Can workplaces help close the savings gap?

The Panel

HENRY TAPPER (HT)
FOUNDER, PENSION PLAYPEN

Henry Tapper is Founder of the Pension PlayPen, Director of First Actuarial, a blogger and social media activist. He is keen to help restore confidence in pensions.

GREGG MCCLYMONT (GM)
HEAD OF RETIREMENT SAVINGS AT ABERDEEN ASSET MANAGEMENT

Gregg McClymont brings a consumer focused perspective to the rapidly changing world of pensions and investment. Previously a professional historian (St Hugh's College, Oxford) and a politician (MP and Shadow Pensions Minister), Gregg joined Aberdeen in July 2015. Gregg is a Visiting Fellow at Nuffield College, Oxford and sits on a number of pensions industry related policy and technical committees. Gregg's new co-authored book "Towards a new pensions settlement: the international experience" (Rowman and Littlefield, 2016) has been published recently.

JOHN COWAN (JC)
EXECUTIVE CHAIRMAN AT SESAME BANKHALL GROUP

John's financial services experience now extends over 40 years. Most of his career was spent at Scottish Amicable where he was Sales and Marketing Director, Prudential as Group Sales Director and National Australia Bank / MLC Investments (Pivotal) where he was General Manager. He has held a number of Non-Executive Director roles, including at Paymentshield and The Consulting Consortium.

KIRSTY WORGAN (KW)
HEAD OF SALES EMEA AT BRAVURA SOLUTIONS

Based in Bravura's London office, Kirsty has over 25 years' experience across the financial technology, platforms, pensions and professional services sectors. She is responsible for creating new sales opportunities and developing marketing strategies across the EMEA region.

Prior to joining the company, Kirsty worked in a number of senior roles within the industry including Head of Business Development for GBST Wealth Management and Senior Manager at Profund Systems.

GARY SMITH (GS)
HEAD OF DC CONSULTING AT CAPITA EMPLOYEE BENEFITS

Gary has worked in DC pensions and employee benefits for over 25 years across both consulting and provider organisations. During most of that period, he has been at the forefront of driving developments and best practice across the UK DC industry.

KATHARINE PHOTIOU (KP)
HEAD OF WORKPLACE SAVINGS – PRODUCT AND PROPOSITION AT LGIM

Katharine Photiou joined LGIM in September 2015 in the role of Head of Workplace Savings – Product and Proposition. Her role is to develop and deliver the strategy, products, pricing and proposition for the Workplace Savings business, to ensure that key metrics and group objectives are achieved.

Katharine brings over 25 years' experience in the employee benefits and corporate consulting industry, having worked in a number of senior roles at Friends Provident, Barclays and Mercer where she was responsible for building its workplace savings solution and business.

The Chairs

MARK GEE (MG)
ASSOCIATE DIRECTOR, MRM

SOPHIE ROBSON (SR)
CONSULTANT, MRM

The Issue

It is widely believed that there is a savings gap in the UK, with research by consultancy Deloitte estimating that the deficit could reach £350bn by 2050. Despite valiant attempts by successive governments to make pensions simpler through a number of mechanisms including auto-enrolment, pensions freedoms and the new state pension, the fact remains that people are not saving enough to guarantee a comfortable retirement. Without drastic action, this worrying trend looks set to continue. But could more be done in the workplace to help close the savings gap? To debate this topic further, MRM was joined by an expert panel to explore the role of providers, the Government and individuals in reversing the decline.

Introduction
Setting the scene: can the workplace help close the savings gap?

KP: At the heart of the savings gap is financial wellness. The savings gap is incredibly important for everyone in the UK because increasing the propensity to save can directly increase people's well-being. And the research that I've done over the years has demonstrated that if you can increase someone's savings buffer, they will automatically feel a greater sense of well-being. So closing the savings gap or increasing the amount people save can have a direct benefit on the well-being of the UK society as a whole. We can employ behavioural finance techniques to solve some of those problems.

