# ENGAGING WITH SAVING

CBI/AEGON GUIDE TO PENSION ENGAGEMENT

MARCH 2018

In partnership with

**About the sponsor**

Aegon is a leading provider of long-term savings, investment and pension solutions provided through intermediaries to individuals and employers, and complemented by a range of life insurance and protection products.

Aegon's mission is to help people achieve a lifetime of financial security and make financial planning simple,
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# FOREWORD – CBI

*Welcome to this research and guidance paper around pensions engagement – we are delighted to be working with Aegon to bring it to you. My thanks to everyone at Aegon for their partnership on this issue.*

*Businesses contribute billions of pounds to employees' pension pots each year. Many rightly recognise the positive effect that their significant investment in pensions can have, not only in the futures of their employees, but on their ability to recruit and retain a motivated, productive workforce. Yet this report shows that the level of engagement with pensions in the UK is much lower than businesses and policy-makers would like.*

The CBI believes that this is a challenge that can be successfully resolved. Concerted action by businesses and government can improve engagement, with well-supported workers being better able to improve the outcomes of their workplace pension saving.

One thing that has always stood out in our work with businesses on pensions over the years, is the strength of the commitment they bring to the issue. This research backs that up. Almost all employers who participated in our research contribute above the statutory minimum for auto-enrolment to pensions. Firms' willingness to go beyond the minimum on auto-enrolment suggests an understanding of the important role that pensions can play in helping businesses to meet their recruitment, retention and succession planning needs.

Almost half of businesses believe that their pension provision has had a direct positive impact on at least some aspect of their workforce management. Two in five firms report that their ability to recruit and retain employees has been improved by their pension scheme. Yet, given the scale of businesses' investment in pensions, more are looking for these direct benefits than have already unlocked them. Only 12% of employers who participated in our research were happy with how engaged their workforce was with pensions.

The answer to this challenge lies in ensuring employees recognise the full value of the pension on offer. Businesses who are focussed on engaging their workforce with pensions will have employees who are far more likely to understand and take an interest in their pension schemes.

This research identifies two primary barriers to better engagement – low levels of financial awareness amongst employees and difficulties communicating effectively with staff about pensions. Businesses tell us that they are ready to step up to these challenges. Almost nine in ten firms feel a responsibility to better engage employees with their pension schemes. Some businesses are already leading the way – over half have a strategy in place for securing stronger pensions engagement.

To unlock the full value of pension saving, employees and government must play their part too. Effective engagement is a partnership. While there are steps businesses can take to increase the chance of employees being well engaged, they cannot mandate it. Not only must employees be open to improving their understanding of their pension schemes, government also has a responsibility to address concerns about insufficient engagement. Identifying engagement as one of the key areas for building on the success of auto-enrolment in its 2017 review was a welcome first step. But now it is time to move on to delivery.

Neil Carberry
**Managing Director, CBI**

# FOREWORD – AEGON

*Businesses tell us the workplace pension is highly valued by employees. Certainly, the sums involved are eye watering. In 2016, employers paid £52 billion into Defined Contribution workplace schemes. Looking ahead the DWP estimate that £133billion will flow into workplace schemes by 2019/20 as auto-enrolment minimum contributions rise.*

The research shows a significant number of businesses believe that their workplace pension contributions should be helping to attract, retain and develop their people. Pensions should be an investment in developing the right talent, but the responses suggest that all too often businesses see them as a cost and not as something that necessarily creates kudos or value back for the employer. Despite this, many employers are going the extra mile and paying above the auto-enrolment minimum. But employee engagement needs to be a lot better if employers are to drive more value from their pension scheme.

For me the question is how Aegon, and our sector, can help employers create recognition and value from the pension contributions they make on behalf of their employees. And how can we jointly move the dial to make them a truly valuable investment to employers rather than simply a sunk cost?

It might seem odd that we need to help people become better engaged with the money they are saving to achieve a better retirement, but we all recognise planning for later life is not the most exciting subject. Behavioural science teaches us humans are poorly equipped to empathise with their future selves. So, when weighing up short term priorities against commitments for a far-off time, the short-term priorities all too often win. Many people are not saving enough for later life and the question is how can we change this?

The statistics are stark. Employees often don't connect the valuable contributions made by their employers with how this will help them to meet their retirement income aspirations. Although frustrating for employers, ultimately, it's a problem for employees. Lack of engagement means employees aren't saving enough or planning ahead.

