10 years of pension freedoms

Darren Winfield considers the various impacts and developments that have occurred due to a decade of freedom and choice

The introduction of pension freedoms, aka 'freedom and choice', in 2015 marked a significant shift in how individuals' access and manage their retirement savings. Here, we explore 10 key areas that have defined this era of pension freedoms.

1. Change in consumer behaviour
The FCA's retirement income market data highlights major shifts in consumer behaviour post-pension freedoms. More retirees now opt for flexible access drawdown instead of traditional annuities, although with current higher annuity rates the focus may well shift to a hybrid approach to drawdown. Lump sum withdrawals have also increased.

Additionally, there has been a growing trend of individuals delaying retirement or making multiple withdrawals over time, rather than taking a single defined route.

2. Constantly changing allowances
One of the biggest challenges introduced by pension freedoms has been the fluctuating allowances for tax-efficient savings and withdrawals. The Money Purchase Annual Allowance (MPAA), which restricts further tax-free contributions once flexible withdrawals are made, has changed multiple times. Lifetime and annual allowances have also been altered, leading to confusion and forcing savers to constantly reassess their financial plans. Inheritance tax (IHT) will be added to this list in April 2027.

3. Scams
The flexibility afforded by pension freedoms has unfortunately led to an increase in scams. The government and regulators have taken steps to curb this, including banning pension cold-calling and requiring trustees to scrutinise transfer requests more thoroughly, but the risk remains significant.

4. The FCA thematic review of retirement income advice reset advice standards
In response to concerns about mis-selling and poor retirement income decisions, the FCA conducted a thematic review, leading to a reset of financial advice standards. The updated standards place a greater onus on advisers to ensure clients fully understand the risks of drawdown and other flexible options.

5. Trustee Investment Plans (TIPs)
TIPs have grown in prominence as they allow savings to be managed with greater flexibility and provide access to a broader range of investment options. They also enable income, including from annuities to be held within the pension and even reinvested, rather than being paid out and becoming taxable.

6. Annuities
Once the default retirement option for most pensioners, annuities saw a steep decline following the introduction of pension freedoms. However, recent years have seen a resurgence in interest, particularly as annuity rates have improved due to rising interest rates.

7. UFPLS and drawdown
These have become the dominant choices for many retirees. UFPLS allows individuals to take lump sum withdrawals with 25 per cent tax-free and the remainder taxed as income, while drawdown offers ongoing access to pension funds with investment potential.

8. Rising solutions including with-profit funds, smoothed funds, master trusts, and CDC
New and old solutions have emerged to help individuals manage retirement risks. With-profit funds and smoothed funds aim to provide stability through controlled exposure to market fluctuations. Master trusts have gained popularity, offering economies of scale and professional governance. Collective defined contribution (CDC) schemes have also been introduced, pooling investment risk among members for potentially more sustainable retirement outcomes.

9. Today's market – an overview of options
The retirement income market today offers a broad range of choices. However, this also places greater responsibility on individuals to navigate complex decisions. Increased regulatory oversight and consumer education efforts aim to help retirees make informed choices tailored to their financial needs and risk appetite.

10. Online AI-led hybrid advice solutions
The rise of technology has led to the emergence of AI-driven hybrid advice models, combining robo-advice with human financial guidance. These solutions help bridge the gap between expensive independent financial advice and the need for tailored retirement planning.

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