KW: The workplace is a key area for addressing the savings gap. I think there is an education angle and also a cultural angle. At the moment, if you look at today's younger people there is a strong need for instant gratification – instead, we need to create a culture of saving. Of course, that's easier said than done. But I think micro-savings and using behavioural finance and actually teaching schoolchildren about the benefits of saving and how to treat finance and economics would be really effective. The workplace is important but we shouldn't overburden employers with it.

GM: We should use technology where we can to make saving as easy as spending. Behavioural finance tells us there is a clear bias towards instant gratification rather than deferred gratification and that's not a new thing. That's a barrier to saving. It was almost a decade ago since the pensions commission took all the latest research, economic, social, scientific and the like and decided the workplace had to be the site of rebuilding savings in the UK. I think that

still stands. But do we think any solution short of mandatory saving will solve the problem any time soon? That's the key question.

KIRSTY WORGAN, BRAVURA SOLUTIONS:

"If you look at it from a purely technological perspective, we can build whatever we want to build nowadays. The real issue is having different providers and stakeholders working together to provide a format that the technology can work for."

GS: The savings gap problem isn't just affecting the individual, it's affecting the employer: individuals not having enough money has an impact on employers. We are already seeing a significant number of people having to stay in the workplace because they can't afford to retire. Apart from anything else, having someone that 'has to be' working rather than 'wanting to be' working can lower productivity. I think we are seeing a number of employers waking up to the fact that this is a commercial imperative for them if they're going to manage the future. Fundamentally it's about cultural change and beliefs and at the moment, the culture and the belief system is 'I'd rather have it now than in the future'. You just have to look back at some different but similar scenarios around things like wearing seatbelts or smoking. Whilst I agree it's a slightly more medium to long term solution than an immediate one, that kind of campaign is probably what's needed here to solve the problem.

JC: We have a cultural problem, with not enough people saving and it's going to take radical solutions to fix. We need to start doing more in schools to educate about saving, we need to make contributions mandatory. But this is going to take a long time; it's going to take 10 to 20 years before we sort it. I think if there is a glimmer of hope then it is that technology has arrived. If we can embrace that technology and mix it with the culture and the education and the role of the employer then I agree the workplace is really important. The nudge approach is not going to work quickly enough.

Education: who has overall responsibility?

SR: Quite a lot has been made of the grey area that exists between employers, the industry regulators and, to a certain extent, employees in making sure pension scheme members are as well informed as they can be. Some see the problem here is that no one group has overall responsibility for this. John, would you like to start? What's your take on this?

JC: I cannot imagine one particular group having total responsibility – we all need to. There's a responsibility for putting that in the school curriculum and employers also have a role to play. We need to answer the question for employers – I sense more and more employers are really worried about this particular subject. Then employees are of course looking to the product providers to say 'you need to help us'.

GS: Some research we conducted on employees showed that almost 60% of individuals expected their employer to provide them with financial education. So, that is the majority of individuals looking to their employer for that support. The employer shouldn't see that as a responsibility; rather, they can see it as an opportunity to create a supportive and productive environment for their workforce – which attracts and retains quality staff. The vast majority of employers I deal with are embracing this. However, there is also an element of risk management here; they are scared of the regulatory issues of giving advice. I think we need to create a safe harbour environment. However, ultimately, I think the responsibility lies with the state. It needs to engage with employers and address how we can incentivise them. Too often the actual role of the employer and the feelings of the employer are ignored in all of this in favour of the individual.

SR: Katharine, how do the providers fit into this and drive engagement?

HENRY TAPPER, PENSION PLAYPEN:

"Employers are really worried about the cost of auto-enrolment in relation to their payroll systems. Most of the money that's being salvaged at the moment by providers, advisers and intermediaries concerns getting the interface between the employer and the payroll right."

KP: We've moved from a collective society to more of an individualistic society, and employers are moving away from paternalism and becoming more of a libertarianism-type employer. All the cost and the risks of

DC now are on individual members. I think what we're starting to see is that balance starting to come back a little bit because it has to. You can't just put all the responsibility on the individual and not give them the framework to succeed – we all need to share responsibility – provider, employer and the government. What the provider has to do is create transparent, simple and easy products that are well communicated. Providers can drive simpler and easier products. However, if the regulation comes in and makes it more confusing then it's really quite tough for us.

