Summary
- Voluntarily increasing contributions is the most effective way to boost savings.
- Other aspects of scheme design can also have an impact.
- Listen to your membership and understand what will help them save more.

Accumulation without legislation

Schemes can do plenty to help members save more, even without auto-enrolment minimum contribution increases, says Maggie Williams

Recent research from Barnett Waddingham shows that, despite 10 years of auto-enrolment, 46 per cent of individuals still don't feel confident that they will have saved enough for a comfortable retirement.

With no legislative change in sight to increase 8 per cent auto-enrolment minimum contributions, it is up to schemes, employers and individual members to address those concerns and find ways to help everyone save effectively and improve confidence in their retirement prospects.

Increase contributions

The obvious way to support members in growing their retirement savings is to increase both employer and employee contributions, ideally through contribution matching.

B&CE director of policy, Phil Brown, says: "Contribution matching has been repeatedly shown to drive up employee contributions. People will naturally try and take advantage of their employer offering to match their contribution rate."

However, even employers with very generous matching structures can find it difficult to convince employees to pay in more to get the full benefit. LCP principal, Lydia Fearn, suggests that getting members into good habits early is important, such as focusing on new joiners.

"Engaging some who has just joined the scheme or the company is a good place to start. For example, the employer could take on a larger proportion of the auto-enrolment minimum – even the whole 8 per cent – when someone joins and then encourage them to pay more on top. Or, employers could default new joiners in above the auto-enrolment minimum with matching contributions, while still giving them the option to lower their contributions if needed."

Include everyone

Encouraging existing scheme members to increase their contributions is vital, but the salary band constraints of auto-enrolment mean that some employees are excluded from auto-enrolment altogether.

Barnett Waddingham partner and head of DC, Mark Futcher, says: "The auto-enrolment legislation excludes a huge number of low earners, including almost one in ten full-time workers." Although he says that this needs to be addressed at government level, "if they *[the government]* don't rethink this, it falls to employers to consider increasing remuneration to their staff to account for the lack of long-term savings."

That could also mean employers volunteering to paying pension contributions from the first pound of earnings, or selecting a lower threshold to start contributions.

Use communications and education

Higher contribution rates from employers won't be possible for all businesses. Helping employees to understand why and how much they need to save for retirement is equally important, says Aon principal, Adam Burn: "It's education, education, education. You need to explain the benefits and positive impact of engaging with your pension at the earliest possible opportunity, in a way that people can understand.

"Apathy has kept people in auto-enrolment pension schemes so far, but we've got to educate people that they need to save more than 8 per cent to fund a decent income in retirement."

Encouraging members to commit to future increases in pension contributions is one possible option, but Burns is unconvinced about its effectiveness:

"People start off with good intentions, but then life gets in the way. When the time comes to remind someone of the pledge that they've made in the past, they say their circumstances have changed and they are unable or unwilling to put it into practice."

Scheme communications, including benefits statements, also need careful thought. "One of the issues with benefits statements is that they can give a false sense of security," says Burns. "A member sees a headline number like £200,000, thinks that means they are doing well and don't need to save more. But that number won't buy much in terms of income in retirement."

Burns says frameworks like the PLSA's Retirement Living Standards are a good way of giving members a realistic picture of how their savings translate into quality of life in retirement and to encourage higher savings rates.

Review scheme design

Reviewing overall scheme design, such as default fund design and tax relief management, can offer smaller wins for members that, over time, will have a positive impact on the size of their retirement pot. "Although contributions are the most important factor for the pot size, ensuring value for money and good governance around investment design helps," says Legal & General Investment Management (LGIM) head of DC investments, Veronica Humble.

"Lower charges and higher net returns will obviously improve retirement outcomes," adds Brown.

Fearn says that as part of good general governance, schemes or employers should regularly review charges and fee structures to make sure they remain competitive and suitable for the membership, although the current default fund charges cap means that there may be relatively little room for manoeuvre.

Humble cautions that there is "no silver bullet on the investment side", continuing: "Higher risk taking needs to be balanced with downside risk awareness of the strategy. We believe that diversification across different asset classes helps with both widening the potential sources of return and managing downside risk."

The anomaly between net-pay and relief-at-source tax arrangements are another area of scheme design that could make a difference to low-paid members. Employees earning less than the £12,570 threshold for income tax don't automatically receive tax relief on pension contributions under net-pay arrangements. Using a relief-at-source scheme means members automatically benefit from tax relief to help grow their pot further. Proposed change is on the horizon to resolve the anomaly between the two arrangements. Fearn adds that using salary sacrifice, so that employees' pension contributions are made from their gross (pre-tax), rather than net salary is a "no brainer". This reduces the amount of tax and National Insurance that employees and employers pay on pension contributions, potentially freeing up money for higher contributions.

"Analyse the workforce, understand how many people are close to retirement and how this is affecting them"

Although scheme design can have a positive effect on members' savings, Brown cautions "it can never fully compensate for a contribution rate that is too low. It can make a difference, but not enough if contributions are inadequate."

Listen and respond to member needs

Encouraging members to increase their contributions may be the aim, but volatile markets and high inflation are putting intense pressure on pension savers. According to the Office for National Statistics, there was a 23 per cent increase in withdrawals from pension pots between April and June 2022 compared to the same period in 2021, and there are widespread concerns about whether members will opt-out of auto-enrolment minimum contributions due to affordability.

If members leave schemes, that will inevitably limit their retirement savings. But it might be an unavoidable response to some very challenging financial conditions.

Fearn argues that by understanding current behaviour patterns in the membership, schemes and employers can make sure they are best placed to provide support and ultimately help members remain in the scheme, get back into savings patterns after a break, or increase contributions when times are better.

"Analyse the workforce, understand how many people are close to retirement and how this is affecting them," Fearn adds. "Ask what young members are doing – are they taking up matching contributions? Are they staying in the scheme? Is there a risk that members will stop contributing because colleagues have done so?"

Fearn recommends keeping in touch with members, meeting face to face to find out about their current worries and plans, as well as talking to the employer to get feedback on related trends in the workplace.

Schemes, employers and members can't afford to wait for government action on auto-enrolment to help DC savers retire at a reasonable age, with an appropriate level of income. Encouraging people to save more when finances allow, backed up with good scheme governance, communications and cost management, are all actions any scheme can take now.

Written by Maggie Williams, a freelance journalist

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