Summary
• Financial hardship has caused some savers to consider dipping into their pensions or pausing contributions to cover costs.
• Factors such as unemployment and the ending of government support schemes may further exacerbate the issue.
• Halting pension saving can have serious long-term consequences on retirement income and comfort.
• Changing working patterns and unemployment could also have long-lasting implications on the gender pensions gap and young people's savings.

Short-term gain for long-term loss

The financial impact of the coronavirus is resulting in some savers looking to their pensions to address their short-term money pressures. Jack Gray analyses the potential long-term implications on their retirement

The coronavirus pandemic has had an impact on nearly all aspects of people's lives, and their finances are no different. As the country locked down, swathes of people were furloughed under the government's Coronavirus Job Retention Scheme and sectors such as hospitality and travel all but ground to a halt.

As lockdown begins to ease, the government support schemes have become less generous or have been wound up completely, resulting in further financial hardship for many already struggling to cover costs. Some savers looking to plug the short-term shortfall have looked to their long-term savings to stay above water. However, even a short pause in pension saving can have serious long-term consequences.

The situation has been exacerbated by unemployment and a lack of job opportunities, meaning that some do not have the option of saving for retirement.

Pension holiday

Recent research from Canada Life reveals that one in 10 workers have paused their pension contributions since the start of lockdown and a further 13 per cent are considering doing so. Over a third (37 per cent) have done so to use the money for essential spending, while 30 per cent paused contributions due to redundancy or furlough.

The analysis shows that even a short pause in pension contributions could have serious financial implications, with a 30-year old earning £30,000 a year losing as much as £45,000 from the value of their pension if they halt contributions for three years.

"The pandemic has reinforced the need for short-term financial resilience and taking a balanced approach to saving is important," says Buck head of DC and wealth, Mark Pemberthy. "But rash decisions about pension saving will increase the long-term risk of not building up sufficient retirement savings, with the knock-on effect of a disappointing retirement lifestyle or the possibility of their income running out."

Canada Life technical director, Andrew Tully, adds: "Any choices made now could have real significance to the quality of life in retirement so it is vital that the impact of this is understood properly from the outset.

"However, there are some ways to mitigate the potential impact. Our analysis shows that losses can be recovered at each stage of a working life as long as there is a plan in place to resume contributions as soon as practicable."

Youth of today

The group whose pensions will be most affected by the pandemic may be younger people. Royal London research finds that savers aged 18-34 were the most likely to stop or reduce contributions due to the pandemic, with two in five (40 per cent) in this age cohort doing so, compared to 16 per cent of those aged 35-54.

"Unsurprisingly, younger workers have been the most likely demographic to stop contributions, as many believe they have time to build their pension pot in later life," explains Pemberthy.

However, Arlo International managing director, Jonathan Hives, warns that although younger workers have more time to make up for losses, the earlier individuals save for their retirement, the more they will "reap the rewards" later down the line.

"Compound interest is an important factor, with the value of the money saved earlier likely to increase as time passes," Hives continues. "Additionally, those who didn't save enough earlier in their working life may feel compelled to take on more risk in their pension investments to make up for lost time, which could increase their likelihood of suffering a significant loss in the future."

Pemberthy adds that pension savers "may be more tempted" to take on more risk with their investments to try and make up for any funds that were lost out on due to their Covid-driven pension changes, but warns that it can be "a dangerous game to play".

Unemployment

Hives notes that younger people being the most likely to cut or halt pension contributions is "understandable" as they have been "hardest hit" by job losses and are struggling to afford contributing.

Covid-19 has caused the job market to shrink, with companies in financial hardship less likely to be looking for new staff. Younger people may be the most affected by this, as they are more likely to be the ones seeking jobs as they leave school and university. Furthermore, sectors such as hospitality that have been badly affected hire more young people than sectors that may not have been hit so hard.

Hargreaves Lansdown senior analyst, Nathan Long, warns that any break in saving, whether through unemployment of paused contributions, can have "a big impact of someone by the time they get to retirement".

"Broadly, if you have a three-year gap in your saving history over 50 years, it increases the amount you have to pay in by 1 per cent," he continues. "If you have a gap in your 30s, once your earnings have ramped up a bit, that can be equally harmful.

"Who gets the employment and who does not? Is it young people coming out of university and school that cannot get the jobs? We could potentially have a change in which industries and sectors are viable. You might have sectors that massively shrink, and if those sectors usually employ people straight out of school that could be an issue."

Gender pensions gap

Another long-term implication of Covid-19 could be on the gender pensions gap. Recent analysis by Aegon reveals that 15 per cent of women are likely to decrease their pension contributions over the next five months, compared to 10 per cent of men, leading Aegon to state that the pandemic may further widen the gender pensions gap. The research also finds that men were more likely to take advantage of possible future economic recovery by investing more into their pensions.

"The main cause of the growing gender pensions gap is that many women have to work fewer hours and for less money after they have had children," explains The People's Pension director of policy, Phil Brown. "As pensions are tied to pay, they end up with a smaller pension as a result."

However, although Brown notes that it is "too early" to assess the full impact of the pandemic on retirement saving and the gap, the change in working patterns may help in closing the gap between men and women's pension savings.

"One potential positive is that the current situation has brought a major change in home working, policy makers and employers should also consider how new, flexible working patterns might better enable parents to combine work and childcare, leading to better pensions for many women as a result," he says.

Long agrees that that an increase in flexible working could begin to balance the gender pay gap, which "should potentially feed into the pension gap".

However, Long cites Hargreaves Lansdown analysis showing that more women remained on furlough than men, despite more men being furloughed initially. "You've got potentially more women at risk of losing jobs and is that going to be more of an issue short term", adds Long.

Brown concludes: "Expanding automatic enrolment coverage in the future to ensure lower-paid women have access to a workplace pension and better access to childcare to enable women to return to full time work are key to tackling this issue."

Written by Jack Gray