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Ros Altmann: Missing the point of the pension reforms

By **Ros Altmann** | 8th February 2021 3:00 pm

Concerns that lockdowns and job losses might entice more people to access their pension cash have given us plenty of scare stories about armies of savers heading for retirement penury. Many have long believed pension freedoms are failing savers, but such conclusions are misguided.



The landscape today is a major improvement on the previous system. Yes, more progress is needed to ensure the reforms work properly and more help is needed to understand the rules, but there is much unwarranted criticism.

Of course, many people are taking money out of their pension funds — that was the idea if they needed to, rather than effectively forcing the majority of defined contribution savers to buy an annuity if they wanted withdrawals.

But only a tiny fraction of the 4.7 million eligible DC pots have been touched, with less than £40bn withdrawn since 2015 —under 0.1 per cent of total private pension wealth.

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These are likely to be one of several funds, with 90 per cent of those taking the cash having other retirement income. Many have used the money to pay down debts — probably better for their needs than buying small annuities.

Valid concerns have also been expressed about people withdrawing money before age 65. However, one must compare this with the fact that, previously, the majority of annuities were bought below age 65, which is generally too young to achieve good value.

Just because twice as many people are now using drawdown rather than annuitising does not indicate failure either. Again, this was the point of the reforms.

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But it is worrying that so many drawdown customers receive no financial advice and most are staying with their existing provider, rather than finding better products elsewhere. If good-value drawdown products with well-designed investment approaches were prevalent, this would not be such a concern, but many of the major providers' standard products tend to be rather expensive.

People in their early 60s and still working should normally keep their money in a pension, rather than drawdown. However, at least the new rules enable customers to change their decision in the future, unlike irreversible annuity purchases.

Increasing take up of Pension Wise will help more people recognise the complexities or tax implications, as well as being a conduit to independent financial advice.

Overall, I believe pension freedoms provide much better retirement outcomes and I do not agree with critics who seek a reversal. However, there is clearly more to do to help people make better-informed decisions and ensure the system works fairly for all.

Ros Altmann is former pensions minister

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