Can better financial wellbeing lead to higher savings?

The DC pensions industry has moved forward since auto-enrolment was introduced, with many more saving into a pension. This is great news, but challenges remain. How do we help individuals see the value in saving more for a future that seems a long way off?

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AUTO-ENROLMENT – A POSITIVE SOCIAL IMPACT

We can all pat ourselves on the back. Auto-enrolment (AE) has been a huge success with nine million individuals being auto-enrolled since 2012 and nine out of ten of them still saving. Of course, we wait with bated breath for the impact of the recent statutory increases on minimum contributions, but today we know that more women, low-paid workers and young people are saving for the future.

Over one million employers are participating in this social change and the government is bullish about it too. "We are rebuilding the UK's savings culture, and as a pioneer of this shift in workplace pension saving, other countries are seeking to learn from our experience," said the then secretary of state for work & pensions in December 2017.

However, this is the beginning of the journey and now we have to build on the momentum to help people achieve an adequate retirement income. As long ago as 2005, the independent Pensions Commission estimated that the state pension, combined with AE contributions of 8%, would provide just half the level of savings needed to deliver adequate retirement incomes for most individuals. So we knew well in advance that AE would not provide the complete solution.

The Automatic Enrolment Review published by the government in December 2017 estimates that based on the Pensions Commission's 'savings adequacy' benchmark, 12 million individuals are under-saving for retirement. This figure could be higher but AE has reduced the undersaving total by 2 million. Interestingly, 10.4 million of those under-saving earn more than £25,000, with 1.6 million earning less than £25,000.

The review concluded that there were three significant and complex strategic problems with pension saving via AE:

1. Current saving levels risk a significant proportion of the working-age population not meeting their retirement expectations
2. The self-employed are disenfranchised by AE, although following the review this is likely to change
3. Individual engagement levels with pensions are still very low

Legal & General INVESTMENT MANAGEMENT

BARRIERS TO ENGAGEMENT

The concept of pensions and retirement is too far in the future for many people. People need and worry about their money for everyday living. Since 2008, the UK labour market has materially changed, with low earnings growth and the emergence of the gig economy meaning many are not included in a pension due to earnings patterns.

At the same time, property ownership has become a huge challenge, and not just for the young, as there are now twice as many middle-aged people renting their homes. As demand has increased, rental costs have gone up too. We have been talking about this social issue for a while and it has become a hot topic in recent media coverage.

For many workers, just managing day-to-day finances has become the priority and debt crisis is not unusual for those in low wage environments. All too often the wrong financial decisions are made too, due to lack of knowledge and understanding. The lack of financial guidance and education in our schools continues to have a major impact on those entering the workplace for the first time.

ENABLERS TO ENGAGEMENT

Technology has moved at such an incredible pace in recent years, and it has changed our lives. There has been a huge impact in the workplace but also in our personal lives. Many of us live by mobile devices and have artificial intelligence in our homes in the shape of Alexa, Amazon Echo and Google Home.

This everyday integration of technology offers a fantastic opportunity to increase engagement not just in retirement savings but also in general financial wellbeing. It could be argued that we have a duty of care to make the whole journey through and beyond the workplace easier for people and need to find the best solution.

A current example of technology-led engagement is the planned pension dashboard. There is a slight risk the government is becoming a little 'insular' in its approach, by focusing on a single dashboard hosted by a new single financial guidance body. However, this is positive as there has to be at least one non-commercial (and free) service available.

Research shows people would trust a government service above a commercial one. However, the government mustn't lose sight of the fact that the underlying technology needs to be designed to be flexible and allow others to develop innovative solutions. Also, it must be mandatory for pension schemes to provide their data to the dashboard if it is to be comprehensive and successful.

THE IMPACT OF MONEY WORRIES

It is recognised through employee/consumer research and employer insight that our financially stressed society is having a huge impact on the work environment. Again and again, research is evidencing the scale of the issue and how it affects many of us in day-today life:

- 1 in 4 employees report that money worries have affected their ability to do their job (CIPD)
- 40% of people feel they do not have good control of their money or manage it well (Money Advice Service)
- 90% of employers agreed that financial concerns have an impact on workplace performance (Financial Advice Working Group, March 2017)
- 69% of UK employers think they should take an active role in encouraging their employees to manage personal finances better (Willis Towers Watson, May 2017)

Both employers and employees agree that if the latter knew where to go for help and guidance they would have better control of their money. Further evidence suggests financial worries are a key cause of stress.

