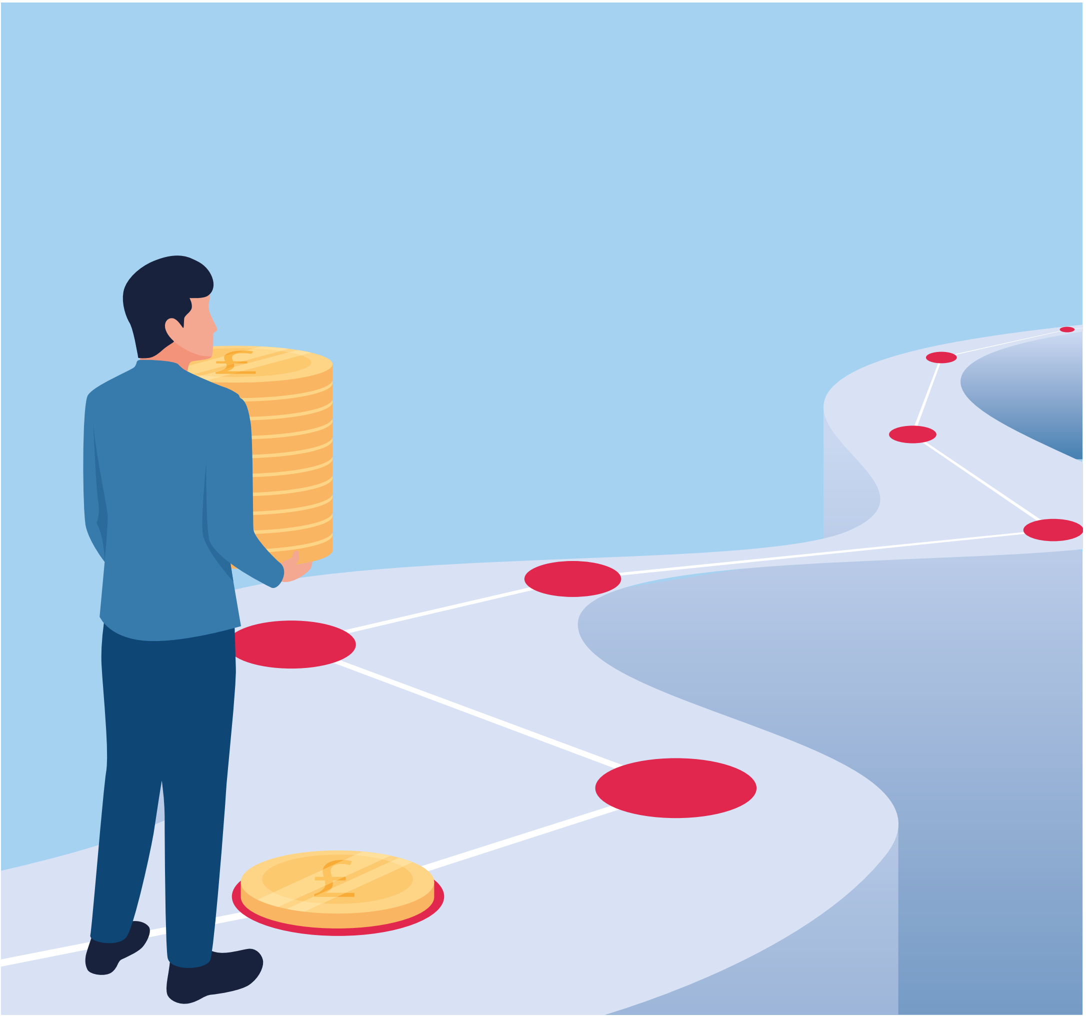

The right support at the right time

Jonathan Watts-Lay looks at the challenges faced by members and what they need to know in the year ahead. He also outlines how trustees, schemes and employers can help members take the right course of action to best optimise their retirement outcomes

It's well recognised that the rising cost of living has caused financial strain on many households over recent times. Our research[1] found that 34% of employees thought their biggest financial concern was not being able to pay basic living costs such as rent, mortgage payments, energy bills, food etc. As well as this, 22% of employees had to borrow money from friends and family and 20% had taken on debt.

The impact of this has also meant that 39% of employees thought that they would never be able to afford to retire, and 81% were concerned that they would have to work longer before retiring to make up for a shortfall of savings[2]. These concerns are also recognised by employers with our research with REBA finding that 71% of employers recognise insufficient retirement savings as a risk[3].

What do members need to know?