In the past, Defined Benefit schemes were used by employers to facilitate succession planning. This is no longer an option for most employers. Employees only tend to retire when they can afford to do so. Lack of employee engagement with Defined Contribution schemes could hinder succession planning among businesses as more employees defer retirement until they can afford it.

The pension freedoms, introduced in 2015 have made Defined Contribution pension saving more attractive. With almost 50% of businesses reporting an increase in pension engagement, pensions are now a hugely flexible and tax efficient way to fund retirement. More people are continuing to work longer, paying in pension contributions while easing down their work commitments and using their pension to top up income before fully retiring. The role of valuable employer contributions enabling this flexibility must not be underestimated.

Engagement is the key factor if we want pensions to drive value to the employer by helping attract, retain and develop talent and help employees to retire with decent pension incomes. This report highlights how some employers are leading the way and I hope that other employers will follow in their footsteps.

For Aegon, this is a continuation of the work we are doing with employers to ensure their workplace pension is working well and sharing best practice ideas, showing how and when engagement can unlock value. Our partnership with the CBI looks at how we can quantify the value of engagement; identify the support employers need; how the potential value in investing more than the statutory minimum can be understood by both employers and employees and create competitive advantage to attract talent.

I'm delighted that Aegon has partnered with the CBI in this research, to provide some real-world examples of what employers can do to help employees realise the value of their pension.

Paul Bucksey
**Managing Director, Aegon Workplace Investing**

*Businesses have a responsibility for engaging employees with their pensions and it's in their interests to do so. Employers recognise the benefits that strengthening employees' engagement with pensions could generate and are willing to lead the way, as* ***Exhibits 1*** *and* ***2*** *demonstrate. In return, they believe that employees have a responsibility to be open to improving their understanding and interaction with their pension schemes.*

The businesses that participated in this research identified twelve steps to be taken by business, and by government, that would increase employee engagement with pensions, and ultimately, the value that they unlock from their and their employers' investment into a pension.

Exhibit 1 Anticipated impact of improving employee engagement with pensions (%)

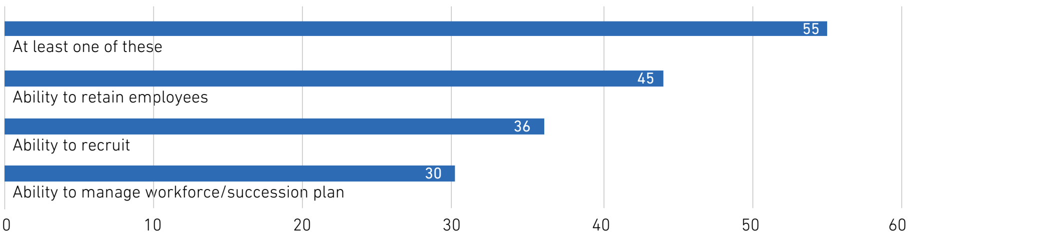
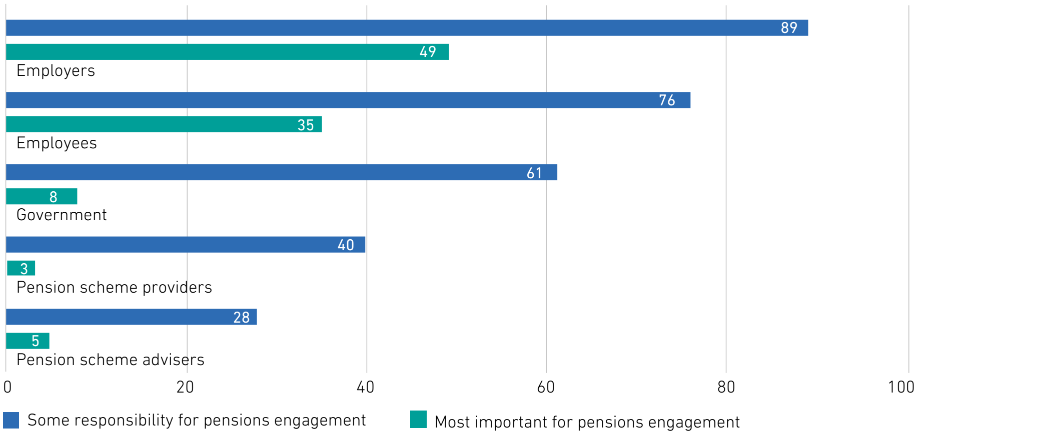



