

Focus on higher or lower earners?

✓ **Steven Leigh explains how it may be for differing reasons, but both higher and lower earners need support during their retirement saving journey**

It is easy to generalise that higher earners are much better off than lower earners financially, so do we need to provide more support to those earning less? What about the individual's attitude towards money and wider financial circumstances? Aon's research with Ipsos surveyed the situation of over 1,000 UK employees. One surprise was that more high earners (over £55,000 a year) had payday loans than low earners (below £25,000 a year). This article discusses how you can work better with both your high and low earners.

Setting a target

Low earners need a greater proportion of their pre-retirement income in retirement, but get a lot more of this from the state pension. Lower earners only need around 25 per cent of their pre-retirement income from sources such as their company pension, while higher earners need over 41 per cent.

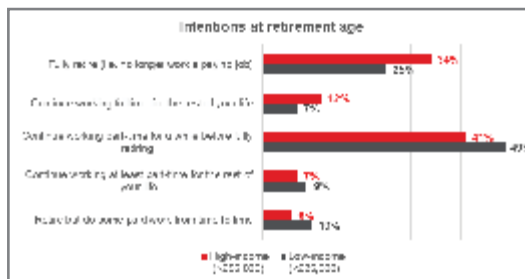
In Aon's recent survey, we found that lower earners tend to overestimate this amount, and higher earners tended to underestimate. For lower earners, overestimating may make their target feel unachievable and so discourage any saving. Higher earners may be able to save more but do not know that they are not saving enough! You can help both groups understand how much they need at retirement to maintain their living standards.

Conflicting financial commitments

Our research suggests that those on low incomes are most likely to have unpaid credit card debt each month, suggesting that they have less available to contribute towards their pension. These individuals are likely to be less receptive to 'save

more' communications and in most cases will be better served by prioritising paying off high interest credit card debt.

We found that higher earners are more likely to have a payday loan than lower earners, with 1 in 10 of them having this type of debt. Just because someone earns more, it does not automatically follow that they are better at managing their personal finances; this group will have higher outgoings, and some budgeting support could be helpful.



Source: Living the Dream: Aon's DC Pension and Financial Wellbeing Survey 2019

Retirement expectations

While, unsurprisingly, a higher proportion of those on higher incomes are planning to retire fully at retirement age rather than continue to work part time, we also found that a higher proportion expect to continue to work full time for the rest of their life compared to lower earners.

For lower earners, the higher proportion expecting to work part time into retirement is more likely due to affordability, with continuing earnings needed to supplement pension income in later life.

Does your pension provision reflect this range of expectations for late life working patterns?

Support

Higher earners are more likely to feel that they are too busy to sort their finances

(27 per cent) compared to those on lower incomes (14 per cent). However, those with higher incomes are also more likely to have difficulty understanding financial matters (25 per cent) compared to those on lower incomes (16 per cent). This could be down to the complexity of pension tax rules for higher earners, as well as potentially having a wider number of areas to consider, such as inheritance. These topics are less likely to resonate with lower earners and may lead to disengagement. Your communications need to be tiered or targeted to give people information that is engaging to them.

Methods of communication

Focusing on workplace pensions communications, members' preferred method is email, followed by hard-copy letters and face-to-face meetings. However, for the different income groups, there are some noticeable differences, with 35 per cent of lower earners preferring to be sent letters in the post (compared to 17 per cent of high earners). This shows that it is not just the message, but also the range of channels that are used to communicate with members, that is important to support the desired retirement outcomes.

While the drivers are different, it is evident that those on both higher and lower incomes could benefit from extra support from employers and trustees on financial matters, not just pensions saving. The best schemes will consider the similarities and differences to deliver the right message at the right time in the right way.

To request a full copy of our DC Pensions and Financial Wellbeing research, email talktous@aon.com



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