The long and winding savings road

Young savers have a long pensions journey ahead of them and an opportunity to amass significant pension pots. But as many remain disenfranchised with retirement saving, the challenge remains for the industry to engage with this demographic like never before

Young savers have the biggest opportunity of all sections of society to acquire a significant pension pot, due to time being on their side. However, as some might not realise this yet, the pension industry giants are jostling to be the first to fully open up their coffers. Many initiatives have been taken to engage this group and the government's 2017 automatic enrolment review announced even more, but the industry must take big strides to get young people fully engaged.

In the government's review, it recommended that the auto-enrolment age threshold be lowered to 18, instead of the current minimum age being 22, as well as removing the lower earnings limit to help those earning less, primarily the young, save more into their pension.

Engagement has been the main issue for this group of savers and State Street Global Advisors head of European defined contribution investment strategy, Alistair Byrne, believes that auto-enrolment will go a long way to change this. "Auto-enrolment is a helpful nudge to get younger people to start saving at the beginning of their careers and thus benefiting from employer matching contributions. Joining the scheme and getting in the habit of saving will be more important than high initial contributions", Byrne says.

According to Byrne, evidence of this can be seen in the low opt-out rates amongst millennials, currently at 8 per cent, showing that many appreciate the help to begin saving.

However we now know that the government's recommendations will not be implemented until the early 2020s, a delay not likely to be helped by the resources that are being funneled by Brexit, so many should be concerned about a government making promises beyond its term in power.

While there are new initiatives being taken to engage a younger audience, questions remain over how these messages are being communicated and the industry needs to be careful it is not coming across as condescending to young savers.

Hargreaves Lansdown senior pensions analyst, Nathan Long, believes many in pensions seem to have a "narrow focus" on encouraging higher contributions, rather than the returns that are generated by the investment.

He said: "It is easy to typecast young people as being spendaholics, but the reality is there is only so far pay packets can stretch.

"Rather than endlessly pressure younger workers to pay in more, how about helping them to understand that with such a lengthy time horizon, investing more heavily in equities can reap long-term rewards. It is a more complex message, but ultimately for young people it is a solution that will suit their circumstances better."

Other means of savings are becoming available and incentives to help with house purchases are making them more attractive to a younger generation struggling to get on the housing ladder.

Byrne says: "Some may consider a Lifetime ISA (LISA) to help with their housing purchase but they should not forgo employer matching pension contributions to do so."

In addition, there is an additional burden on graduates, with them bearing an average student debt of £40,000. A recent survey by Royal London suggested that the cost of paying back student debt could reduce graduate pension pots by almost 20 per cent, with an estimated pension pot of £185,000 for graduates without student debt, compared to £150,000 for those with the debt.

This is put into perspective by Royal London's findings that a non-graduate on non-graduate wages will have an estimated pension pot of £85,000.

The fact of the matter is that young savers face a different path to retirement than the generations that came before them. Also, for this young group it is likely that the pensions landscape will be completely different by the time they need to retire – making the issue of engagement ever-more important.

Written by Theo Andrew

Get them to the gig

Those employed in the 'gig economy' can be forgiven for thinking they have been overlooked with retirement saving. While the government and the pensions industry continue to work on solutions for this ever-expanding workforce, it is gig workers who are losing out as they edge towards retirement

The gig economy remains one of the biggest challenges for the pensions industry. A worker who is self-employed, or working on a freelance basis, will not have the same opportunity as a full-time employee to save into a pensions pot, and while some may not want to, the moral conundrum remains over giving them an equal opportunity to do so.

In the 2017 Automatic Enrolment Review the government acknowledged that more has to be done in order to get the gig economy saving, and with the number of self-employed now at five million (15 per cent of the UK's workforce) it has never been such an expensive issue.

Research from Now: Pensions suggests that workers in the gig economy could be losing out on over £180 million of employee pension contributions annually, once the 3 per cent employer contribution becomes the minimum rate in April 2019, while Zurich's *Restless Worklife* study found that extending auto-enrolment to gig workers could boost pension pots by up to £75,000.

The government has admitted that the current automatic-enrolment framework is "not appropriate" for the self-employed, and stated that it will continue to test ways in which it can get the gig economy to put more money away for pensions.