Exhibit 2 Responsibility for engaging employees with workplace pensions (%)



## Employers should have a strategy for engaging employees with their pensions that addresses core barriers to engagement and targets employees at key times in their working lives

- Employers should develop a specific strategy for engaging employees with their pension schemes, as businesses that do are much more likely to achieve better engagement.
- Firms should consider making pensions part of a wider programme of financial education to support employees' understanding of their pension schemes.
- Businesses should avoid using technical language when communicating with employees about their pensions as simple language is seen to aid understanding.
- Employers should consider how to incorporate the use of technology into their engagement strategies as a simple way for employees to access basic information about their pension schemes and to consider the impact of different contribution levels and investment decisions.
- Employers should seek to individualise communications around pensions as far as possible to ensure they are relatable to employees at each age and point in their career.
- Employers should highlight the value of their pension schemes to employees from recruitment right through to retirement. Remember key career milestones are good opportunities for engagement.

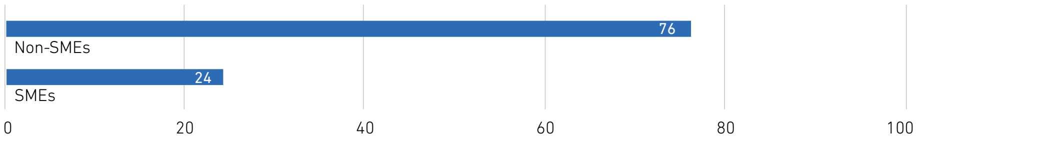
## Government and regulators should fulfill their responsibility to address levels of engagement with pensions by facilitating greater understanding of pensions and supporting businesses to talk to their employees about pensions

- Government should create a stable, long-term tax framework to give employees the confidence to save into a pension and allow businesses to communicate consistent messages to their employees.
- Government should continue to support employers to contribute above the statutory minimum to employees' pensions by preserving their ability to claim National Insurance on contributions and by extending the tax exemption for employer-provided pensions advice.
- Government should continue to invest in awareness campaigns that promote workplace pensions, and the changes to the way people can access their pensions.
- Publicly available pension guidance tools should be more widely promoted to individuals and government should support businesses to sign up to the Pensions Dashboard.
- The FCA regulations around employers' freedom to provide pension information should be clarified to make it easier for employers to talk to employees without offering financial advice.
- Auto-enrolment has been a great success so far. To keep this going, government should monitor the impact of planned auto-enrolment contribution increases on opt-out rates and use this to inform future increases.

SURVEY RESPONDENTS

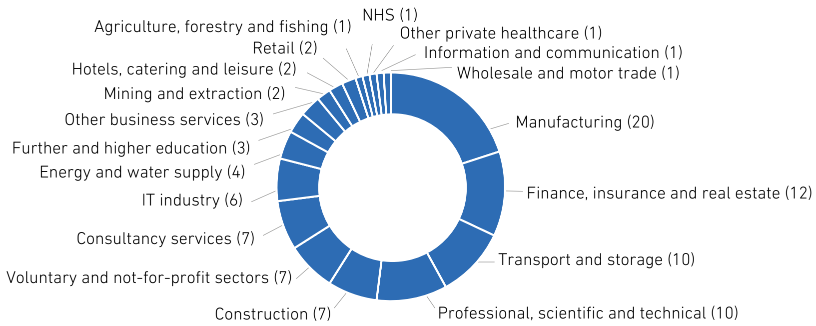
Data for the guide was collected in the Autumn of 2017. Research was conducted in two parts: a survey with 189 participants from a mix of small to large businesses and across all industry sectors (2nd – 20th October 2017); and 15 in-depth interviews with participants from a range of business sizes and sectors (30th October – 24th November 2017). Almost 25% of survey respondents were micro, small or medium-sized businesses reflecting the requirement for all existing employers to automatically enrol staff into a pension from 2017 onwards. Interviewees included a mix of pension technical specialists, reward managers and respondents from the boardroom to provide insight into the understanding of pensions engagement at every level.

