

The future of UK retirement **savings**

According to research recently undertaken by Watson Wyatt, the biggest fear of the UK pensions industry around the future of workplace pension provision is that defined contribution (DC) pensions will fail to deliver adequate retirement income to a significant proportion of the population¹.

These findings are now even more prominent due to the current economic climate, which has not only reduced fund values but is likely to weaken employee confidence in pensions. In light of this, we decided to explore these issues further to get a clearer understanding of how employers will act upon these concerns over the next decade or so. Using surveys to gain the views of employers, employees and pension providers we have attempted to paint a picture of workplace retirement provision in 2020.

In May 2008, we surveyed some 2,000 employees of large private sector organisations, as well as 110 professionals working in the pension industry, with approximately

equal representation from pension providers and employers.

Our research shows that both employers and employees are realistic about how much people can rely solely on workplace pensions to provide income in retirement in the future. While pensions are expected to remain the most important source of income in retirement, it is understood by the majority of employees that other sources of income will also be required; they cannot depend on pensions alone.

The majority of employees are not clear about how they will achieve a level of income that will support a comfortable retirement. Property is mentioned by many as a non-pension source of retirement income though

¹ Investment 2020 research – Watson Wyatt and 'Financial Times' expert opinion survey.



few appear to have clarity over how their property might be converted into income. Hence, despite the slowdown in the economy and the beginnings of a correction to house prices, people still seem to be relying on property to support their retirement savings. This raises concerns as to how individuals will achieve the additional savings they require to help fund their retirement, particularly as house prices have declined further since the research was carried out.

We find that saving for retirement is a low financial priority for most people until in their fifties; repaying debt, housing and general costs are far more important. This raises the question as to whether the focus that most employers have on providing retirement savings is necessarily giving them the best return on their employee benefit investment.

In a slowing economy, with cost control a likely issue, can employers get more value from their benefits spend with more effective benefit packages focused on the employee lifecycle coupled with a relatively small investment in financial guidance and assistance aimed at increasing awareness and understanding?

Even with the continued central role pensions play in most employee benefits packages, employees have less trust in company pensions than they did 15 years ago and only a minority of employees believe their employer is concerned about their retirement savings.

“ ... can employers get more value from their benefits spend with more effective benefit packages? ”

One potential way forward is for employers to provide financial education and planning assistance to employees. Indeed, two-thirds of employers believe that companies will offer financial education and planning assistance to their employees over the next 15 years. This could improve employees' perceptions of reward/benefits and help employers gain greater value from their benefits spend. It would also better manage the risks of employees not understanding the financial risks associated with their DC pension plan. In addition, employers could offer a broader suite of integrated savings vehicles – not just pensions – something which is likely to better suit the financial needs and expectations of employees in the coming decades.

Further information

For further information, or for a copy of our full research report, please contact:

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