In order to get around this, SEI DC managing director EMEA Steve Charlton suggests that for many self-employed workers, who don't necessarily have a

monthly pattern of income, the industry needs to modernise and become easier to engage with.

He says: "I think one of the problems of the pension environment, as it stands currently, is that people have a perception that saving for a pension involves making regular contributions over a long time … However, this pattern has little or no relevance for those whose earnings might be infrequent and variable in size."

Royal London director Steve Webb says: "Financial planning of any sort can be difficult for those whose income is irregular and unpredictable, such as those working in the gig economy. There is a strong case for saying that a first priority for the financially insecure is to build up short-term 'rainy day' savings to tide them over either sudden, unexpected expenditures or to keep them going when work dries up."

A huge industry problem is that some employers are "shirking their responsibilities" and exploiting the "grey areas between employment and self-employment", and Webb is calling for more action to be taken against this.

"There are certainly grey areas between employment and self-employment, as recent court cases have shown, and there is a strong case for making sure that those who are genuinely employers are not able to avoid responsibilities like sick pay and pensions by pretending that all their workers are 'self-employed'," Webb says.

However, some in the industry feel as though the government has forgotten its responsibilities when it comes to the self-employed, particularly as the 2017 Conservative manifesto promised to "support the successful expansion of auto-enrolled pensions" and "make it available to the self-employed".

Hargreaves Lansdown senior pensions analyst Nathan Long says: "The government seems to have turned its back on the idea of automatically sweeping them into long-term savings through the tax return system, so it looks like technology will be left to pick up the pieces.

"Success could lie in developing simple nudges, like a reminder to save at the end of the month, or when money is paid into your bank account. There may also be creative ways to set minimum and maximum monthly pension contribution limits to help ride out cashflow issues."

While it's clear that the industry has ideas, the problem lies in the fluid nature of the gig economy. According to Webb, young workers might only plan to do a few years doing gig work, but for many, insecure self-employment is a "way of life", and the government needs to find a way to nudge them into saving if they are ever going to be able to afford to retire.

Written by Theo Andrew

Vulnerable savers

Helping vulnerable savers is an issue that the industry knows it has to confront, with clear steps being taken to do so. However, sensitivities remain over how to define this group and no silver bullet exists for how to cater to their needs

For the pensions industry the protection of vulnerable people is a sensitive topic for which there is seemingly no silver bullet. It is an issue that many in the industry are trying to wrap their heads around, while even trying to obtain a consistent definition of a vulnerable individual is difficult.

In November 2017, the Association of British Insurers (ABI) published a guide to help firms identify and support vulnerable customers through a number of measures, including implementing a traffic light warning system, with red being those most in need.

The association highlighted characteristics such as below average numeracy and literacy skills, mental-health issues or those who have suffered a significant life event. According to the FCA, 50 per cent of consumers (or 25.6 million people) show one or more of these characteristics, highlighting the scale of the challenge for the industry.

ABI assistant director and head of retirement policy, Rob Yuille, says: "This initiative highlights that providers really want to deliver the best possible service to all customers, and take their responsibilities towards vulnerable customers extremely seriously."

Yuille stresses that there is already much good work within the industry on these issues, and suggests the guide will be a useful tool to help their customers make the right financial decisions.

Despite this, Royal London director of policy and external communications Steve Webb believes the government

needs to do more.

He says: "The most important thing governments can do to make sure vulnerable people are helped to save for a decent retirement is to make everything as automatic as possible. Pensions and personal finances can be a struggle at the best of times, and expecting someone to focus on pensions at a time of bereavement or family breakdown is almost certainly unrealistic.

"This is why systems such as automatic enrolment, which default people into a good place unless they actively opt out, are so important."

Automatic enrolment means that more vulnerable people will be saving into a pot than before and by setting default contribution levels it takes away another decision.

SEI defined contribution managing director EMEA Steve Charlton agrees: "The governance standards that wrap around all of these automatic processes means that the needs of the saver are at the heart of modern pension saving provision and vulnerable savers should be able to take comfort from this."

Despite this, a number of questions remain around the levels of contributions, and while it might be advantageous for a rainy day, many industry experts still believe that it's not going to be enough, especially as finding employment for some types of vulnerable savers is a challenge.

