Support in difficult times

With the cost-of-living crisis pushing some people to reduce or stop pension contributions, David Adams looks at the financial choices facing some pension savers and at how employers, trustees, the pensions industry and policymakers can help

Times are hard. Even if there have been some slightly more optimistic (or less pessimistic) predictions about the UK economy in recent weeks, 2023 is going to be tough. Many public and some private sector workers are striking, in large part because their pay has failed to keep pace with inflation. The most recent Office for Budget Responsibility (OBR) forecasts predict a recession that will last most of the year and a 7 per cent fall in household incomes during the next two years.

The crisis has already had some impact on pension saving: Research published by the Pensions Management Institute (PMI) in late 2022 found that 13 per cent of respondents had reduced pension contributions, another 20 per cent were considering doing so and 7 per cent had stopped contributions altogether.

The latter choice could be an act of financial self-harm, as even a temporary gap in contributions can make a significant difference to retirement income. Pensions and Lifetime Savings Association (PLSA) deputy director, Joe Dabrowski, says the organisation intends to gather more data on behaviour around contributions shortly. He says its most recent behavioural data, from autumn 2022, did not indicate any major move away from retirement saving, but did show increases in people accessing

Summary

- There is some evidence that the cost-of-living crisis is leading some workers to reduce or stop pension contributions.
- There is also some evidence that the crisis is influencing some older workers' financial decisions as they approach retirement.
- Pension consolidation may be a useful step for some workers to help them plan for retirement.
- It is vital that efforts are made by employers, to ensure people understand the potential long-term consequences of stopping contributions, either temporarily or permanently; and/or of decisions made about accessing pensions before returning to the workforce.
- Employers, trustees, pension providers and policymakers all have roles to play in helping people take decisions to safeguard their financial futures, benefitting individuals but ultimately also the economy and society as a whole.

pension pots early; and in scheme members making enquiries about their pensions.

"So, it's a stable picture at the moment, but we are conscious that if the current situation continues there is potential for those numbers to tick upwards," he concludes.

People's Partnership group director of policy and external affairs, Philip Brown, quotes research that its master trust, The People's Pension, commissioned from YouGov in November 2022, which showed 2 per cent of respondents had stopped paying into a pension during the previous six months. A further 4 per cent said they would consider pausing retirement saving during the next year; while another 4 per cent would consider reducing contributions.

But it also found that 7 per cent were considering increasing contributions; and much larger numbers were cutting back on spending in other areas, with 39 per cent eating out less often; and 21 per cent spending less on holidays.

"So there are choices being made around outgoings, but not in the pensions area, at the moment," says Brown. "But it does depend on how l protracted the cost-of-living crisis becomes. The longer it goes on, the harder it is going to be to maintain pension contributions."

Damaging consequences

Anyone who does choose to pause or stop contributions needs to understand the possible consequences.

"If you stop or reduce your pension contributions it's not just your money that you're missing out on, but the money contributed by your employer and tax relief from the government," says Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey. "That can make a massive difference to how much you end up with in retirement."

Financial education, guidance and advice provider Wealth at Work runs sessions for its clients' employees to help them understand the full context of a decision to reduce pension contributions, says director, Jonathan Watts-Lay.

This might involve helping individuals review other areas of spending, such as mobile or broadband contracts, or insurances, which they might be able to buy more cheaply; reviewing direct debits, for services they might not use; and perhaps also making savings on grocery shopping.

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"If somebody has gone through all those things and cutting pension contributions is all they've got left then they are going to do that – but at least they should understand the full implications of doing so," says Watts-Lay.

Brown says any People's Pension member wanting to reduce or stop their contributions would be signposted to the government's MoneyHelper service. "If an individual really is at crisis point, they shouldn't be afraid to speak to MoneyHelper, or to speak to their pension scheme," he says. "We're all there to help."

Morrissey agrees. "We have to be pragmatic here. People who are taking this choice are not doing so lightly – they're doing it because they have to," she says. "But once things start to get better it's important that people increase their contributions again." She suggests most should do this before an auto-enrolment pension system automatically re-enrols them after three years.

Choices facing older workers

Older workers approaching retirement also face important choices. The PMI research suggested that 70 per cent of all respondents think the current crisis will mean they have to defer retirement, typically for three years. More than one in four – 28 per cent – think they will never be able to retire. The PMI's research also revealed that 17 per cent of respondents aged 55 or over had exercised their freedom to access pension pots to meet short-term financial needs.

For Watts-Lay, the important considerations for these groups are an understanding of how much they can or should save in a pension and when they will 'fully' retire. Again, he emphasises the need to consider the broader context: Investigating how much they will receive from their state pension and other possible sources of income, how long they might expect to live; and how their outgoings might fall in retirement.

Some older workers who have retired have since return to the workforce, often at least in part through economic necessity. One issue they need to be aware of is the Money Purchase Annual Allowance rules, which apply to anyone who has accessed any withdrawal to their pension beyond their tax-free lump sum. This restricts any future pension contributions they might make to no more than £4,000 per year.

Dabrowski also highlights the issue of trying to ensure people who are feeling desperate remain vigilant against the threat of scammers – a big focus for the PLSA, The Pensions Regulator and *Pensions Age* *[see our latest scams focus article on page 28]*. "Clearly, when people are more vulnerable, they may be more vulnerable to scams offering a quick fix," he warns.

Another choice that might help some people to secure a more comfortable retirement would be to trace and consolidate old pension pots. The Pensions Policy Institute estimates there may be 2.8 million lost pension pots in the UK, worth a collective £26.6 billion.

Morrissey suggests that pension consolidation could be particularly helpful to people in the latter part of their working life who are starting to plan retirement. "You've got to make sure there are no guaranteed annuities that you might be losing out on and that you're not incurring extra fees, but if you are aware of those things this is something that can have a positive impact," she says.

She thinks that it would be helpful if there were more widespread awareness of the government's Pension Tracing Service; and that pension providers or employers could do more to encourage people to look for missing pensions and consider the benefits of consolidation.

Morrissey also highlights the value of employers giving employees a 'nudge' every few months to see if they might restart paused contributions, or increase contributions. Nudges could also be linked to events such as a pay rise, or payment of a bonus.

Small changes to avoid big problems

There are also helpful changes policymakers could make. PensionBee director of public affairs, Rebecca O'Connor, points to the three-year gap between someone opting out of an auto-enrolment pension and them being automatically re-enrolled.

"Perhaps that could be brought down to a year, assuming that people just need help now and the best thing would be for them to re-enrol sooner rather than later," she suggests. She also thinks that, in the context of the government wanting to encourage older people back into the workplace, the £4,000 Money Purchase Annual Allowance "needs to be looked at urgently".

Overall, says Dabrowski, the aim of any support that trustees, providers and employers can offer employees and scheme members during this crisis should be to help that person "make an informed choice" in relation to their long-term financial interests. "They need access to information that is free and unbiased," he says.

"It's about taking steps to ensure that the impact of people not making contributions is as small as possible," says Morrissey. "Good information at well-timed points can have a huge impact on peoples' retirement outcomes."

O'Connor sums up the long-term threat for individuals, but also ultimately for policymakers and society in general: "We don't want the legacy of the cost-of-living crisis to be misery in retirement."

Written by David Adams, a freelance journalist