GS: Master trusts have been very successful and now cover 25% of the UK workplace. As for auto-enrolment, it's been a success in getting people into a pension scheme, with opt-out rates running at around 8-10%. But as we all know, people are enrolled but paying virtually nothing in – certainly not enough for a comfortable retirement. And with virtually no engagement, this is a big problem. Engagement was always an issue even with people voluntarily joining schemes, and we've got huge waves of people being enrolled who haven't made that decision.

The role of the provider

MG: Do we have the right products, and what is the role of the provider in making sure that we do?

GM: Employers need to be incentivised. The tax system incentivises employers very well, but individuals don't understand it. So you can see a potential trade off here between an incentives system which is understood by the individual via matching contributions and the fact that employers are incentivised by the current system. One's view of that trade off depends on one's view of who needs to be offered incentives – and I'd probably come down on the side of the employer if forced to choose. In terms of product more generally, there are two kinds: the wrapper and the investment. In the wrapper space, things do need to be simpler, there is constant regulatory change and the Lifetime ISA (LISA) complicates that environment. We also need to differentiate between large employers who will be investing lots in engagement and smaller employers, which make up a large proportion of the workforce. They will not have an HR department, or EBCs/corporate IFAs, for instance and that makes driving engagement difficult.

GS: We obviously talked earlier about the need for simplicity when talking about providers. Part of the success of master trusts is that they've adopted an incredibly refreshing approach of explaining to the consumer what they are doing and they are leaving behind those providers who are still living in the world of complex disclosure.

JOHN COWAN, SBG:
"We need to get the right products in place, we need to make it mandatory to save. After all it is mandatory to pay your taxes so it should be mandatory to save. People need to understand that they have a problem and they need to start saving."

KP: It would be easier if we didn't have so many different tax wrapper products and in the future only had effectively short, medium and long-term savings and protection needs that can all take place within one product. The LISA, which gives you access to some of the cash along the way for certain life events could be an option. Access to cash does need to be controlled because if you give people too much access, they don't save for the long-term, but it could be within one product. It is the legislation around these tax wrappers that just confuses people.

GREGG MCCLYMONT, ABERDEEN ASSET MANAGEMENT:

"There has to be a proper way to incentivise as having employees who are comfortable and happy in the job is very important. The regulators should be doing a lot more to incentivise the employer."

HT: The big problem with auto-enrolment is not member engagement, it's actually employer engagement. Employers are really worried about the cost of auto-enrolment in relation to their payroll systems. Most of the money that's being salvaged at the moment by providers, advisers and intermediaries concerns getting the interface between the employer and the payroll right. I think we'll see much more emphasis on product as the value of your pension increases. So I don't think you need to be worried too much about whether or not these master trusts are delivering knock out returns or getting good engagement right now. When employee contributions start to go up to 5% or more then we have to start really worrying about whether these plans are fit for purpose, or whether they simply suit the employers' payroll arrangements.

Technology

MG: From a technology point of view Kirsty, is the technology required to make it easier for consumers to save already there or does it need to be invented?

KW: If you look at it from a purely technological perspective, we can build whatever we want to build nowadays. The real issue is having different providers and stakeholders working together to provide a format that the technology can work for. I can't get over the fact that when people want to engage and buy something within financial services, it's just very difficult for them to do and it needs to be much quicker. I also think as the millennials start to come through we need to have some more innovative tax wrappers where you can take money out more easily. I think they will look at different ways of investing so as well as funds and equities, I think people will start to look at things like peer-to-peer. They will look at other, esoteric types of investments and I think that's just a generational thing. What we are used to and what we invest in now will be very different so I think the technology is an absolute driver. However, the field for it to be working is not quite there yet.