Agreeing with the issue, Hargreaves Lansdowne senior pensions analyst, Nathan Long, says: "Access to work remains the biggest barrier to saving for this group. The auto-enrolment review will keep the earnings needed before being joined to a pension the same, which does nothing to bring in low paid, part-time workers that are currently missing out."

Elsewhere there are calls for preventative measures throughout the industry, such as greater financial education for vulnerable citizens in particular.

Webb adds: "For those who are able to engage with their finances, making sure that there are good sources of impartial advice and guidance available is crucial. Vulnerable savers should not be faced with a hard sell and could be at risk of being exploited at a difficult time in their life.

"Free and impartial services such as PensionWise and The Pensions Advisory Service are important resources at such times. In addition, pension schemes and pension providers need to make sure that poor administration does not add stress to those already going through a difficult time."

Recent steps have been taken by the Work and Pensions Committee, when in December 2017 it demanded that the government introduce a cold-calling ban by June 2018 to protect vulnerable individuals from scammers, a report that has been widely embraced by the industry.

Despite the scale of the challenge, Long anticipates that the industry will make huge strides in the coming years and anticipates a more nuanced approach in regards to communicating with those who need the most help when saving into or accessing their pension pots.

Written by Theo Andrew

High earners – avoiding the red tape

With new complex tapering rules taking effect at the end of January, high earners will be have to be on high alert in order not to get caught out with their pensions saving

High earners have been hit with a number of regulation changes over recent years, which have affected the amount of tax relief benefits they can receive. Although this may only be a problem for the 1 per cent, confusion still reigns over how to get the most out of their pension savings.

The 2016/17 tax year was the first in which complex 'tapering' rules kicked into action, affecting employees earning over £150,000, but also those whose income may be less, but when other sources of income such as dividends, property and interest, combine to reach over this new limit.

The new regulation means that those earning between £150,000 and £210,000 have their ability to save and claim tax relief reduced from £40,000 per annum to £10,000 per annum, the closer they get to the £210,000 income level.

According to Hargreaves Lansdown, the changes could affect around 364,000 people, meaning that people completing tax returns in January may have "inadvertently overfunded" their pension and will face a tax penalty.

The senior pensions analyst for the firm, Nathan Long, believes this could target some savers unfairly and that it could also lead to "unintended consequences" for employers fighting an aging workforce.

Long says: "High earners have been constantly targeted by piecemeal pension tweaks, which whilst crude, are easy for HMRC to administer. The change to the annual allowance for those with income over £150,000 is the most horrific example due to its devilish complexity.

"Pensions are no longer the default home for everyone's long-term savings due to this salami slicing of reliefs, and that is a problem. The introduction of the Lifetime ISA offers little assistance as there are few people with income over £150,000 under age 40."

It is widely believed that high earners are typically able and well-motivated to save, but these changes may mean they will be need to be much more disciplined about saving in a variety of ways.

Charles Stanley senior financial planner, Anne McClean, says that saving via automatic enrolment will not be enough to sustain their lifestyle expectations and suggests that savers should work out what income level they need to achieve the right level.

McClean says: "There are some behavioural economic issues at play here to a degree, such as anchoring on the level of pension contribution set by the employer – 5 per cent employer and 5 per cent employee pension contributions will not make for a large income. What savers should do is work out the income level they need and try to target contributions to the requisite level.

"One startling statistic is that six out of seven higher-rate taxpayers in employment will become basic rate taxpayers in retirement. Of course many high earners may have a second property and increasingly see this as their retirement nest egg."

Despite this, State Street Global Advisor head of European DC investment strategy, Alistair Byrne, believes that we "need not worry too much" about this group, adding that they are likely to have additional assets such as housing equity and non-pension savings and the industry should avoid complicating the system for the wider membership to "cater for the more specific needs of the better off".

There are some issues with this line of thinking however, as a retirement system which is fair across the board is likely to work better for all. Also, according to Redington head of defined contribution, Lydia Fearn, there is a danger in the assumption that they can afford to look after themselves.

She says: "We need to be careful we don't make sweeping generalisations because of the large divide in the cost of living between North and South England. People typically live to their means and even wealthy people can make mistakes when it comes to savings.

"They need to be mindful that they may not be able to work forever and need to save in order to provide for themselves in later life."

Written by Theo Andrew