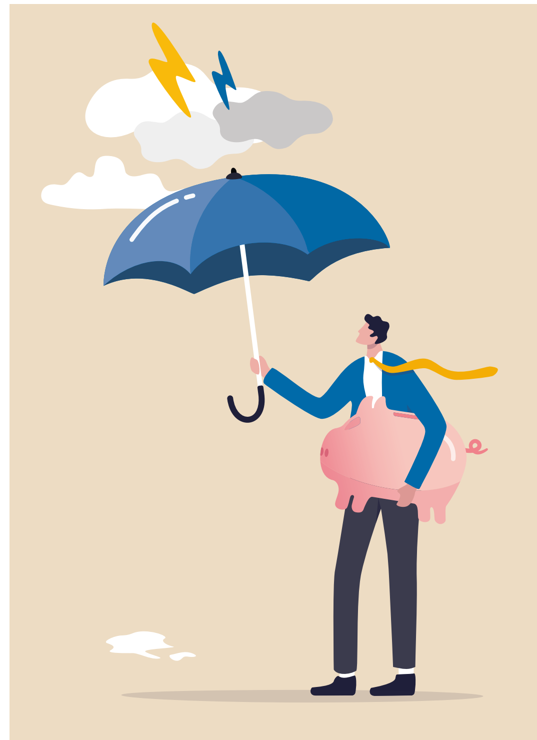
Protecting pensions in times of crisis

Jonathan Watts-Lay considers how the cost-of-living crisis may be affecting pension contributions



Inflation was at a 41-year high in October at 11.1 per cent and is expected to remain high for some time, intensifying the current cost-of-living crisis. As the pressure on household income continues, it is more important than ever that employees are engaged with their finances, and this includes their pensions.

So, are employees looking at their pension contributions as a way of cutting back on their monthly costs? A recent survey by PLSA found that one in five (19 per cent) pension schemes surveyed have seen members asking about reducing or stopping their pension contributions and 17 per cent wanting early access to their pension after age 55.

However, figures from the Department for Work and Pensions show that there has been no indication that pension savers are actually taking action, as there has been no significant rise in people who are currently saving into workplace pension schemes choosing to stop contributions. But there does appear to be an upward trend for those newly enrolled choosing to opt out. The PLSA survey also noted that only around one in 10 (12 per cent) schemes surveyed said that they have seen members wanting to opt out, which is only a little above the long-term trend of 9 per cent.

However, as the cost-of-living crisis continues, employers should closely monitor pension opt-out requests and do all they can to ensure pension scheme members recognise that it really should be a last resort.

It's important for pension scheme members to understand that opting out of their pension will have a huge impact in the long term and the damage that they could do to their standard of living in retirement. Whilst reducing contributions now would make relatively small savings each month, the impact on a pension scheme member's retirement savings in later life will be dramatic, due to lost employer contributions and tax relief.

Making the smallest reductions in pension contributions possible, and avoiding opting out altogether, will limit the reduction to future retirement savings. However, saving money is a habit, and once it has stopped, it is very difficult to start up again.

There are some practical steps that members can take to save money that they may not yet have considered. Some of them seem small but they all add up! So before reducing or stopping contributions, they should be encouraged to look at alternative options first. This includes checking all their outgoings to find other ways to save money such as cancelling any unused subscriptions or memberships, shopping around for better deals on insurances at renewal, such as car and household insurance, as well as broadband and mobile suppliers, and switching brands on their regular shop. Rising energy costs are a big concern so things like avoiding tumble dryers, utilising smart heating, using more efficient light bulbs, and finding cheaper ways of cooking such as using a slow cooker or microwave can all help. It's always a good idea to look out for online discount vouchers for any purchases, and it's also an ideal time to remind members of cost savings available through the workplace as part of their benefits package e.g. discount on parking, shopping, car leasing, medical care and insurance.

Most members would benefit from having a better understanding of money, but are confused where to start. As part of an overall wellbeing objective, many employers now offer their workforce support to help them understand the value of their pensions and workplace savings, as well as how to best manage their money in times of crisis. This includes providing financial education workshops, one-to-one guidance or coaching and digital tools and helplines. This can help employees to build their financial resilience now and for the future.

Written by WEALTH at work director, Jonathan Watts-Lay

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