Job losses = pension losses

With coronavirus-shutdown sectors now facing a wave of unemployment as lockdown and furlough support eases, Laura Blows explores what this means for affected workers' retirement savings

Now that lockdown is easing and the government has confirmed the end of its furlough scheme, the job casualties are starting to pile up. Unsurprisingly, the retail, travel and hospitality sectors are particularly hard-hit. For those individuals suffering job loss, as well as dealing with the immediate and often devastating financial blow redundancy causes, they may also have to contend with the fallout from this time for decades to come.

Even those 'lucky' enough to be furloughed, instead of, or prior to, losing their job, found their pension contributions fell by 25 per cent, 5 per cent more than the 20 per cent wage cut, analysis by Now Pensions finds.

It attributes this to a 'quirk' in the system, which means that, as the first £120 of weekly pay does not count for pensions, the effect of furlough hits harder on the portion of pay that is pensionable.

Workers that are not, or are no longer, furloughed, but have instead lost their job in those hardest-hit sectors such as retail, hospitality or travel, may struggle to find new employment quickly, Redington director of DC and financial wellbeing, Jon Parker, warns, due to the longer-term challenges facing these entire industries.

This fear may well be justified, as for younger workers (of which the arts, leisure, travel and tourism industries have a high proportion) starting out on their savings journey, any gap in savings now will have a significant impact on their ability to retire when they choose, Aegon pensions director, Steven Cameron, says. "Aegon analysis shows that an employee who breaks from pension contributions in their mid-20s for one year could lose out on a future fund of nearly £7,300 at state pension age and a break of five years could see them lose around £42,000," he adds.

"A two-year gap in savings early on in a career could result in a 10-15 per cent reduction in the final value of an individual's DC pot," Parker notes.

Older workers facing financial hardship may consider accessing their pension pots to bridge a shortfall in income, but LEBC Group warns that this risks lasting damage to long-term retirement plans and may compromise eligibility for Universal Credit.

For instance, if more than the 25 per cent of their pension pot is withdrawn, income tax becomes due on the balance and higher rates of tax may be applied. Withdrawing more than the 25 per cent tax-free sum from pension pots over £10,000 also triggers a restriction on future pension saving; this reduces the amount allowed with tax relief from £40,000 to £4,000, so short-term emergency withdrawals are harder to build back up later. Also, taking money out of a pension pot makes it count towards savings, potentially making the individual ineligible for Universal Credit, it explains.

Looking longer term, the latest Scottish Widows *Retirement Report* finds workers in lockdown sectors such as retail, travel and hospitality could face a lifetime of 'playing catch-up' as coronavirus hits their retirement savings, which were already lower than employees in other UK industries.

Its annual research of more than 5,000 adults in the UK reveals that 27 per cent of those working in travel and the arts are not saving into a pension, 67 per cent of retail workers are worried that if they ever did retire, they would quickly run out of money, and only 18 per cent of restaurant workers are optimistic about retirement.

"We recognise that the next 12-18 months is going to be about businesses getting back on their feet, but many individuals have taken a substantial hit to their finances and the fear is that the gap can't be closed, meaning they face a lifetime of work as they struggle to afford to retire," Scottish Widows head of policy, Pete Glancy, warns.

While short-term action needs to be taken to bolster the economy, we shouldn't forget that this savings gap already exists and this could grow, Standard Life head of proposition, Neil Hugh, says.

"It's important that policymakers don't lose sight of this for the longer-term recovery and put at risk some of the great progress that has been made through automatic enrolment."

Written by Laura Blows