Summary
- Financial wellbeing is about feeling in control of your finances.
- Employers are increasingly aware of financial wellbeing and its relationship to mental health.
- Pension schemes are well placed to help members with financial wellbeing.

From chaos to control

Maggie Williams considers what the industry can do to improve people's financial wellbeing, particularly during this cost-of-living crisis

The Money and Pensions Service defines financial wellbeing as "feeling secure and in control *[of money]*. It is knowing that you can pay the bills today, can deal with the unexpected and are on track for a healthy financial future".

If feeling secure and in control of money is a key factor in financial wellbeing, then the UK is clearly struggling. Recent figures from Aegon finds that 63 per cent of adults are worried about their finances, compared to just 36 per cent at the height of the pandemic.

With inflation soaring over 10 per cent and driving a cost-of-living crisis, Aegon's figures are hardly surprising. But poor financial wellbeing is not just a product of Covid and high prices. Underlying long-term trends show that the UK's struggles with financial confidence and control of money is far more ingrained.

In 2018, the Organisation for Economic Co-operation and Development (OECD) put the UK 15th out of its 29 nations for financial wellbeing, lagging behind countries such as France and Germany.

Debt management charity StepChange says that 30 per cent of adults are struggling with debt, equating to 15 million people. Separate research from LCP found that 32 per cent of respondents have less than a month's savings to fall back on, should they lose their income for any reason.

Crucially, LCP's research also found that it is not just low earners who are struggling with their financial wellbeing. More affluent employees also said that they were worried about money.

"You can have low financial control if you're uncomfortable with numbers, don't have a good sense of where your income goes every month or how much debt you're in or what savings you have," explains Penfold co-founder, Pete Hykin. "Similarly, whatever your income or net worth, you could have high financial control if you budget effectively, and track your spending, savings and debt."

But many people lack basic financial literacy skills such as budgeting. For example, 44 per cent of adults said they would be in better financial shape if they had been taught money management skills such as budgeting, according to Centre for Social Justice research.

Employers are waking up to financial wellbeing

Businesses are increasingly aware of the relationship between employee wellbeing, including financial wellbeing, and business productivity.

"Organisations are looking at financial wellbeing as one pillar of a wider strategy, including mental and physical health as well," says Wealth at Work director, Jonathan Watts-Lay. "The pillars fit closely together and financial wellbeing can have a significant effect on mental wellbeing. For example, if people are worried about money they will experience anxiety and stress, which leads to lower productivity and time off work."

"From a business perspective, there is no legislation to force employers to support financial wellbeing," says Buck principal and DC proposition lead, John Yates. "But employers do care about their employees, as a part of their social contract.

"Pensions and benefits are also probably the biggest people cost for businesses after pay. Employers want to make sure that their spending is aligned to the needs of their people – and that they can benefit from it."

"Post-pandemic we've also seen the emergence of the great resignation," adds Hykin. "There is now more competition among employers for the best talent and, as a result, they are trying to offer the best financial wellbeing benefits to attract and retain these individuals."

Is financial wellbeing a pensions problem?

Improving financial wellbeing might be a priority for employers and an important need for employees – but how does it relate to pensions?

"Financial wellbeing is a good fit with pension savings," says Pensions and with pension savings," says Pensions and Lifetime Savings Association deputy director of policy, Joe Dabrowski. "We want to help people better understand their finances more generally, and pensions as a part of that, to help with retirement planning. It also means that if people are able to manage their budgets effectively, build up resilience and reduce debts, they will be better positioned to save for later life as well."

Both the immediate cost-of-living challenges and more ingrained trends such low financial literacy and financial control have an impact on people's ability to save into pensions.

The most obvious short-term risks are that employees are no longer able to afford to pay into their pension, and that older employees use their pension savings to help them weather the current crisis – with potential financial knock-on effects for the rest of their lives.

In August, Barnett Waddingham found that 7 per cent of scheme members say they would reduce pension savings in response to the cost of living crisis, increasing to 18 per cent among 18 to 34 year olds.

Barnett Waddingham head of DC, Mark Futcher, says that employers can help by "providing stronger financial guidance for employees and encouraging them to think twice before making knee jerk decisions with their finances."

He also suggests that, from a pensions perspective, employers could increase employer contributions to workplace schemes and "even considering continuing to pay employee contributions if an individual needs to pause contributions temporarily".

There has also been a surge in older workers accessing pensions savings to make ends meet – as many as one in seven (13 per cent) according to Canada Life. Record numbers of over-50s became economically inactive (ie not working or looking for a job) in 2021, with 28 per cent saying they had retired.

While some early retirees may have already hit the pensions lifetime allowance or been long-term members of a defined benefit scheme, that may not be the case for all.

Watts-Lay argues that effective support to help employees understand the longer-term implications of retiring early or accessing their pension pots is an important element of financial wellbeing. "Employees approaching retirement need support with all aspects of their wellbeing, including understanding whether their pension will last through retirement if they leave the workforce in their 50s."

"There has been a surge in older workers accessing pensions savings to make ends meet"

Pensions as a starting point for financial wellbeing

Yates adds that pension schemes can also be the starting point for wider workplace conversations about financial wellbeing. "Pensions are the natural place to start widening the scope of financial wellbeing. Some employers have already made a start by, for example, addressing annual allowance and lifetime allowance issues affecting high earners and offering alternative options to pensions. The next step is to ask: 'If we can do that for high earners, can we give more savings choice for the rest of the workforce?'"

Although they are relatively new, products such as payroll and 'sidecar' savings that help employees to build a financial safety net for everyday needs are another example of how pensions can be used as a starting point for wider financial wellbeing.

Initiatives such as the PLSA's Retirement Living Standards can also contribute towards financial wellbeing, by helping people understand how much they need to save for retirement over the course of a lifetime. "People need

pensions-related information that gives them confidence that over the course of their career, by putting amounts away consistently, they can save for retirement," says Dabrowski.

Watts-Lay says that pension schemes are taking more interest in financial wellbeing for their members. "Trustees are increasingly asking us not just to deliver financial education around pensions, but to put that into the context of wider financial wellbeing. That's a massive step forward and something we haven't seen in the past."

"They are recognising that it's important to look at pensions as a part of people's wider financial lives, rather than talking about factors like contribution rates in isolation."

With money worries now affecting the majority of the UK population, and an even grimmer financial outlook ahead, both pension schemes and employers are well placed both to support employees and members sensitively through the current crisis. By offering help with financial education and wider options for accessible saving and managing day-to-day costs, schemes can help members build the skills and resilience they need to feel secure about their finances and save for retirement as and when calmer waters return.

Written by Maggie Williams, a freelance journalist