Savings industry warns of poverty in old age after pension pots emptied

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Baroness Altmann, a former Conservative pensions minister, says "proper analysis is urgently needed to see the full picture"

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Many of the hundreds of thousands of people taking advantage of the new pension freedoms each year could end up in poverty after extracting £30 billion from their pots in the first five years alone, the savings industry has warned.

People were in danger of exhausting their savings and running out of money in old age, the Association of British Insurers said, as it called for new safeguards.

In 2018-2019, 350,000 pension pots were completely emptied of money, raising questions about whether savers were living beyond their means and exposing themselves to hardship later.

“If the current rate at which many people are typically withdrawing cash from their pension pots continues, then future pensioners will be at risk of running out of money in retirement,” the ABI said.

The coalition government delighted savers and stunned the pensions industry when it announced that from April 2015, people would be allowed to take their entire pension pots in cash from the age of 55. Ministers said at the time that people should be allowed to do what they liked with their money, including buying a Lamborghini if that is what they wanted.

The rule changes also made it easier for people to keep their pots invested in the share market even after retiring. Previously, strict rules meant that most people at retirement used their pots to buy an annuity — a guaranteed income for the rest of their lives.

The ABI said that five years on, it was clear that the reforms had placed much greater responsibility on the shoulders of savers to ensure they made the right choices. Further reforms and safeguards were needed, it said, as too many people were making complex and vital retirement decisions without help. According to data from the Financial Conduct Authority, 48 per cent of people who accessed their pension pots in 2018-19 did so without regulated advice or guidance.

Full withdrawals from pension pots had risen to their highest level since the freedoms were introduced, the ABI said. Some 40 per cent of withdrawals were at an annual rate of 8 per cent of the pot, which was not sustainable and could leave some people with nothing in older age.

The freedoms only apply to so-called defined contribution pensions, which are now the norm in the private sector. Public sector workers in more generous defined benefit schemes were not directly affected.

Baroness Altmann, a former Conservative pensions minister, cautioned that the ABI might be exaggerating the danger. She said: “Most people have several pension funds and, if they are withdrawing one but still have others, they will not be at risk in the way suggested. We just don’t know and proper analysis is urgently needed to see the full picture.”

People on average have 11 different employers over a lifetime, so couples in future could conceivably accumulate 22 pots plus two state pensions.

The ABI called for the government-backed Money and Pensions Service to offer “later life reviews” to help people prepare for retirement. It also called for a retirement commission to devise policy to produce better retirement outcomes.

The report came as the Department for Work & Pensions issued a report hailing the success of a parallel pensions reform of the last decade, the nudging of millions of people into pension saving for the first time through automatic pay-packet deductions.

Since it began in 2012, 10.2 million people have been automatically enrolled in workplace pension schemes. The government-backed National Employment Savings Trust, the default scheme, now had 7.9 million members.

The April 2019 rise in minimum employee deductions, from 3 per cent of annual pay above £6,136 to 5 per cent, had had only a modest impact, it said, with opt-out rates only showing “a small increase” as a result.