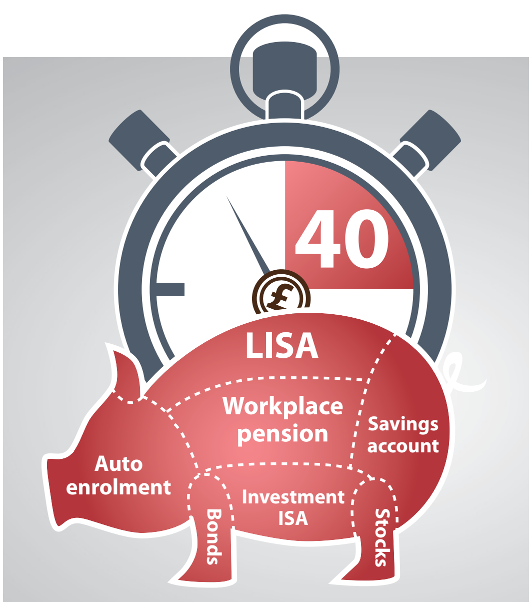
Workplace savings not just about pensions

Jonathan Watts-Lay explains how the LISA can become an integral part of the overall savings model

The new Lifetime ISA (LISA) has been launched this month for individuals under the age of 40, to be used for buying a first home or for retirement. The LISA has had negative press from the pensions industry, as concerns have been raised that it will compete with workplace pensions and undermine auto-enrolments success in encouraging people to save.

However, I don't believe this will be the case. Pensions should, of course, remain an integral part of saving. Yet other choices such as the LISA should not be seen as a threat, as they may actually encourage employees to develop a savings habit, which ultimately could benefit pension savings. After all, the LISA is a great option for those who want to save for a deposit on their first home due to the guaranteed bonus.



In fact, we recently carried out some calculations* which found that whilst saving into a LISA can help employees to save for a deposit faster than using a savings account, by achieving this earlier they also can increase the size of their pension pot, as money can be diverted to pension savings earlier than would have been the case if a LISA had not been used for a house purchase.

The introduction of the LISA has also raised important questions about how it will operate in the workplace and if employers will offer it as part of a reward package. Interestingly, our latest research** found that 42 per cent of employers who responded to our poll will provide access to the LISA through their reward packages.

It's great to see that many employers will provide the LISA as another savings option for employees. After all, workplace savings are not just about pensions and employers need to think about what savings vehicles suit which employee needs, appealing to a broad range of individuals at different life stages and with different saving priorities. For example, the workplace already supports employees with various savings vehicles such as ISAs, share schemes and pensions, to help them with their short, medium and long term savings goals. Such variety allows employees to choose a savings method, or a combination of methods, which are the most appropriate for them at a given point in time, so offering the LISA as part of an overall saving package makes sense.

However, it is imperative that employers understand the needs of their staff before implementing any savings vehicles. The key is to identify what an employee's saving priorities and attitudes to risk are. The various cohorts of the employee population will differ: younger groups may want to save for a deposit for a house, whereas for an older group that probably won't be a priority, but a good pension will be.

On the back of this, employers can then start to build out a benefits provision that will appeal to each demographic in the workforce.

With so many options now available, the provision of financial education, guidance and advice in the workplace is essential for employees to understand what can be achieved through workplace saving.

* Research by WEALTH at work demonstrated that the 25 per cent guaranteed bonus which comes when saving into a LISA, means that it could actually help employees to save for their first mortgage deposit much quicker than if they save into a high street savings account; and that by achieving this earlier, they are then able to start saving more into a pension earlier than would otherwise have been the case.

** Statistics quoted are from the Lifetime ISA poll carried out on the WEALTH at work website from August 2016 until March 2017. The poll asked 'Will you provide access to the proposed Lifetime ISA through your reward packages?' and received 50 responses.

The full research findings are available at www.wealthatwork.co.uk

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