A man with dark hair and a beard, wearing an orange knit sweater, is smiling and holding a white mug. The background is slightly blurred, showing what appears to be a kitchen or office setting.

Future Life: How can today's savers prepare for tomorrow's retirement?

We need to face the fact that the current pensions system is no longer fit for purpose. We must look at the issues facing savers and create bold and innovative solutions that provide support throughout their lives.

Capita



“ The current pension system is outdated and no longer reflects the needs of society. Individuals and society have a complicated relationship with pensions, mistrust runs deep and there are groups of people who can’t even begin to consider saving for later life.

The Government, pensions industry and employers must prioritise the savings revolution to help today’s savers prepare for tomorrow’s future; and only through bold and innovative steps will we create change for the better. ”

Stuart Heatley
Managing Director, Capita Pension Solutions

Helping savers secure better futures

We are told to save today to secure a better future but for many, their future dreams are being impacted by the need to fulfil more immediate priorities; accessing further education, being a homeowner, having a family, running their own business or just being debt-free. It's clear that there are large sections of society who simply cannot afford to save for their retirement. And of those that can, these immediate priorities, a lack of desire or understanding puts saving for later in life on the back burner.

Covid-19 didn't cause these problems, but it has exacerbated the impact on individuals who were already struggling to save for their future. We are seeing the fallout from this crisis on the back of austerity measures hitting some sections of society harder than others. The reality is that there are individuals who, due to their age, ethnicity, gender, economic or social inequality will be more vulnerable in retirement than ever.

As an industry we have the power, tools, and combined expertise to create a better future for those who need support most.

We are committed to finding out more about these issues, so we can help be part of the solution. That's why we asked the Pensions Policy Institute (PPI) to work with us to explore some of the factors putting people at risk financially later in life. **'The Future Life'** Briefing Note, is the first stage of a new, closer working relationship between Capita Pension Solutions and the PPI.

The PPI Briefing Note outlines five key characteristics that will help people to live a fulfilling, longer life: resilience, agility, wellness, financial capability, and flexibility. Right now, we believe that the needs of today's savers are not being met adequately in these key areas.

By working in conjunction with our clients, other providers, and industry experts we are focussed on reshaping the industry so it is fit for today's society.



38%

of adults saw their financial situation worsen because of Covid-19.



20%

of 18-24 year olds in employment in February 2020 were no longer working in January 2021.

*Note: All statistics quoted from Pensions Policy Institute, 'How can today's pension savers prepare for tomorrow's retirement?' unless otherwise stated.



A matter of affordability

Can we help people afford today, so they can save for the future?

For many, saving for retirement seems like tomorrow's problem. Large sections of society are doing all they can just to make ends meet. Asking individuals who are already struggling financially, to prioritise saving for their future can seem like an impossible and insensitive ask.

The ability to save often depends on social and economic factors. Covid-19 has impacted people in lower social demographics and minority groups more than their affluent counterparts.

The traditional pensions system is no longer aligned with the needs of savers. Savers require more support about when and how much to save and what products to use, they are also more likely to require support in generating accessible savings to prepare for financial shocks and to boost financial resilience. We believe a shake-up is needed. There are better ways to help savers manage modern living.

The future value of the pension or lifetime savings products lies in the ability for the member to utilise those savings and access them at key crisis points: debt, house purchase or to support during periods of unemployment. This will make saving more affordable, more accessible and promote engagement and participation.

There are a number of products out there that already go some way to making saving more manageable such as LISA's (Lifetime ISA's), employee benefit savings solutions and sidecar savings. These products are not new or innovative, but they are a start. But critically, we need to consider products and solutions that address the imbalance of the current pensions system. Not products that simply focus on those already able to save – encouraging them to save more, but solutions that enable greater support for those that are hardest hit in society. There is more that still needs to be done.

Can we help people afford today, so they can save for the future?

We think we can. For some, savings of any type are simply a luxury they can't afford, with the demands of everyday life and the cost of living. As an industry we need to look at these barriers and understand what we can do with policy and products to help.



57%

aged 18-24 used a form of debt between March and September 2020.



20%

aged over 55.



20%

aged 18-24 where behind on their bills in July 2020.



8%

aged over 35.

Gender inequality

A pension is a pension, right?

It's been estimated that the gender pay gap won't completely close until 2050, 80 years after equal pay legislation was put in place.

Women earn, on average, £260,000 less than men during their career*. It is easy to identify the reasons for this (over and above inequality in pay), maternity or adoption leave, reduction in hours or career breaks to look after their children or other dependents. Women are also more likely to be carers, 20% of whom give up paid income. All of which impact on time in service or pensions contributions made. As a double whammy, career breaks can impact state pension provision as well.

Additional legislation has been agreed to encourage more equality in dependent care, but there is still much more that can be done to support women in the fight to be financially healthy in retirement. Covid-19 has further impacted what was already a difficult environment for women whose journey to financial equality has been pushed back further.

