Summary
- Which sectors of society do not save enough is subject to debate, but generally the young, the low paid, part-time workers, women, ethnic minorities, the disabled, carers and the self-employed do not save enough for their retirements.
- Undersavers tend to have lower levels of DB and DC assets, and are more likely to receive less from the state pension than the norm. But people from underpensioned groups who are in work and are saving in a pension save at levels close to the majority group.
- Being unemployed, working part time and earning low pay increases the likelihood of undersaving for retirement, along with the shift from DB to DC, 'short-term' societal attitudes towards money management and a mistrust of the financial industry.
- Mass undersaving increases the risk of pensioner poverty, which could have a significant effect on the economy and lock older people into job roles as they are unable to retire, stagnating the job market for younger generations.
- It is subject to debate whether the new state pension and Lifetime ISA will help reduce undersaving. Auto-enrolment is seen as the most likely way to reduce undersaving, although there are complexities as to how to increase saving within the auto-enrolment process. Removing workplace inequalities and greater financial education would also help.
- The pensions industry could help reduce undersaving by providing engaging communications and eliminating jargon.

The savings crisis

Laura Blows explores why large sections of society are not saving enough for retirement and what can be done to address this problem

Over 12 million people in the UK are not saving enough for their retirement, according to the most recent figures from the Department for Work and Pensions (DWP), as revealed in its *Scenario analysis of future pension incomes* report of August 2014. As the Office for National Statistics' official labour statistics for 2014 found there were just under 40 million working age people in the UK (aged 16-64), the 12 million undersaving equates to just under a quarter of working age adults not adequately preparing for retirement.

However, when debating which members of society are undersaving for retirement, practically every group of people seem to be put up for nomination. The young, the low paid, part-time workers, women, ethnic minorities, the disabled, carers and the self-employed have all been labelled as undersavers. Also, according to PTL MD Richard Butcher, those aged 30-50 generally are most likely to be undersaving. Even higher earners could be considered entry into the undersavers group, as the DWP's report found those earning between £32,500 to £52,000 represented 38 per cent of all those undersaving for an adequate retirement income as a proportion of their earnings.

There is also contention whether the young and low paid should be considered to be undersaving. After all, the low paid could find the state pension provides a sufficient replacement income compared to their earnings in employment, PLSA director of external affairs Graham Vidler suggests.

Meanwhile, the Momentum UK Financial Wellness Index finds the lack of saving in the 'millennial' generation the most pronounced. National Skills Academy for Financial Services (NSAFS) marketing manager Ben Rogers attributes this to young people saving for a property until well into their thirties, instead of a pension, and being more highly indebted and facing higher living costs. However, the young have time to build up their retirement savings, particularly as auto-enrolment starts them pension saving at a young age, Vidler counters.

Levels of saving

The PPI's *Under-pensioned 2016* report defines the 'underpensioned' as people who have characteristics associated with lower than average levels of pensions saving and income. It focuses upon women, ethnic minorities, disabled people, carers and the self-employed.

It found that people within these groups receive £60 less from state pensions on average, with Asian/Asian British/Chinese pensioner households receiving 22 per cent less than all pensioners, Black/African/Caribbean/Black British receiving 16 per cent less and women receiving 13 per cent less. The extent of the difference has declined between 2004/5 and 2013/4 due to state pension reforms however.

Also, members from underpensioned groups are less likely to be saving into private pensions. The PPI found that between 2012-14, only 27 per cent of all adults saved into a private pension (which was 49 per cent of all employed adults).

While the figures for women saving were the same as the average, some ethnic minority groups were found to be less likely to be saving into a private pension. For instance only 9 per cent of Pakistani people (or 22 per cent of employed Pakistani people) were saving into a private pension, compared to 13 per cent of Bangladeshi people (or 28 per cent of employed Bangladeshi people), 23 per cent of all Chinese people (or 33 per cent employed Chinese people) and 24 per cent of all Black/African Caribbean/Black British people (or 43 per cent if employed).

Disabled people are the least likely to be saving into a private pension, at 12 per cent. According to the PPI, while 42 per cent of employed disabled people save into a pension, only 29 per cent of disabled people are in employment. Also, only 22 per cent of self-employed men saved into a private pension in 2013, a drop of 40 per cent over 16 years.

When looking at the levels of private pension savings, the differences are more pronounced. According to the PPI, the mean average of DC savings for all adults was £2,900. It found the majority white population had £3,300, (14 per cent more), while Black African people had £2,000 (31 per cent less) and Indian people had £1,800 (38 per cent less). Bangladeshi, Pakistani and Black Caribbean people had £400 to £700 (76-86 per cent less). Women had 48 per cent less than the average at £1,500 and carers typically only had £100, 96 per cent less than the total average.

