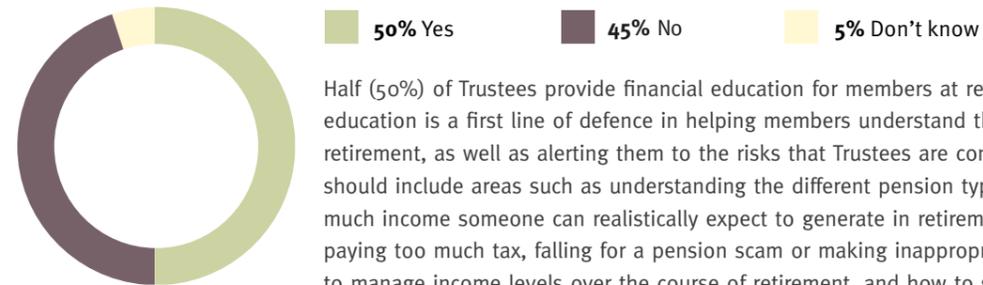
73% Agree 14% Disagree 13% Neutral

Around seven out of ten (73%) Trustees fear that their members will run out of money too soon in retirement. This may be due to not saving enough throughout their life. The Pensions Policy Institute published a report warning that most of those currently over 50 do not have adequate funds to achieve a 'comfortable' retirement as defined by the Pensions and Lifetime Savings Association. Additionally, the pension freedoms and the shift from defined benefit to defined contribution pensions, has very much put longevity and investment risk in the hands of individual members, and poor decision making at retirement can be far too easy. This can include not managing investments appropriately or underestimating life expectancy. The Organisation for Economic Co-operation and Development note that many people will get this calculation wrong and on average, individuals will outlive their money by between 8 and 20 years in retirement.

# part 2: member support.

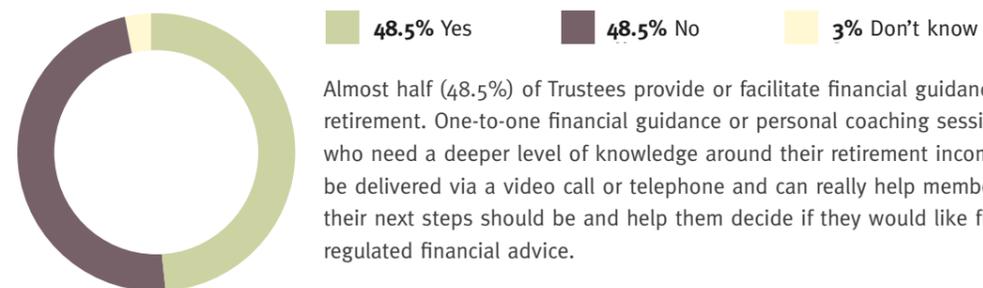
# expert comment.

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



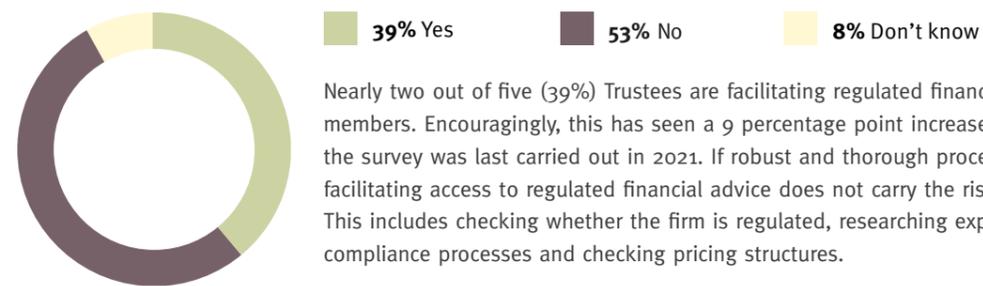
Half (50%) of Trustees provide financial education for members at retirement. Financial education is a first line of defence in helping members understand their options at retirement, as well as alerting them to the risks that Trustees are concerned about. Topics should include areas such as understanding the different pension types they have, how much income someone can realistically expect to generate in retirement, the risks such as paying too much tax, falling for a pension scam 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 financial guidance for members at retirement (e.g. one-to-one support to discuss options but not to make personal recommendations)?



Almost half (48.5%) of Trustees provide or facilitate financial guidance for members at retirement. One-to-one financial guidance or personal coaching sessions are useful for those who need a deeper level of knowledge around their retirement income options. These could be delivered via a video call or telephone and can really help members understand what their next steps should be and help them decide if they would like further support such as regulated financial advice.

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



Nearly two out of five (39%) Trustees are facilitating regulated financial advice for their members. Encouragingly, this has seen a 9 percentage point increase from 30% since the survey was last carried out in 2021. 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.



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

The financial decisions that members need to take are increasingly complex. Pension Freedoms which came into force in 2015 has firmly put the control in the hands of individuals, but with this comes increased risk. It is likely that those who do well are those who are the most informed. Unfortunately, many find this whole area very confusing and are fated to make mistakes.

Many people underestimate how long their savings need to last and are not equipped to deal with market volatility or taxation. Scamming of the over 55s is widespread and a lifetime's savings can be lost in a blink of the eye. As more and more people retire on defined contribution savings alone, this situation will only worsen unless these challenges are overcome.

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.

This against the backdrop of a global pandemic, and more recently the cost of living crisis, will only add to the already significant challenges that members and schemes face. 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.

It's encouraging to see that a significant proportion of Trustees are providing support in terms of financial education, guidance and regulated financial advice to alleviate some of the risks at retirement.

The earlier this is provided in an individual's life, the more likely they are to make better decisions. Also, income needs are likely to vary throughout what may be 25 years or more in retirement and cognitive decline may hinder decision making, meaning that ongoing support is likely to be required.

Ultimately, empowering members by providing them with access to appropriate support at the right time, can improve financial capability and resilience, which should result in better retirement outcomes for all.





## Survey results 2022

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Published 09/05/22

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