The PPI Briefing Note highlights that pension contribution levels overall have reduced by a small amount as a result of the pandemic: 10% of adults have reduced contributions and 6% of people have ceased contributing altogether, which is relatively low considering the financial pressures of Covid-19. However, many of those that have ceased contributions are women. The statistics beginning to emerge are providing a bleak picture.

Before the pandemic women were receiving anywhere between £72,000 (when benchmarked at full time pay) and £41,000 (for part time pay) less in retirement than their average male counterpart.

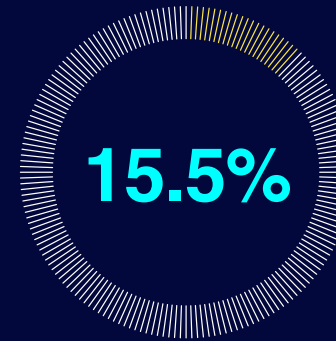
Women have also been estimated to be a third more likely to be employed in sectors that were 'shut down' and were therefore more at risk of job loss.

Around 55% of women were more likely to be on temporary or zero hours contracts which, when it comes to furlough payments, have been significantly impacted in terms of take home pay, which in turn has a knock on effect of their pension contributions and therefore overall retirement fund.

A pension is a pension, right?

The answer is sadly no, not if you are a woman. We need to do more to level the playing field and reward women equally for their contribution to society.

*Source: 'Women paid £260,000 less than men over their careers', The Guardian

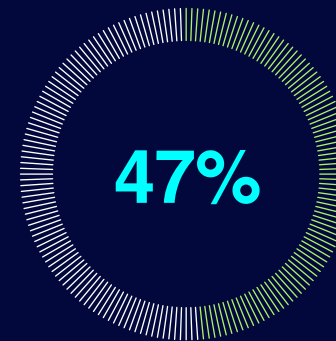


Is the estimated current gender pay gap.

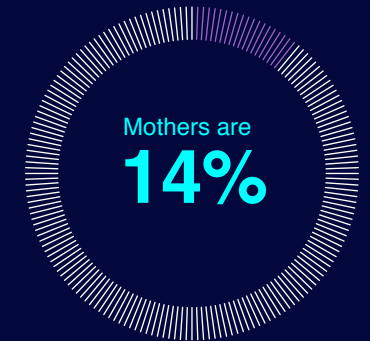


for retirement savings.

Source: Prospect 'Achieving gender equality in pensions'



of mothers have permanently lost their job or quit in lockdown.



more likely to have been furloughed than men.

Source: IFS 'Parents, especially mothers, paying heavy price for lockdown'

Racial inequality

Are pensions fair?

With equality being given the focus it deserves, it is important that we not only challenge previous (and white) privilege but examine how we can, as experts in pensions and benefits, become greater allies to those groups.

Research has shown that people from Black, Asian and minority ethnic (BAME) groups are likely to be c.£3,350 (24.4%) worse off per annum in retirement than their white counterparts*. This increases to 51.4% when gender is considered.

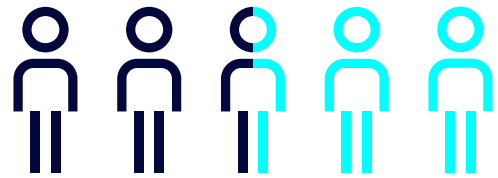
Even more worrying is that people from ethnic minorities are twice as likely to live in poverty compared to white people across Britain. The proportion of the UK population that identifies as BAME is projected to grow by about 50% between 2011 and 2051 (from 14% to 21%), as well as age significantly over the same period.

So, if this group is already affected by inadequate future life savings, and BAME adults are likely to be among those hardest hit economically by the pandemic, this pushes them even further away from achieving both equality and financial health for their present and their future.

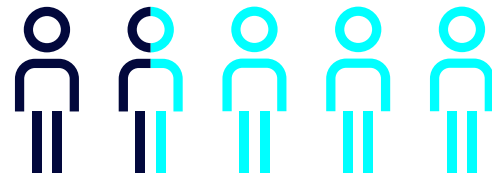
As with gender inequality, many of the reasons for the disparity in future life savings are cultural and societal and require a range of legal and policy interventions.

Are pensions fair?

Clearly not based on the statistics in the report. We intend to start difficult, sometimes uncomfortable, but important conversations around how to address these inequalities.



50% of Bangladeshi men work in sectors impacted by lockdown.



35% of Pakistani men work in sectors impacted by lockdown.

*Source: The People's Pension, 'Measuring the ethnicity pensions gap'



Work life has changed forever

Do we need to retire the concept of retirement?

The idea of retirement, how and when we stop working is evolving, and the way in which people live in later years has changed dramatically. We need to scrap the concept of retirement as we currently envisage it as an industry and listen to what our members are doing, how they are living, to ensure we can meet their needs now, and in the future.

