Ruston Smith

Getting a plan together

Pensions Management Institute chair, Ruston Smith, discusses the key changes that the government should be looking at to improve the pensions landscape in 2025

The Chancellor has reportedly delayed the second part of the Pensions Review, focusing on pensions adequacy. Did you see this coming?
No I didn't see it coming, particularly as so much emphasis has been placed on the need to support those in retirement, increase retirement savings and reduce pensions poverty.

However, it's important to properly consider adequacy and a long-term savings framework that's fit for the future. I hope the momentum on the Pensions Review is maintained – not stalled. We really need to crack on.

I question when the changes proposed by government to 'reduce the age at which employees are automatically enrolled at 18' and to 'pension the first pound' will be introduced – so important for part-timers.

We need to consult on and agree the ultimate contribution rate that will provide adequate retirement income, who pays what and from which dates – phased over an acceptable period.

We really need a long-term plan of changes to reach pensions adequacy to give employers and employees plenty of notice for when contributions will increase and by how much.

With continued uncertainty, this now places even more importance on the Lifetime Savings Initiative (LSI) that doesn't require increased employer contributions but, instead, incentivises employees to save more and build up valuable lifetime savings that we know are necessary in retirement.

According to Mercer, 68 per cent of the money people use to make ends meet in retirement comes from their personal wealth to supplement their inadequate retirement income and savings.

As well as being critical for retirement, lifetime savings can support people in the short term. The LSI was developed between the PMI and Schroders in partnership with over 80 representatives from the pensions, investment, financial wealth, housing, education, charity and other sectors.

We researched countries with developed long-term savings models like the US, Australia, New Zealand, South Africa and Singapore. They've already identified the need to take a more holistic approach to long-term savings and therefore allow early access to retirement savings for some specific reasons.

Even though affordability is a barrier to increase auto-enrolment (AE) contributions today, we've the opportunity to modernise the AE framework, to create a 'world class system' fit for today and tomorrow. This would provide an even greater incentive to save and to support people with their lifetime savings.

A plan to achieve adequacy could then follow. Now is the time to build on the 'successful introduction' of AE.

The LSI recommended that the government look to create a National

Lifetime Savings Plan (NLSP), as well as a National Short-Term Savings Plan (NSSP), to help improve financial resilience. How do you think this could have fit in alongside the government's ongoing Pensions Review, and the Work and Pensions Committee's new inquiry into pensioner poverty?
The ultimate and combined challenge of both the Pensions Review and the Pensions Committee's inquiry is how to help people save more so they have an adequate income in retirement and reduce pensioner poverty.

The LSI is totally aligned with this and includes two key components – the NSSP and the NLSP. Both provide solutions to everyday people's challenges in saving for the short and long term – both key dependencies in retirement.

We've two social and economic systemic risks that need tackling.

The first is the fast decline in home ownership where, research shows that in the next 20 years, there'll be three times more people renting in retirement. The 'cost of renting in retirement' is equivalent to a pension contribution of around 9 per cent of pay from the age of 22 – expected to cost the Treasury £15.4 billion by 2035.

The current minimum contribution of 8 per cent wouldn't even cover the rent – never mind switch the lights on or put food in the fridge.

The second risk, connected to the first, is the increase in the number of people in pensioner poverty (2.1 million today) which will put pressure on our health service as more are likely to become mentally and physically unwell. With an ageing population, there's also the economic impact on consumer spending and jobs.

The proposed NLSP would allow people to access the value of 'additional' contributions in their retirement savings paid over and above the statutory minimum before age 55 (age 57 from April 2028) – in very limited circumstances – only:

- To pay a deposit on a 'first' home;
- To pay down or remove 'problem debt'

No change is proposed to the access of the value of statutory minimum contributions as its recognised they're already inadequate and need to increase.

This helps everyday people in buying their first home, reducing renting in retirement and cutting problem debt – all of which have a profound impact on retirement outcomes.

The second component of the LSI, the NSSP, helps people to save a 'rainy day fund' and build short-term financial resilience. As a chair of a large charity, I see very clearly how this is so important.

Nearly half (46 per cent) have less than £1,000 of savings which means there's a 56 per cent greater chance of a family falling into problem debt. A rainy day fund, as Nest have found, is critical in helping people meet short term needs like fixing the boiler and repairing the car so you can get to work.

The NSSP proposes that an employer's automatic enrolment provider voluntarily offers a small choice of short-term savings accounts for employees to use – ultimately evolving to an 'opt-out' mandatory approach.

An employee, earning say £40,000 a year, who saves just 2 per cent could build up £1,000 within 21 months. This would be accessible when they need it and sits alongside their long-term retirement savings – building critical short-term financial resilience. When their rainy day fund reaches £1,000, an employer or provider could then nudge an employee, to pay more to their pension.

What particular recommendation from would you want the government to prioritise first and foremost?
The LSI recommendations minimise the change that's needed whilst maximising the positive impact on everyday savers – aligning the recommendations to government's mission and aims.

The NSSP could be introduced with contract- and trust-based pension providers on a voluntarily basis to offer savings products for employers and employees – with government removing barriers, at the earliest opportunity, so employers could choose to adopt an 'opt in' approach.

The NLSP should be a priority because it could modernise and transform the AE framework to be more consistent with other more developed international savings models. It would support short-term financial resilience, reduce the risk of falling into problem debt, incentivise higher voluntary contributions and mitigate the systemic risk of greater poverty from increased 'renting in retirement'.

We may have paused on steps to improve adequacy through higher contributions, but nothing should stop us improving and developing our long-term savings model to make it better, simpler and more valuable for savers.

With so many industry organisations sharing their recommendations for the future of the UK pensions system, what makes the LSI stand out?
The LSI provides a clear vision and a sustainable framework – which is evidence based. Whilst there are a number of valuable blueprint proposals, rather than considering one aspect of retirement saving, this research has been developed by considering, 'holistically', the key pinch points of everyday people.

The LSI would improve short-term financial resilience, reduce the risk of falling into problem debt, incentivise higher voluntary contributions and mitigate the systemic risk of greater poverty from increased 'renting in retirement' – reducing the expected cost to the Treasury.

Importantly, it aligns to how people are actually making ends meet in retirement today.

Written by Sophie Smith