Navigating the challenges ahead

Jonathan Watts-Lay looks at the challenges members may face in the year ahead, including the increasing pressure from risings costs and how this may impact pension savings, as well as the key considerations for members approaching retirement. With this in mind, he also outlines how schemes and employers can help members take the right course of action to optimise their retirement outcomes

Since the pandemic, people have been faced with a multitude of challenges impacting their finances and none more so than the cost-of-living crisis. It is therefore more important now than ever that members are engaged with their pensions.

Protecting pensions

Recently, the pressures on household income has raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. But is this what is happening in reality?

According to PLSA's survey the first signs of the cost-of-living crisis in pensions are beginning to emerge. It found that one in five (19 per cent) pension schemes 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, the Department for Work and Pensions latest figures 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 slightly 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 members to understand that opting out of their pension can have a huge impact in the long term and could be damaging to their standard of living during retirement. Whilst reducing contributions now would make relatively small savings each month, the impact on a member's retirement savings in later life can be dramatic, due to lost employer contributions and tax relief.

Making the smallest reductions in 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 can be 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. Whilst some of them seem small, they all add up. This includes checking all 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. Financial education and guidance delivered in the workplace can really help members understand these issues and help them to protect their future retirement savings from unnecessary damage.

What about those considering retirement?

While the cost-of-living increases means that it is a difficult time for many, it is particularly challenging for those planning to retire, especially when faced with a fall in the value of their pension due to market volatility. In this climate, it's particularly important that members are informed and understand the key issues to be considered if they are to optimise their retirement outcomes.

Many will be questioning if they can afford to retire right now. In fact, research by an insurance provider found that a third (33 per cent) of those planning to retire in the next five years are changing their retirement plans due to the current cost-of-living crisis. Financial education can help members to work out a financial plan for retirement and understand what costs they need to think about in retirement, the impact of inflation and if they can afford to retire. Some may even realise that as they are likely to be paying less income tax, no National Insurance, mortgages and loans may be paid off, and that they will have no more pension contributions – retirement may actually be more affordable than they thought. Or, if these savings are still not going to be enough, it may help them to consider if they should delay retirement or if working part-time could be the solution.

As well as this, members should be aware of the common pension pitfalls that people fall into when accessing their pensions so that retirement income is optimised. This includes paying unnecessary tax, not shopping around for the most suitable retirement income option, or even falling for a scam which unfortunately members who may be struggling with their finances could be particularly vulnerable to.

What should be done?

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.

Supporting members with their day-to-day needs, especially in the current cost-of-living crisis, should be a key area of focus, alongside support around longer-term needs such as pensions and retirement savings. This means offering financial education programmes that help with a full range of money matters throughout their career, from debt and money management to preparing for retirement. This includes providing financial education workshops, one-to-one guidance or coaching and digital tools and helplines.

When looking at how to provide this support for employees and members, it can be daunting knowing where to start. However, there are specialist providers available who can help with all of this.

But before going ahead with a provider, carrying out due diligence on them first is crucial. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. Due diligence on regulated advice firms should cover areas such as; qualifications of advisers, the regulatory record of the firm, compliance process e.g. compliance checks of 100 per cent of cases, pricing structure, and experience of working with employers and trustees.

Ultimately, empowering members by providing them with access to appropriate support at the right time can improve financial capability and resilience, and help them to navigate any challenges that may lay ahead, which should result in better retirement outcomes for all.

Written by WEALTH at work director, Jonathan Watts-Lay

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