Summary
- Millennials and self-employed people could precipitate a move away from pension saving.
- Other savings vehicles could become more appealing if the EET tax rule in pensions was changed.
- Helping savers identify more immediate goals could improve engagement with schemes.
- Personalisation is also a key element in keeping members interested.
- Employers and technology have a big part to play.

Standing out from the crowd

Pension schemes are struggling to win any popularity contests in the broader context of retirement provision. How can it win appeal in a fast-changing savings culture?

Imagine if retirement savings products and strategies had to undergo their own beauty parade.

Cheap investment platforms, second homes, ISAs, and lottery tickets would all parade their wares, dazzling and enticing savers. Then the mundane pension scheme would make its unspectacular entrance. On the one hand, savers would be impressed by the tax relief on offer and potential free money provided by employers. On the other, they would perhaps be put off by the lack of accessibility and flexibility. And then, hanging in the background like a bad portrait of Sir Philip Green, would be a sorry tale of high-profile DB failures, excessive costs and scamming, all clouding their judgement.

So, would they pick the pension scheme? Possibly. But if the savers were self-employed or a millennial, then they would be more likely not to.

The Association of Independent Professionals and the Self-Employed (IPSE) says that 15 per cent of the UK's workforce is now self-employed. Of that percentage, only 31 per cent are saving into a pension. The RSA believes this figure to be much lower, at 17 per cent.

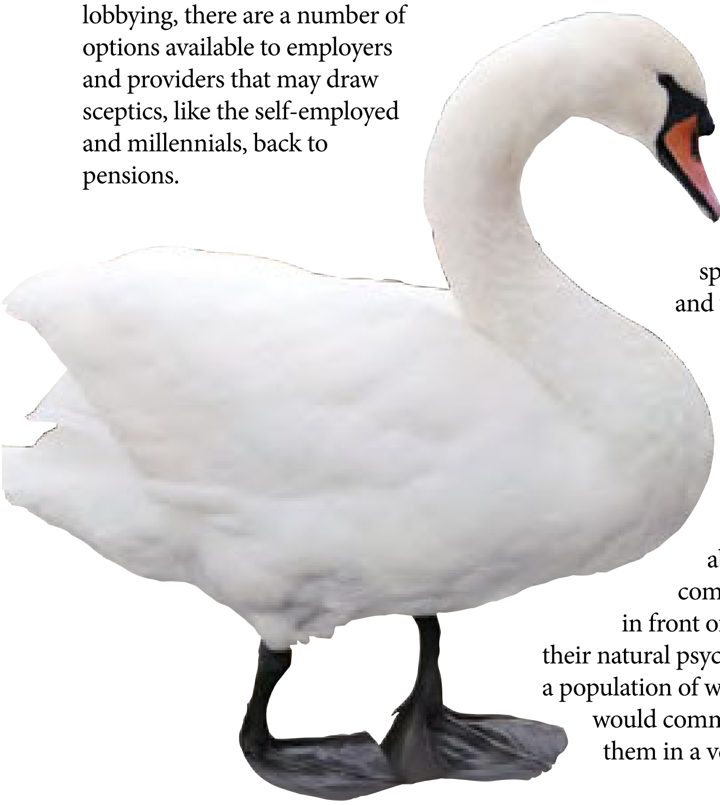
Meanwhile, there is growing evidence that younger workers will not be happy to continue acting as nudge theory guinea pigs.

"If you look at some research on millennials, what's important to them is having access to savings," says Newton Investment Management head of DC Catherine Doyle. "It begs the question, should we be combining products that have traditionally been more siloed?"

This question could be answered for the pensions sector by the government if it ever follows through on various threats to take another look at tax relief, which would rob pension schemes of one of their most attractive features.

"That would be a catastrophically bad thing," says the PMI's technical consultant, Tim Middleton. "We must quash any possibility of interference with the existing EET model."

Assuming any potential alteration to tax breaks is headed off by successful lobbying, there are a number of options available to employers and providers that may draw sceptics, like the self-employed and millennials, back to pensions.



Clear goals

One way to make pensions more appealing is to make them more immediate.

JLT Employee Benefits awards and benefits consulting director, Andrew Drake, points to a study that JLT has conducted with business psychology company Robertson Cooper that underlines this point. It has found that an event such as retirement is so far away that people struggle to give it the attention it deserves.

"Pensions for the majority seem so far away that they think they don't need to worry about it," he says. "So if there is a way we can break up the goals and make them a bit more 'now', that would help."