So what's the answer? It's a difficult one as psychology plays such a big part in shaping our personal relationship with money.

IS BEHAVIOURAL FINANCE THE ANSWER?

Behavioural finance has been around a long time. Many of the techniques have been tried in relation to pension saving, with pockets of success – with AE, for example, where we know inertia plays a key part in employees continuing to save once they're in a pension scheme. It could be more successful if behavioural finance techniques were used in a broader conversation with individuals.

By providing accessible and interactive help to sort out today's financial problems, more traction and engagement with individuals will develop. In turn, providing immediate value to the individual helps to build trust and confidence. Then the individual is more open to the prompts and nudges about saving for the long term and we can move from inertia to employee direct engagement and action.

WHAT DOES THE SOLUTION LOOK LIKE?

By making optimal use of technology portals and apps, we can help individuals to understand their attitude to money and what they need to do to make it a positive and pro-active relationship. The workplace provides an ideal opportunity to initiate and deliver financial wellbeing. This is validated by the number of employers who are now putting in place wellbeing strategies for employees.

So in terms of financial wellbeing, by providing online access to meaningful and frequently refreshed intuitive guidance, employers can help people to manage their finances. Priorities for individuals will vary, whether related to family, home, work or health. And by aligning this to the longer-term savings journey for retirement, there is an opportunity to build on the existing AE saving.

This will be further supported by the Pension and Lifetime Savings Association's (PLSA) work on savings adequacy and developing National Retirement Income Targets. In turn, this will contextualise how much people will need in retirement and help them think about their tomorrow, today.

A word of warning though! The online solution can be very compelling and those that use it may highly value it and return on a regular basis, but individuals first need to be aware that it exists. So an online solution can help individuals to find the right direction to take and develop greater financial happiness and confidence, but the campaign to take them there has to make it a 'no brainer'. Any campaign must clearly articulate what the benefits are for the individual and the call to action must make it easy for the individual to access the support. Keeping content in a barrier-free environment to start with helps with this access and it is when the individual is ready to transact that log-on is easily achieved.

USER-FOCUSED DEVELOPMENT AND EVOLUTION

The theory sounds great but any development of information architecture and content must be underpinned by robust insight from the very individuals it is being targeted at. And this 'test and learn' approach should continue to ensure individuals are still getting what they need from the financial wellbeing hub and will return as they come across further hurdles in managing their finances.

By continuing to deliver a rich and relevant user experience, traffic will grow and behaviours will change. Authenticated data capture, analysis and segmentation will further evolve the proposition as the more relevant it is for the user the more they feel supported and understood. Employers delivering this will be recognised for doing the right thing.

WHY BOTHER?

Looking at AE in isolation, there is a view that it has been embedded well and with the review published in December 2017, the actions coming from that will increase savings adequacy in the UK. The challenges to that are:

- How long will it take to embed the new framework and see it have an impact?
- Long-term saving is one part of the conundrum. How do we help people now to reduce stress and increase productivity?

In summary, some individuals are comfortable to deal with day-to-day financial issues enabling some saving. However, others may be affected by the 'ostrich' effect, keeping their heads buried in the sand and hoping the problems will go away. They need help to manage their current financial situation and to think more about the future. As discussed, the longer-term savings journey is being enabled by initiatives like the government's pensions dashboard and 'Hitting the target' work by the PLSA. But by also helping individuals to feel confident and comfortable about their day-to-day finances, there will likely be a range of additional benefits, including:

- Reducing the amount of working hours lost to stress
- Enabling individuals to manage debt effectively and start saving
- By using the right nudges, driving behavioural change so that people start saving more for retirement now

By doing something now, we can reduce the number of under-savers and help people be financially happy today, and in the future, and build a better relationship between employer and employee.

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