The menace of indifference

The UK's general lack of workplace pensions ownership continues to lead to low contributions, operational inefficiencies and a danger of a lost cohort of savers, finds Marek Handzel

Summary

• Pensions engagement remains low in the UK despite – or even because of – the introduction of auto-enrolment more than a decade ago.

• This has led to lower contributions, scheme inefficiencies and a growing savings disparity among men and women and different ethnic groups.

• Lack of ownership also means that people are at more risk of making poor decisions about their pensions at crucial stages of their working lives.

• High-profile campaigns to raise awareness have borne some fruit, but much hope lies in the pensions dashboards, which continue to be delayed.

Ever since it became evident that defined contribution (DC) provision would supplant defined benefit (DB) schemes across the UK's private employment sector, pensions specialists have endeavoured to boost pensions engagement – largely to no avail.

The most damning indictment of this failure to get workers to pay attention to their retirement savings has been staring everyone in the face for more than a decade now in the form of auto-enrolment. But criticising the pensions industry for not fostering better active participation in what appears at face value as a bland financial product, is a short-sighted take on matters.

Pensions engagement is a relatively novel idea in the UK, with no generational experience for workers or providers to draw upon. Today's employees have parents and grandparents whose idea of pension ownership was signing on a dotted line in their early working years and then seeing the first pensions payment slip come through the post a week after their retirement party.

Two recent reports have provided further proof of how detached UK workers are from their pensions. In January, a report from the Department for Work & Pensions (DWP) based on work by the Ipsos Mori Social Research Institute, concluded that auto-enrolment had no discernible effect whatsoever on people's level of interest in their savings. The report's authors emphasised attitudes to pensions being characterised by detachment, fear, and complacency, which acted as barriers to engagement.

And in February, SEI called for a "fundamental shift" in industry thinking around engagement, after finding in a survey that nearly three quarters of workplace pension savers report low, or no ownership, over their pensions.

Real world experience also continues to reinforce the findings of these types of studies. Pensions Geeks co-founder, Jonathan Bland, says that when he and his colleagues enter workplaces to deliver presentations on the importance of saving, a recurring theme they hear is that people simply do not know where to start with their pension.

"We need to give people clear steps on how to take ownership, give them support, and arm them with the knowledge they need to understand pensions, so that they can take the reins for their future," says Bland.

The PLSA director of policy and advocacy, Nigel Peaple, laments the fact that the best efforts of government and the industry have only had limited success in encouraging more saving.

"People generally do not understand that their pension is invested and will compound over time, they don't tend to understand the tax incentives to save into a pension and, as we experience rising prices and a cost-of-living crisis, they don't have the confidence in their finances to lock up money for the long term," he says.

Concentrate more, contribute more

This confidence is crucial of course, and can make the difference between a miserly and at least semi-comfortable retirement.

"People are not saving enough," says WTW DC consulting new business, director, Stuart Arnold. "Research from the PLSA has shown that 50 per cent of people in the UK are not going to build up enough of a pot to meet retirement income targets set by the Pensions Commission. That is quite terrifying."

At present, as Arnold highlights, contributions across the county are at 8 per cent on average, but industry bodies such as the Association of British Insurers (ABI) have officially stated that they should be at 12 per cent, at least. To bridge that gap between now and where savings need to be however, there are only really three options.

"One is that the employer pays more, which is tough at the best of times," says Arnold. "Two, regulation forces people to pay more in. But depending on how long it takes for that to happen, is it going to be too late for a lot of people? The third option is that make their own decisions on how much they need to contribute. Right now, that really is the solution to getting people to where they need to be."

But higher contribution levels are only one benefit of engagement. The earlier that scheme members pay close attention to their pensions, the easier it will be for them when they come to make crucial decisions, explains Arnold. If a saver only properly engages with their pensions a few days before a selection has to be made on drawdown or an annuity, for example, then they are at greater risk of getting that vital decision wrong.

