Educational responsibility

In the latest edition of *Pensions Age*'s financial literacy special focus, Lynn Strongin Dodds explores what role the industry has in improving financial literacy and how it can help enhance people's pension knowledge

Summary

- Financial literacy is below average in the UK and there needs to be greater action to address the shortfall.
- The pensions industry is playing a role but other parts of society such as schools, the government and parents also need to be actively involved.
- Financial literacy classes in primary and secondary school would lay a strong foundation to build upon.

Pensions may not be the most riveting dinner conversation, but ignorance should not be bliss in this case. Individuals need to be well informed to make the right decisions about their retirement. Although the industry is more than willing to be a leading force, the consensus is it should be a collaborative effort between different segments of society.

"When there is an issue, clearly all stakeholders involved should have some input into finding the solution," says Rathbone investment director, Jane Sydenham. "In the case of financial literacy, the pensions industry must play its part, but this would be best achieved when co-ordinated with the other agents of change in the space. This does not mean sitting and waiting to be asked to participate, in fact the industry should lead, both to assist those it provides for and because, self-evidently it is in its commercial interests to do so."

A widening divide

There is no doubt that the learning curve will be steep. A recent report by the Institute for Fiscal Studies (IFS) showed that almost one-fifth of private sector employees are not making any pension savings in a given year. For the self-employed, who do not have the benefit of auto-enrolment, the figure is far lower – fewer than one in five.

In addition, savings are low, with 61 per cent of those private sector workers contributing less than 8 per cent of their income, which may not be enough to give them a decent chance of a comfortable retirement. Although the cost-of-living crisis has been a contributing factor, a lack of education is also a key reason.

There is also a widening divide between the financially savvy and those who have little knowledge or understanding to make a reasonable assessment of their financial situation and plan for their future accordingly. In fact, a recent and separate study by the Pensions and Lifetime Savings Association (PLSA) reveals that 73 per cent of British people fall below the financially literate benchmark.

Closing the gap will not be easy but as PLSA head of defined contributions, master trusts and lifetime savings, Alyshia Harrington-Clark, notes, "this is just not a pensions problem but a wider issue in financial services in terms of communications and jargon. You need to make it relevant to people and continue to build on a foundation. I think the industry has a role to play, but it needs a combination of people to make financial literacy and numeracy more comprehendible".

Financial education and social mobility charity RedStart Educate CEO, Sarah Mark, agrees, adding that parents, schools, and the government must take action together. Financial literacy is not just about facts and figures but also cultural factors. Many people have not grown up with a financial services vernacular and could find the language

intimidating. "There needs to be a greater understanding of the drivers behind the behaviour," she says. "The focus should be on education and engagement but also building trust and confidence."

Legal & General Investment Management member proposition director, Olasumbo Biobaku-Mason, points to its recent ethnicity pension gap research, which highlights some of the differences in the UK. It shows there is a higher lack of understanding of pensions amongst people from ethnic minority groups (18 per cent) versus people from white British backgrounds (7 per cent). In addition, people from ethnic minority backgrounds are more likely to turn to less traditional sources like social media for advice.

Understanding duty

As a result, there is no one-size-fits-all solution, but, whatever format is adopted, information should be presented in an easy-to-understand manner, taking account of member needs such as accessibility and diversity, according to LCP head of wellbeing, Heidi Allan. "It is crucial that scheme members understand what is happening with their money throughout the accumulation and decumulation phases of their pension life, and the choices they have at various stages of that journey," she adds.

Allan believes that, in the occupational and personal space, the pension companies involved "have a duty both on a moral and professional basis to their customers to ensure that what they are paying for is understood," she says, adding the government can take up the reins with state pensions and ensure that individuals comprehend what provision is made and available options.

However, it is a fine balance between education and too much information. As BNY Mellon Investment Management head of retirement, Richard Parkin, points out: "For me, the focus must be on delivering clear and forceful messages at the right time. There is no benefit of telling a new joiner how they access their benefits at retirement but neither does it make sense to wait until someone is trying to cash in their pension before explaining to them that this may not be the best idea."

Parkin is hopeful that the Financial Conduct Authority's Advice/Guidance Boundary Review will provide a platform that will encourage, or perhaps even require, pension providers to give members more direct messages about what courses of action are likely to be in their interest or, just as importantly, what actions might be harmful. "In particular, the targeted support approach that identifies what 'people like you' would do seems like it could be capable of delivering quite nuanced direction to individuals without having to go through a detailed advice process," he adds.

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In the meantime, there are several initiatives in the private and public space leveraging digital tools to guide people more effectively. For example, the Money and Pensions Service (Maps) recently rolled out its new digital 'Mid-Life MOT' to help older workers plan around work, wellbeing, and money – plus a retirement planning hub that will incorporate the much-heralded pensions dashboard when it is eventually launched.

First mooted in 2015, the dashboard aims to provide a holistic view of all the pension pots in one place. It's estimated that the average worker will have roughly 11 over the course of their career, and the dashboard was seen as a solution. However, it has faced several delays due to the complexities of collecting data from disparate sources and connecting a wide range of different IT systems to its digital architecture. The latest deadline is set for October 2026.

Starting early

While these projects are applauded, there is a widespread rallying call for financial literacy to be compulsory and part of the national curriculum. Currently the subject is relayed in an ad hoc manner through Personal, Social, Health and Economic (PSHE) education, or academically in subjects such as maths, business, and economics. Late last year, a cross-party committee of MPs launched an inquiry into boosting financial education throughout primary, secondary and further education. They are exploring reasons why the subject is often overlooked and how well schools and teachers are supported to deliver it.

"This is something that needs to be addressed at an early age – financial literacy is a life skill and is something that should be taught in schools," says Biobaku-Mason. "If these foundational skills are taught early in life, when people enter the workforce, it will be much easier for people to grasp the concepts we are trying to convey. But that doesn't take away from the need for us to keep the language and numbers we use in our communications as simple as possible."

Sydenham echoes these sentiments. "It is well understood and accepted that pension provision is best started at a young age due to the power of compounding returns," she says. "It can be argued that most impact can be had by educating the young in the importance of pensions. The industry can work with organisations promoting financial literacy to the younger population, lobby government for inclusion of financial literacy in the education timetable and work with employers to provide assistance in better explaining pensions to their employees, especially at the start of their working life."

Written by Lynn Strongin Dodds, a freelance journalist