Looking at DB savings paints a similar picture. At £22,900, women had 21 per cent less than the average total level of DB savings (£29,000), Black Caribbean people had 31 per cent less at £20,000 and Indian people had 38 per cent less at £18,000. Black African people had 59 per cent less than the average; Chinese people 62 per cent less, Pakistani people 66 per cent less and Bangladeshi people 86 per cent less than average. At £2,000 carers had 93 per cent less and the self-employed had the least, at 99 per cent less, with £300.

However, when limiting the numbers to those already saving into a private pension, the differences are less marked. Then women had £7,500 in DC and £32,300 in DB, compared to the average of £10,500 DC and £43, 4000 DB. Indian people then had £10,000 DC and £22,100 DB on average, Black African people had £7,500 DC and £41,400 DB, and carers had £5,800 DC and £6,000 DB.

These figures show that people from underpensioned groups who are in work and saving in pensions save at levels close to the majority group. Therefore a major reason for the levels of undersaving seems to be lack of membership in a private pension scheme.

Why undersaving?

Unsurprisingly, lack of membership coincides with lack of employment. According to PPI head of policy research Daniela Silcock, all underpensioned groups have commonalities such as a higher likelihood of part-time working and low pay.

The PPI report finds that there are social and labour force characteristics affecting the employment levels of many underpensioned groups. For instance carers, people with disabilities and women across all ethnic groups with caring responsibilities are more likely to require flexible work, limiting their employment options. The time commitments of caring may reduce the time available to work and language problems for some people can also be a barrier.

Discrimination, illegal low pay and job segregation (where the need for flexibility, work barriers, racial profiling and stereotyping can push

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people into particular roles or out of employment altogether) also contribute to undersaving for retirement. Job segregation can also lead to higher levels of self-employment. For instance 24 per cent of Pakistani workers are self-employed, compared to 14 per cent of the majority white population.

People from ethnic minority groups are also more likely to be in low paid jobs, despite many ethnic minority groups being more likely to have degree qualifications or higher compared to white British people (for example, 40 per cent of Black African people have a degree qualification or higher, compared to 26 per cent of white British, yet Black African people earn a median income of £24,300pa, compared to £24,900 for white workers).

Within workplace saving, the shift from DB to DC provision has generally resulted in less contributions into pension pots, and for individuals to now have to be more proactive with retirement saving than previous generations, a shift in attitude that has not generally occurred yet.

Another attitude hampering saving levels is 'short termism', preferring to spend money now than lock it away for decades. BlackRock's *Investor Pulse* survey shows that people keep around two-thirds of their personal savings and investments in cash. "People need to understand the benefit of long-term investing and compounding over 40 or 50 years, which is plenty of time for even large market corrections to be smoothed over," BlackRock head of retirement EMEA Tony Stenning says.

The economic setting may have played a part, Momentum UK CEO Ferdi van Heerden muses, as "we have spent the past seven years in a near zero interest rate environment. This linked with easily available short-term debt and the need to service that debt are impacting on this generations' ability or willingness to save for the longer term".

People may also be unable to afford to put enough money away for retirement after paying their everyday living costs. AHC head of client services, UK and Australia, Karen Partridge states that lack of saving is not entirely due to ignorance. "Most people know they need to put money away, but other priorities get in the way. They also don't have any idea how much they should save, what size pot would be needed to provide for their retirement expenses beyond that which the state pension would cover," she explains.

Another barrier against saving may be people's mistrust of the financial sector, Barnett Waddingham senior consultant Malcolm McLean says. Saving for retirement may also be occurring in vehicles other than a pension instead, for instance by buying property or saving within an ISA.

However, the Momentum Financial Wellness Index found that 40 per cent of people do not have any long-term assets, pensions or otherwise. So if generations of people retire without an adequate income, how much of a problem will this be?

Risks

According to Rogers, this is potentially a very large problem, as it could lead to many individuals spending their old age in poverty, potentially creating a crash in the economy as the spending power of pensioners diminishes, along with a drop in housing prices, as people sell their properties to fund their retirement.

Van Heerden agrees that pensioner poverty could have a significant effect on the economy, through the need for high state benefits and possibly housing benefits, which "will require funding from higher earners and corporations, which in turn will make the UK a less attractive place to do business".

"Another potential strain is that older people who are unable to retire will stay in job roles and limit the number of vacancies for younger people," Rogers adds.

Finding solutions

Removing workplace inequalities would almost certainly herald an improvement in retirement saving, but tackling this requires a coherent, joined-up approach from all of society. Until such a great day occurs, how can pension provision be altered to be more suitable for the underpensioned groups of society?

