Savings and finance at retirement

Laura Blows is joined by Claire Felgate, Head of Global Consultant Relations, UK, at BlackRock, to discuss savings and finance at retirement

Ensuring people have an adequate income at retirement is a major global issue, and one in which the pensions industry has a vital part to play. What are you hearing within the industry; what steps are being taken to help people with this?

Within the UK retirement system, we have seen a shift of risk from corporates and government toward the individual, that said, that does not let us off the hook. It is now even more important for the industry to help individuals save for their retirement.

At BlackRock we run a survey called *DC (defined contribution) Pulse*. We interview over 1,000 members in the UK, and what we found in 2021, is that people felt even more under prepared for retirement compared to previous surveys. In the latest survey, one in two participants did not feel on track to live the lifestyle that they wanted in retirement, of that group, 72 per cent wish they had started contributing into a pension earlier than they did.

That partly gives us the answer in terms of how we help people on this journey. It seems relatively simple, but it is encouraging members to save into a pension and looking at the rate that they are saving. PLSA research shows that 74 per cent of people believe that having a retirement income target would make it easier to plan for retirement, and 70 per cent of people believe that these retirement income targets would encourage them to save more for their retirement.

As an industry, we really need to help members understand their retirement journey, from their desired pension pot size to how much they have to save regularly to reach that.

We also have some tools that I believe are a little bit underused in the industry, like auto-escalation. Eight per cent may not be enough for some people, we often say if you are expecting a two-thirds retirement pot, similar to defined benefit, you should be saving 15-20 per cent, so how do we help members reach that? Well auto-escalation is a very valuable tool here.

Finally, auto-enrolment has been fantastic and as we see those pots growing and people nearing retirement, I think the industry is going to come out with some even more innovative tools, technologies and products that are going to really help people with savings and income in retirement.

As you mentioned, people do feel quite uncertain and unsure about how to save for retirement, especially with the cost-of-living crisis, with the unprecedented inflation and volatility that we're seeing. How would you suggest people weather those twin storms?

It's time in the market, not timing the market, that will help you build that pensions pot. We should all be thinking about members that may be a bit nervous about getting into the market and making sure that they stay invested.

In times of uncertainty, some people may want to retreat into cash, or be saving their money for a rainy day, but particularly with inflation, that's really quite worrying. As long as people can afford it, we should be encouraging people to save, to stay invested and make sure that that money is working for them, because in 10 years' time, inflation really could erode those pension savings they kept in cash.

Also, to have a quality check of what you're investing into because you don't want to find out when the markets are really choppy that the product is not delivering what you thought it would.

Regulation goes hand in hand with retirement, for instance with regards to early access to savings, or sustainable investment. With regulation considerations in mind, how would you suggest schemes, and the savers, construct or improve the construction of their scheme design?

One of the questions that we often ask in *DC Pulse* is how important things like ESG and sustainability are to members, and unsurprisingly, particularly more recently, it's been top of the list. But another question that we ask is who should be helping you with your investments? Members often respond that they see the employer as the person who should be managing the investments for them. So, I think the onus is on all of us to help members have good quality investments that are moving them towards those sustainable goals and I know there's been a lot of regulation recently to help the pensions industry move toward those goals, particularly focused on net zero.

For this, the first step is measuring where we are. It's incumbent on us as an industry to make sure that the data we have is the best quality, and also that there's a degree of consistency in reporting around sustainability.

Another major issue is the retirement gap between men and women with their finances. I believe The World Economic Forum has shown there to be about 30-40 per cent difference between men and women's retirement finances globally. What can the industry do really to help women improve their income at retirement? For future generations as well.

You and I sit here as women, and this affects us hugely, but it also affects men as well, because for many, both people in a household need to work. So, when women have insufficient pension savings, that also places a burden on their partners, as well as for society. The gender pay gap is roughly 20 per cent in the UK, but unfortunately for women when it comes to pensions, what most women are unaware of, is that this gets compounded, particularly by women taking career breaks.

Women are more likely to have part-time work or step out of the workforce to help look after children or elderly relatives etc. So it's about closing the gap, but also allowing men to participate more freely in things like career breaks.

I think that women are unaware of how their pension is affected by these breaks or work decisions. One of the things BlackRock really supports are employers offering a midlife pension MOT, or when you join the firm, sitting down with somebody who's actually going to give you advice.

We potentially could take that even further. If women are considering a part-time working arrangement, or taking a longer career gap, having somebody sit down with them and make sure that they're aware of the impact that has on their pension.

So, if you could go back in time, knowing what you know now, what one piece of advice would you give your younger self to help with your retirement saving?

I've always worked in finance. I did a degree in finance. I'm a self-professed pensions nerd. One would assume that I had my pension savings all lined up. It absolutely wasn't the case, and I think I personally would've benefited from a little bit more advice when I was younger. I did some things like I continued to work as a contractor, because I earned more money. I just didn't consider that I was missing out on an 8-10 per cent pension contribution. Also, I wanted to go out more with my friends so I reduced my pension contributions so that I could have more take home salary.

I understand that for the younger me if, for example, I couldn't afford to pay my rent, due to the cost of living, then absolutely paying less in your pension at that time is the right decision. But really, I think, the big thing for me is I wish I'd saved more when I was younger. There would've been more tax benefits, the compounding effects would've fantastic, and also it would've given me much better bragging rights sitting here if I'd been able to nail my pension from a much younger age.

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