Tackling poverty

Catherine Howarth reveals how pension funds can use their influence as shareholders to address challenges facing low-paid people

According to Trust for London, 58 per cent of people in poverty in the capital belong to working families, up from 44 per cent a decade ago. Couple this with pay not keeping pace with living costs and you get a pretty bleak picture. This growing financial insecurity is far from being confined to working people in London, even if housing costs in the capital contribute to a particularly acute living standards crisis for Londoners with low earnings.

Whilst these numbers are clearly relevant to the level of savings people can afford, few people think of UK living standards as an issue the pensions industry can help to influence. But in their role as stewards of both public and private companies, pension schemes can be champions of enlightened corporate policies that address the interests of low-paid working people. Indeed, it could be argued that as fiduciaries with obligations to serve their members' best financial interests, schemes should do what they can to join the dots between their members' lives and investee companies whose policies and practices have an impact on their members' living standards.

Automatic enrolment (AE) has brought 8.5 million more people into the private-pension system, with most new savers having low or modest earnings. Over five million of the UK's newest savers are members of NEST. Of these, 42 per cent fall into what the Money Advice Service terms the 'squeezed' segment of the UK population. New research conducted with Vanguard describes just how precarious the finances of these members are. The 'squeezed' are "unable to cope with unexpected costs, even relatively minor ones, because their monthly budgets have little 'give' and they typically have nothing in reserve". Unforeseen expenses can often only be met by taking on additional debt.

Whilst NEST's members are doubtless more financially vulnerable than members of other large providers, low pay and squeezed living standards are all too familiar realities for newly-enrolled members of many UK schemes.

Positively, the pensions industry is far from powerless to act on the economic challenges faced on a daily basis by the UK's swelling ranks of savers. Perhaps the most obvious issue to address is low pay itself. Since 2011, FTSE 100 companies have been encouraged by a growing network of their shareholders, including large UK pension funds, to adopt the voluntary Living Wage standard, which is calculated independently to achieve an adequate living standard in the UK. This voluntary rate is a full 20 per cent higher than the legal minimum wage; whilst an even higher voluntary rate applies in London, where the gap between the London Living Wage and the legal minimum wage is 40 per cent.

ShareAction coordinates investor engagement on UK Living Wage, which has delivered highly creditable results to date. In 2011, just two FTSE 100 companies were accredited as Living Wage employers. Today, 33 can proudly display the Living Wage Foundation's logo, whilst a further 15 are paying the required rates but have yet to seek accreditation. Thousands of other UK employers, both publicly listed and privately owned, have become Living Wage employers in recent years. The largest low payers in the FTSE 100, such as Tesco, Sainsbury and Morrisons, still pay staff below the UK Living Wage but they too have responded to the arguments made by shareholders by applying higher wage growth to their lowest-paid employees in recent years.

Living standards are, of course, a function of both income and expenditure. Pension schemes with low-paid members could also be alert to a phenomenon known as 'the poverty premium'. This sees people on lower or more insecure incomes paying more for essential goods and services. Research in 2016 from Bristol University, commissioned by the Joseph Rowntree Foundation, showed that low-income households pay on average £490 per year more for equivalent goods and services than higher-income households. For example, they pay dearly to spread the cost of buying bulky goods over an extended period; and they lose out when a lack of access to the internet at home means bills must be posted rather than sent online. This begs the question of whether UK pension schemes with low-paid members might, as shareholders, press investee companies for pricing policies that eliminate this rough justice meted out against more insecure consumers.

The UK's pension industry is in transition. Prior to AE, the average income among active pension savers was £35,000; today it stands at just £24,000, whilst the average income of a NEST member is a mere £18,000. Whilst the primary duty of a pension scheme is to deliver sustainable investment returns over the long journey to retirement, it makes perfect sense for schemes to look to the economic interests of their members in the here and now. Through stewardship of companies held on members' behalf, UK pension schemes can make a real and positive difference to the lives of more disadvantaged members. Is that too much to ask?

Written by ShareAction chief executive Catherine Howarth