The number of jobs you hold, the number of years you work, the level of involvement you need to have in your pension savings, and how and when you can access those savings have all changed. How long we live, and the kind of life we choose bears little resemblance to the life experience of those who established the pensions system.

We are working more remotely, we reduce, pause, or stop working in different ways. People are working longer, either through necessity or choice. The way people retire is much more fluid, we are seeing a blending of retirement and working life, and ambitions for retirement are also changing.

Products and policies designed to support better outcomes for savers will need to focus on the increase in flexibility and agility while in work.

Increases in those choosing freelance, contract work and the rise of the zero-hour contract means that our younger generations are likely to have patchy pension contributions at the start of their working life. We need to ensure that we are providing young people with the right tools to enable them to save for all their short, medium, and long-term goals.

We're transitioning from generations who had more traditional retirement paths set out by their DB (defined benefit) schemes, towards generations who will have mainly DC (defined contribution) savings. We need to help people understand the benefits and risks of the various ways you can access your pension pot and educate to help demystify the potential these pots provide savers.

Support should be given by employers and educators to boost financial literacy from an early age. Early, and increased engagement will help people have a better understanding of how to budget and manage money throughout their working lives. It will also help people envisage their life after work and understand what levels of saving they need to fulfil their later life needs whichever form of 'retirement' they take.



28.8%

of every 1,000 people were over State Pension age in 2019.



This is projected to grow to

36%

of every 1,000 people by 2050.



22%

increase in zero hours contracts from 2000 to 2020.



In 2017 people had an average of

6 jobs in a lifetime.



Millennials are likely to have

12.5 jobs in a lifetime.

Do we need to retire the concept of retirement?

Yes, the transition to retirement is not a light to be turned on or off. We would like to see the concept of pension products re-branded and utilised as part of an overall financial wellbeing strategy, not just at retirement.

Steps we're already taking

Driving pensions policy change

Partnership with Pensions Policy Institute

The Future Life Briefing Note is the first step in challenging the status quo and we've committed to work with the Pensions Policy Institute (PPI) and wider industry to address the issues raised. We have commissioned a second Briefing Note to commence immediately which will focus on the products and policy impacting affordability of saving.

Financial Wellbeing Charter

We are delighted to be the first Business Champion backing the National Wellness Conversation, a movement aimed at ending the stigma around talking about personal finances. This campaign calls on employers to put the financial wellbeing of their workforce on their responsible business agenda and take a more proactive role in improving the financial health of their workforce. The aim of the Financial Wellbeing Charter is to act as a blueprint to guide other organisations on best practice for workforce financial health and wellness, with the long term aim of getting the UK talking more about money.

Supporting social mobility with employment, financial and life skills

Internships

We have made a commitment to bring in 12 interns in summer 2022 under the 10,000 Black Interns programme enabling us to continue to build on the work we're doing to improve social mobility and diversity.

Project Re-Make

We are piloting a collaboration with Project Re-MAKE, a prison leaver rehabilitation programme where we are giving up to 12 people from the programme a 12-week work experience opportunity. Financial literacy is a significant challenge for this community and a focus area we will be supporting the participants with.

Teach First

As part of our Responsible Business agenda, we are providing work experience (WEX) for under privileged school students with a focus on supporting social mobility. We have also developed teaching content and videos around employability skills and are looking at how we enhance this to include financial skills to support young people when they join the world of work.

CV-less Recruitment

Already introduced in our Kickstart and Apprenticeship hiring process, we are looking to extend this approach to all entry level roles across the business. Our experience to date has challenged us to implement a fundamentally different approach to hiring, which reduces unconscious bias and increases the diversity and size of our talent pool and in return provides opportunities to anyone who has the aptitude to learn and grow from the experiences we offer.

Kickstart

As part of the UK Governments Plan for Jobs programme our ambition is to support a minimum of 100 young people throughout the life of the initiative.

The Youth Group

We have created a strong and valuable partnership with The Youth Group, who represent over 1.5m young people. Founder and CEO, Jack Parsons is also the UK's Chief Youth Officer. The Youth Group are an integral part of our Kickstart programme offering mentoring to anyone who has applied, whether they have been successful or not. We are united in our joint mission of ensuring we leave no-one behind.

Apprenticeships

We have launched our first external entry-level apprentice programme across 6 skills categories across the Group. This is with the aim of supporting a greater diversity of young people into employment with a strong focus on levelling the playing field making jobs and careers at Capita open to all.

Young Money Challenge

For the second year running Capita has sponsored the Young Money Challenge in conjunction with Young Enterprise. The Young Money Challenge is open to all 4-19-year olds in the UK and is an annual programme that encourages children and young people to consider the connection between money management and wider issues affecting local and global communities.



To download the full PPI Briefing Note
'How can today's savers prepare for tomorrow's retirement?'

[Click here](#)



To find out more about how Capita is helping shape the future of retirement, speak to your Capita consultant or visit
www.capita.com/expertise/people-solutions/pensions