The key to establishing short-term targets, says Drake, is to switch how companies and providers think of savers. JLT's study has caused it to stop viewing scheme members in age brackets where a 25-year-old typically has little interest in a pension and a 55-year-old is fully engaged. Instead, it now looks to assess them by their character traits. By cross-referencing two key character attributes (neuroticism and conservatism) JLT has come up with a profile quadrant of happy savers, happy spenders, worried savers and worried spenders.

"If you can understand the psychological behaviour of the people you employ, then you've got a far better chance of being able to put vehicles and communication methods in front of them that play into their natural psychology. If you've got a population of worried spenders, you would communicate and educate them in a very different way to a happy saver."

"But you would never know that if you looked at it from a generational point of view."

JLT is now creating an index to help companies work out and use that intelligence to re-write the way they communicate with employees about their benefits.

Making it your own

Providing the right messages can also encourage ownership of pension pots, which naturally leads to better engagement.

State Street Global Advisers senior relationship manager, Sophie Ballard, says that many members don't view their pensions in this way. But utilising technology to enable easier access and awareness for members can encourage ownership.

"Technology such as online tools can be used to change this perception, which in turn, should encourage members to save more and reduce opt-out rates as contribution levels automatically increase," says Ballard.

Broadstone technical director David Brooks says that not enough has been done with tech to communicate with members: "I got a text today from my bank telling me what my new balance is. Why shouldn't that be a thing for my pension? The tech is there and the pensions sector is not embracing it in the way that the banks are."

Another technological development that has not been adopted as fast it could have been is the pensions dashboard. Once in place it could help savers better understand what they have built up to date and give them a better sense of control over their savings.

The problem is that not all providers are supporting it. Some are very keen, while others with zombie legacy schemes are reluctant to share their information. In the middle sits a group that wants to provide its own dashboards.

"Having lots of dashboards doesn't achieve anything because the whole point is to give a consumer a view in one place," says LEBC The Retirement Adviser's director of public policy, Kay Ingram. She argues that providers should be compelled to support the dashboard.

The concept of ownership can also be extended to the newly self-employed. Many of them will have already been auto-enrolled into a scheme. Brooks says that they should be encouraged to keep investing into those schemes.

"When they leave, that's the point to grab them and say you can take this pension pot with you," says Brooks.

"At the moment that link is missing. It always feels like it's your employer's GPP. If someone left employment and there was a strong message saying 'this is yours and you need it, you should be saving for your retirement' then that could be powerful."

A taxing problem

A more prosaic way of fostering faith in pensions is to make some tweaks to the tax system.

LEBC The Retirement Adviser has called for a restoration of the 'carry back' rule on contributions that allowed tax payers to pay contributions in the current tax year but have their contributions offset against the previous year's earnings or profits. Without it, many self-employed and others with variable earnings find it difficult to budget for regular payments into pensions with confidence.

Another change would be to allow the self-employed to claim back an advice allowance through HMRC.

"All the research from the FCA and others shows that self-employed people don't know where to go for advice," explains Ingram.

"Last year the government increased the allowance that employees can get to £500 a year, paid for by their employer. It doesn't seem fair that self-employed people don't have that allowance that they can offset against their profits. It would only require a small amendment to legislation and then they would be more likely to go out and seek advice. That would hopefully result in more take up."

The employer's role

One of the best ways to promote pension saving in the workplace is to stress the impact of the employer's contribution.

"Emphasising to employees that this is free money and that they are not going to get this additional money in any other way than through a pension contribution will get them to appreciate it more," says Middleton, who also wants employers to be encouraged to pay more in contributions.

Willis Towers Watson DC senior consultant Richard Sweetman is also an advocate of higher employer contributions: "The auto-enrolment rates are a bit upside down with the employee paying more than the employer. If affordable, the employer could switch it around. It would need legislation but it

would make pensions more attractive."

Sweetman says that they can also mitigate the threat of ISAs, and the like, by actually embracing such products and helping employees to reach their financial goals. Willis Towers Watson has begun to see some flexible arrangements being put in place that allow employees to divert some of their pension spend to alternative benefits.

"It's not fully opting out of pensions, but it's recognising that some employees may have different financial priorities through their career journey.

"If you can help people to pay off their debts then it gives them more disposable income in future years that they can use in retirement savings.

"It not only makes pensions more attractive, but also allows that customisation for the employee, so it makes the employer's benefits package more attractive generally."

Written by Marek Handzel, a freelance journalist