KATHARINE PHOTIOU, LEGAL AND GENERAL INVESTMENT MANAGEMENT:

"You can't just put all the responsibility on the individual and not give them the framework to succeed – we all need to share responsibility. What the provider has to do is create transparent, simple and easy products that are well communicated."

KP: We need to build the technology that enables people to view their pensions online as often and as easily as they do their bank accounts.

HT: The scale of technology nowadays massively reduces the cost. It also increases accessibility, so if you go on the internet you can find lots of information. You can do things for yourself which disintermediates and puts the employer and the employee back in the decision making process. Unless an adviser can actually demonstrate they are adding value, people won't go and see them. This is similar to what happens in medicine, where people avoid seeing a doctor as the tools are out there nowadays to self-diagnose. They'll go and sort it out for themselves if they can. So in financial advice, people will sort their problems out and only go and see an adviser when they have to.

KW: How do people know they are treating themselves for the right thing? And if you look at behavioural finance, there's a lot of research that says that if people do it themselves, with all their biases, then they're actually not doing the right thing more often than not. Technology facilitates things and makes them a lot cheaper, but we also need to ensure that when people are using the technology, they're doing the right thing. Technology isn't the answer for all generations. What's interesting is that we always make the assumption that the younger generation prefers technology for financial matters. But actually research we've done has found the opposite. If you're making a very major financial decision, such as buying a mortgage and you've never made it before, you actually want to talk to someone.

GS: There's one word that has been on my mind this morning: and that is relevance. We've talked about the issues of individuals engaging but the fundamental issue is saving does not feel relevant to many. We can actually use technology to present solutions to people for the problems they have at that time and is not just about people going and searching online to find the solutions.

Conclusions

GM: The workplace will be the centre of long-term savings going forward. In terms of a single thing which could encourage that development, I would say from a regulatory point of view, it is having the employers' needs at the centre of decision-making. But I think there has to be a proper way to incentivise employers as having employees who are comfortable and happy in the job is very important.

GARY SMITH, CAPITA EMPLOYEE BENEFITS:
"Engagement was always an issue even with people voluntarily joining workplace schemes, but now we've got huge waves of people being enrolled who haven't made that decision."

GS: I think things are generally moving in the right direction. However, there are lots of challenges that we have talked about. And I think the speed of that direction of travel is an issue and we have to remove a lot of barriers. We've got to make it easy for the individual to save. We've got to make

it easy for the employer to promote that environment to support the employee to save.

JC: I absolutely believe that the workplace is the battleground. We need to get the right products in place, we need to make it mandatory to save. After all it is mandatory to pay your taxes so it should be mandatory to save. People need to understand that they have a problem and they need to start saving. But unfortunately we've got a culture where people would rather spend the money now than save for the future.

KP: I think there are two things that need to happen. From the workplace perspective we have to create a safe harbour for employers. Until the employer has that safe harbour then even facilitating saving in the workplace is going to be tough. I think that might be part of the reason why it hasn't happened yet. Once there is a safe harbour in the workplace, we've got to make it as easy to save as it is to spend. We need to harness all the techniques that are deployed to help us spend our money in one click online into saving our money as easily.

HT: I think we've got to get to a point where spending money on retirement become activities of daily living. It should be in our DNA as much as anything else. And we can do that via those sort of repetitive exercises such as payroll. There has also got to be something in it for the employer. Employers have to feel comfortable about financial education. It is not just about savings – debt and lack of financial education have enormous parts to play in stopping people from working. Productivity increases when people are financially secure. So we want short-term debt problems sorted out and long-term saving problems sorted out in the workplace so the bits in the middle can be dealt with as well.

KW: It is about financial well-being. I think the employer's got a big part to play in that and I think technology has a huge part to play. But I don't think it is the panacea to everything. I think we also shouldn't see it as adviser versus technology. By having the two things working together in a complementary way, you can enable the technology to do things that makes it simpler for people.

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MRM
14-16 Betterton Street
London
WC2H 9BU

020 3326 9900
enquiries@mrm-london.com

@MRM_PubAffairs
@TweetsizedMRM
@MRMDigital