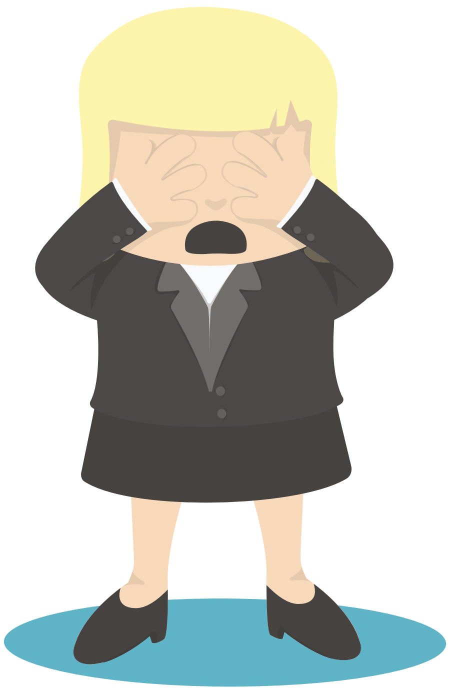
"It also means that it is too late in terms of making early decisions *[that could have a positive impact on your savings]*," he says. "To help people get more out of their savings over time, they need to engage with what they've already built up, *[not just future contributions.]*"

The bifurcation problem

Another problem with a lack of buy-in, is the bifurcation of workplace savers into the haves and have nots.

"From the perspective of diversity and inclusion, if people continue to not do what is right for their individual circumstances, then we're going to compound the problem that we're seeing in terms of wealth disparity between men and women, and across ethnicity as well," says Arnold's colleague at WTW, Frances Fourgeaud. "Schemes have a responsibility and will have their own strict ESG values to nudge that dial and build people's financial resilience."

The situation is being intensified by consolidation in the pensions market. "We're generally moving towards a world where bigger is better," says Arnold. "We're using master trusts, with huge diverse populations, to come up with a single default position for everyone. But, unfortunately, not many of us are actually typical. There are big disparities across the workforce. And anyone who doesn't fit into that default is going to be hamstrung by the fact that they might



be in something that's not quite right for them. So, if we're going to tackle inclusion and diversity, engagement has to be a really big part of that."

Avoiding inefficiencies

Operational inefficiencies also build up due to disinterest in pensions. As people move jobs more frequently and lose track of their old pensions, schemes are having to administer increasing numbers of small pots.

As Peaple says, there are currently over eight million deferred pension pots and eight million active pots in master trust schemes – with many more in other DC plans. It is estimated that, in master trusts alone, without intervention, this could increase to around 27 million deferred pension pots and nine million active pots by 2035. As the ABI and Pensions and Lifetime Savings Association's Small Pots Co-ordination Group works with policymakers to derive a long-term solution to this issue, it is clear that individual active participation in pensions would help alleviate this growing difficulty.

"Poor engagement risks people forgetting where their assets are or that they even exist," says the ABI's long-term savings policy manager, Hetty Hughes. "ABI research with the Pensions Policy Institute last year found there is £26.6 billion of defined contribution pension saving currently going unclaimed, an average of just under £10,000 per pot."

The Ikea effect

Somewhat ironically, employee connection with DC workplace pension savings may have been hampered by auto-enrolment itself.

As Legal & General Investment Management co-head of DC, Rita Butler-Jones, points out, while auto-enrolment has undoubtedly improved the overall retirement outlook for members, it is also understandable that there can be a lack of connection when an employee joins a company and is automatically enrolled into their pension scheme.

Reversing these unwanted effects of the UK's mass nudge theory experiment could be a long climb, however. There is greater public awareness of the importance of pension saving, but this is yet to translate into tangible – and permanent – results.

Once engagement levels rise however, positive fruits should follow. "We talk about it as 'the Ikea effect', explains Fourgeaud. "You know that you're more likely to love something and own something and feel connected with something if you've actually built it yourself, if you're actually actively participating in it."

In an attempt to kickstart the Ikea effect last year, the PLSA and the ABI, backed by a number of providers, attempted to get down with the kids by hiring the rapper Big Zuu to come up with a short song designed to attract attention from DC's youngest cohorts. 'Pay Your Pension Some Attention' may not exactly enhance Big Zuu's street cred, but it did gain traction on social media. A survey of the public by the PLSA and ABI found that 19 per cent of people could recall seeing the campaign, with 91 per cent of those respondents then going on to look into pensions a little more.

"Extrapolating that out, a potential three million savers were inspired to go and pay their pension some attention as a direct result of the campaign," says Peaple. "The industry has committed to continuing the campaign again in 2023 and 2024, which will give us time to assess whether it has had any meaningful impact over the longer term."

It is highly anticipated that these signs of progress will be further amplified by the introduction of the pensions dashboards. But with the government announcing in early March that the dashboard was set to be delayed yet again, the industry will have to wait a while longer for what is fast becoming the DC sector's last great hope.

For some workers, sadly, it will all be too little, and too late.

Written by Marek Handzel, a freelance journalist