While the state pension of around £8,000 a year may provide an adequate replacement income for some, it certainly will not be sufficient for the majority. According to McLean, "the new state pension has been described as simple, generous, and flat rate, and in reality it is none of those things".

Recent research from Hymans Roberston found that low paid private sector workers will be up to £3,000pa worse off under the new state pension system than the old, with workers earning less than £15,000 and having worked for 50 years receiving a state pension of £7,865pa under the single-tier system, as opposed to £10,896pa under the old system.

According to the DWP's *Scenario analysis of future pension incomes*, each increase in the starting value of the new

state pension by £1 leads to around a 110,000 reduction in the number of undersavers.

But for The People's Pension (which co-sponsored the PPI report) director of policy and market engagement Darren Philp, the real value of the state pension will depend on future policy changes, such as the continuation of the triple lock and changes to the state pension age.

The state pension may be the foundation for people's retirement money, but auto-enrolment is agreed to be the manner in which sufficiently-sized pension pots can be built. As the DWP *scenario* report says, "auto-enrolment practically eliminates the problem of not saving while in work".

Stenning agrees that auto-enrolment provides the nudge needed to encourage people to save, but the 8 per cent contribution rate will not be enough on its own to provide the financial futures people aspire to have.

However, Silcock warns that there is a tricky balance around encouraging pension saving. "Increasing minimum contribution levels could increase pension saving, but could also make saving unaffordable for some, resulting in increased opt outs. Making saving mandatory could ensure people save more and save for longer, but could also lead to some people accruing very low levels of pension saving and losing out on means-tested benefits in retirement. But not taking any action will result in further inequalities in private pension saving from underpensioned groups," she explains.

Instead, the PPI report found that removing the auto-enrolment qualifying earnings band entirely would have a greater positive impact than increasing minimum contributions to 10 per cent of qualifying earnings, although both scenarios do improve pension saving levels.

The recent Budget from Chancellor George Osborne is also expected to impact upon the levels of retirement saving. The announcement of a 'Lifetime ISA' to help people under 40 save for a property and/or retirement has been met with a mixed response, with some expecting it to complement saving into a pension and encouraging saving generally, and others concerned that young people will save in a Lifetime ISA instead of a workplace pension, missing out on employer contributions and not locking away the cash into retirement.

For Royal London pension specialist Fiona Tait, the Lifetime ISA should be particularly attractive to the self-employed, since the funds are available, if needed, through difficult trading times.

Another government initiative announced in the Budget was the 'pensions dashboard', which would enable individuals to see the size of all their pension pots in one place and therefore any shortfall in retirement income they may have.

Partridge also recommends the publishing of 'retirement standard' figures, as ASFA do in Australia, to outline what level of savings equates to a 'modest' or 'comfortable' income in retirement.

Going beyond this, a broad financial education programme from the government would widely be considered useful to help foster a culture of saving.

Despite the difficulty in solving the underpensioned crisis, the good news is that according to the DWP's report, around 92 per cent of undersavers are on the right track to secure an adequate income in retirement, being either 'mild' or 'moderate' undersavers, "some of whom only need a few extra pounds a week in retirement to achieve adequacy".

The role of the industry

The communications the pensions industry provide could certainly play a role in encouraging people to move from being 'mild' or 'moderate' undersavers to 'adequate' (or maybe even better) savers.

For Tait, providers should be looking at delivering "regular and much more engaging communications, which clients can read and understand without the need for an interpreter".

Philp agrees that the use of 'jargon' within communications is a tendency the industry needs to remove.

Also, different underpensioned groups need to be targeted with different messages and different options, Rogers advises. "The self-employed for instance need increased financial education on how to set up a personal pension scheme," he adds.

Going further, The Savings and Investment Policy project by TISA is particularly focused on increasing the savings of mid and lower income families, which are typically underpensioned.

But does the pensions industry need to go 'above and beyond' to help those who are undersaving, or not saving at all? What benefit would it receive?

According to Silcock, "a healthy savings culture helps a pensions industry to be healthy too". Butcher agrees that "strictly speaking it is not a concern for us as trustees; as if someone is not in the scheme we have no responsibility to them. But the success of these (pension) vehicles relies on people being able to make informed decisions, so we do have a moral obligation to help people make informed decisions".

For McLean, the industry have to take an interest in this, "if only from an image point of view".

"In the same way we all have a role in trying to protect pension fraud, I think it's right and proper that the industry does accept that it has a role in this respect," he explains. "The industry needs to help people get a good deal out of their pensions contributions and ultimately have a financially secure retirement; that is what we all should be aiming to achieve."

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