

If 2022 is teaching us anything, it's this – pension schemes need to step up and help members with their today, as well as tomorrow

With the Office of Budget Responsibility (OBR) warning that living standards are set to fall at the fastest annual rate since 1956, our industry faces a fork in the road, writes Alison Hatcher, CEO of HSBC Tomorrow Master Trust. Given the parallel challenge of an impending pensions crisis, she adds, it's time to act today

From government to industry, we've all been singing from the same hymn sheet for years when it comes to the future of retirement in the UK.

New PLSA chair, Emma Douglas, sums the problem up perfectly: "We are walking into a pension crisis...the savings gap is a big societal problem. The current amount of money going into long-term savings, even with auto-enrolment at 8 per cent, is inadequate."

This dilemma is not just one privy to industry and government – the public has not been so blind to the issue as some might think.

Indeed, only last year 17.1 million working adults – 44 per cent of the UK population – said they think they will need to work beyond the state pension age. Worse still, over a million now consider retirement to be an unrealistic prospect [source: *Opinium*].

One year later, inflation has already hit a 30-year high, with the OBR expecting "real household disposable income to fall at the fastest rate since comparable records began in the 1950s."

This comes in the wake of the Covid crisis, which has undoubtedly wrought serious financial consequences on a beleaguered member-base. If that wasn't enough of an engagement challenge

in itself, we're now trying to persuade members to save more for the years ahead, just as they are hit with the devastating combination of rising costs and declining real wages.

A further £145-a-month hike to energy costs is predicted for October, that could lead to one in four UK adults unable to afford their gas or electricity bills by the end of the year [source: *Citizens Advice*]. With that in mind, we might safely predict that member expectations of a comfortable retirement will continue to fall, whilst planning for the future is pushed further down the list of household priorities.

What's to be done?

Value is now something most schemes need to demonstrate to sponsors, members and regulators. How is this to be achieved given the current economic backdrop? One stream of thought emerging is the belief that value can be delivered through three simple objectives:

- 1) Successfully educate members to save the right amount for their given circumstances
- 2) Deliver strong investment growth after charges
- 3) Ensure a smooth and safe process to change pension savings into pension income

All sensible and intuitive objectives. But are they sufficient in the face of today's financial headwinds? Let's examine each point in the context of what members are facing today:

- If members are struggling with their day-to-day finances, it seems improbable that any clever modelling or engagement strategy will shift their attention to longer-term financial matters.

- Strong investment is, of course, vitally important for providers, fiduciaries and members. The problem is, only one in three of those members knew their pension was even invested in the stock market before 2022, whilst two thirds weren't sure how much their pots were worth [source: *Hargreaves Lansdown*]. As attention continues to shift away from long-term financial planning, investment performance becomes a moot point.

- You can't argue with a smooth and safe pension conversion process. However, the average UK pension pot currently stands at just £61,897 (source: FCA), which is coupled with consistently low member engagement during the accumulation phase of retirement planning. Even if a scheme provides seamless to-and-through income options so that members no longer need to go through the time and costs of transferring to a third-party solution, it still won't be sufficient to change the basic equation of having to save a lot of money for a modest income. Amidst the financial pressures of these times, I hear echoes of "what's the point?"

Today and tomorrow thinking

HSBC Tomorrow, our workplace pensions Master Trust, is taking a different approach when it comes

to value for members and member wellbeing.

In a nutshell, it's this... Talking to members about their pensions and long-term financial future alone has been tried, it's been tested, it didn't work and certainly won't work in the coming years.

We're serious about value for members. We don't see it as a yearly box-ticking exercise to satisfy regulations – value is something that each member needs to see and feel, and hopefully... well... value.

That's why we take a tangible approach to each of our members' futures – utilizing the power of technology to tackle multiple facets of their life and address the financial challenges they face today, as well as tomorrow and the years ahead.

We encourage saving behaviour

in whatever form it takes through behaviour-based nudge communications. We empower members through open banking, spend tracking and budgeting alerts to help manage their daily finances. We also provide tools and support, like account-linked savings goals, to regularly motivate members to reach their financial goals.

We then engage with our members at the crucial moment they achieve a financial goal to encourage ongoing savings behaviours and promote an action that continues to improve their financial situation, whether it's for now or years down the line.

And when those years down the line arrive, our flexible, friction-free drawdown option saves our members time and money as they seamlessly move into retirement, while our digital platform

continues to provide help and support.

In our view, an on-going, more tangible and holistic approach like this, not only helps members get their finances under control and reach important short and mid-term life goals, in the long run it can foster a whole new attitude when it comes to the value of saving.

In other words, helping our members save for their today, as well as their tomorrow, is also how we help them foster and grow a vested interest in their financial future.

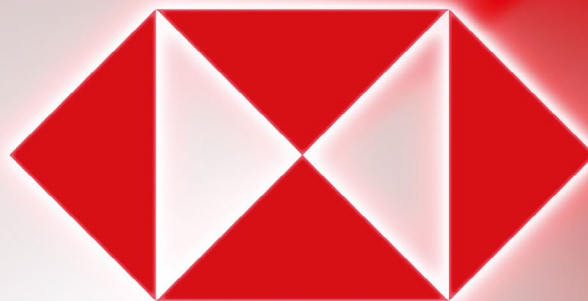


Written by HSBC
Tomorrow Master Trust
CEO, Alison Hatcher
alison.hatcher@hsbc.com

In association with



With costs of living rising, is your pension scheme helping members with today's new challenges?



Email mastertrust@hsbc.com to find out how we help members save for today's priorities, so that together we can open up a world of opportunity for their tomorrow.