Although it may not feel affordable, many don't realise the significant difference a small increase to their pension savings can make. For example, someone in their 20s, saving just 1% more each year into a workplace pension can boost future savings by 25%. With the economic outlook looking uncertain, people will need support around how to best manage their finances. For example, making small changes such as setting a household budget, shopping around and not auto-renewing on things like car insurance, as well as utilising workplace benefits such as discount schemes, can really make a difference.

What about those considering retirement?

Those approaching retirement will need to work out a financial plan including what costs they may face in the future, the impact of inflation and if they can actually afford to retire. For those that realise that retirement isn't affordable, there are options to be considered such as delaying it or working part-time.

However, for some, retirement may actually be more affordable than they originally thought. This is because retirees are likely to be paying less income tax, no National Insurance, mortgages and loans may be paid off, and there will be no more pension contributions.

Aside from this, there are also many risks that members should be aware of when accessing their pension income. This includes paying unnecessary tax, not shopping around for the most suitable retirement income option, or even falling for a scam which unfortunately people who may be struggling with their finances could be particularly vulnerable to.

Making pensions engaging

As well as affordability issues, it's widely recognised that there are challenges with general pension understanding which impacts overall engagement. We looked into this and found that many people don't realise that their pension is invested (29%), or what it's invested in (49%)[4]. Coupled with this, almost two-fifths (38%) didn't realise that they have a choice over how their pension is invested, and this worsened for those age 55+ (44%). This is particularly concerning, as at this point people may be approaching retirement and need to consider how they plan to generate a retirement income (i.e. take it as cash, buy an annuity, go into drawdown or a combination of options) and ensure their pension investments or 'glide path' is aligned with this.

We know that for people to better prepare for their financial future, it's vital that they engage with their pensions as early as possible. So, it's really interesting to see that our research found that two in five employees (40%) said they would increase their pension contributions if they knew it was invested in funds that aligned with their values and beliefs, and this is despite the cost of living challenges. This is especially appealing for younger workers (48% of 18–34 year-olds), a cohort typically less engaged with their pensions.

In recent years there has been a significant expansion of environmental, social and governance (ESG) considerations, with people wanting to align their pension investments with their values and beliefs. However, ESG is a broad category, and it means different things to different people, with no one size fits all approach. There will be some people who care passionately about environmental issues and others will have religious beliefs to take into account when making decisions. Some might want to invest in companies that promote social cohesion, greater representation and diversity. It may be that others are just wanting to choose investments that are having a positive impact on the world. But simply knowing that pensions can be used to make a difference can be a powerful way to switch people on to better engage with their long-term savings.

What should be done?

Firstly, in the current environment, supporting individuals with their day-to-day financial needs should be an area of focus. This should then sit alongside support around longer-term needs such as pensions and retirement provisions.

When looking at how to best provide this support, it can be difficult to know where to start. The good news is that there are tried and tested ways. Many leading workplaces and trustees now work together with financial wellbeing and retirement specialists to empower employees with programmes that help with a full range of money matters; from debt and money management to understanding pensions and preparing for retirement. This can be delivered through financial education workshops, one-to-one guidance or coaching sessions, and digital tools and helplines, as well as providing access to investment advice.

In particular, when it comes to retirement provisions, employers are viewing the ageing workforce as increasingly important. Our research with REBA[5] found that 24% of employers currently offer pre-retirement planning, and 36% plan to offer it in the future. It also found that 20% currently offer financial advice specific to retirement, with 34% planning to do so.

However, before proceeding with a programme, carrying out due diligence on providers is crucial. This should include checking that any financial education providers are workplace specialists with experience in providing support to members. Due diligence on advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process e.g. compliance checks of 100% of cases, pricing structure, and experience of working with employers and trustees.

Ultimately, empowering people by providing them with access to the appropriate support at the right time, can enable them to make better decisions and achieve more positive outcomes, which is ultimately what it's all about.

Written by WEALTH at work director, Jonathan Watts-Lay

In association with WEALTH at work, part of the Wealth at Work group

[1] https://www.wealthatwork.co.uk/corporate/2024/03/18/the-impact-of-money-worries/
[2] https://www.wealthatwork.co.uk/corporate/2024/06/20/retirement-worries/
[3] https://www.wealthatwork.co.uk/corporate/2024/09/25/financial-wellbeing-report-2024/
[4] https://www.wealthatwork.co.uk/corporate/2024/04/17/pensions-engagement-research-survey-results-2024/
[5] https://www.wealthatwork.co.uk/corporate/2024/09/25/financial-wellbeing-report-2024/