### Exhibit 3 Survey respondents by size (%)*



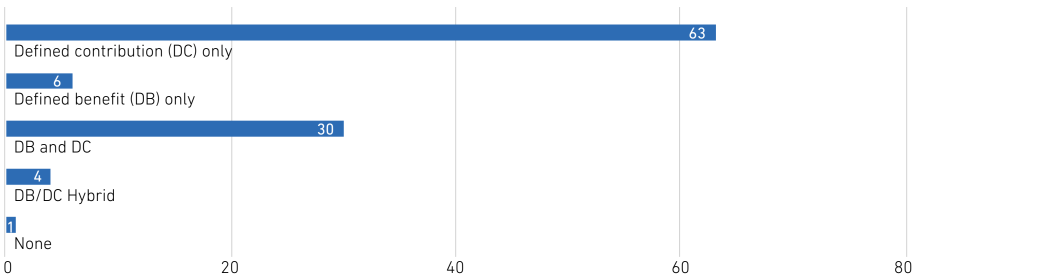

* Percentages have been rounded to the nearest whole number

### Exhibit 4 Survey respondents by sector (%)*




* Percentages have been rounded

### Exhibit 5 Respondents by pension scheme (%)*




* Due to some respondents identifying as having both DB and DC pension schemes and DB/DC Hybrid schemes, numbers do not add to 100

*55% of firms think greater employee engagement with pensions will improve their ability to recruit, retain or succession plan.*

CHAPTER 1

# The new world of pensions can be beneficial for businesses and their employees

*Pension provision in the UK is undergoing major changes. And there will be more changes to come in the years ahead. These pose big challenges for businesses and their employees – but they also open up new opportunities. Businesses are committed to helping their employees build up pensions for their retirement. But if businesses are to get the most out of their investment, they need fresh approaches to engaging employees with their pension schemes.*

## A pensions revolution is in progress...

The landscape of pensions is undergoing radical change. In 2016, major reforms to the State Pension took effect. Last year, the government announced plans for a new timetable for the State Pension Age which is increasing on a phased basis.

Private pensions are experiencing equally radical revision. Almost every Budget in recent years has made significant changes to the pensions framework. The pension freedoms introduced in 2015 have given employees much greater scope to decide how to use their long-term retirement savings – and increased the need for guidance. With employees able to take their entire pension pot from age 55, there is a risk of more people not using their pension to fund their life after work.

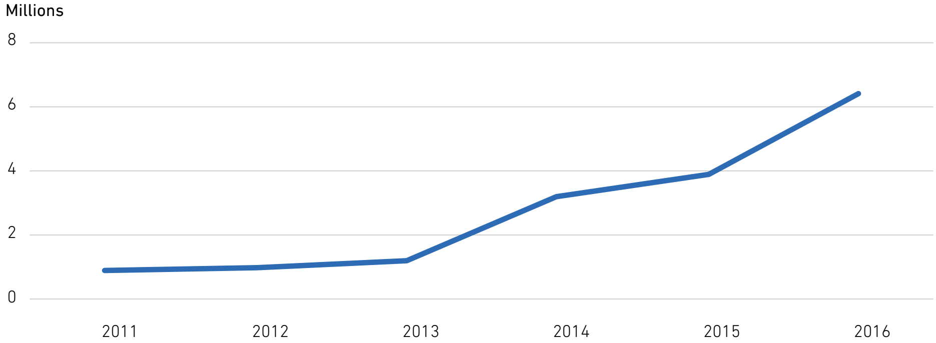
These and other pension changes are set against the backdrop of an ageing population. The proportion of the population aged 65 and over is projected to rise from 18% in 2016 to nearly 25% by 2046.[1] As longevity improves, people will increasingly look to pensions to support them in retirement.

## ...with auto-enrolment a key element of change for the better

A central element of the pension revolution is the roll-out of auto-enrolment. This has already produced impressive results. As a direct result of auto-enrolment more people than ever before are now members of workplace pension schemes.

The number of active members of private sector occupational defined contribution pension schemes has climbed from less than a million in 2011 to more than six million by 2016 (**Exhibit 6**).[2] And it is set to grow further. By 2018, 10 million workers are expected to be saving privately for the first time or saving more because of auto-enrolment.[3] This figure could rise again if recent proposals by the government – which are subject to parliamentary approval – including lowering the age threshold for auto-enrolment from 22 to 18, are implemented from the mid-2020s.[4]

Exhibit 6 Active members of private sector defined contribution pension schemes 2011-2016 (millions)




Source: ONS, September 2017

## Workplace pensions form one component of adequate retirement income

The objective of auto-enrolment, alongside the new State Pension, is to provide basic pension savings that employees can add to as and when they can afford to. It will form the vital bedrock for income in retirement.

Nonetheless, even when higher combined contributions of 8% take effect in 2019, many people will need to build up additional pension savings to ensure the comfortable retirement that they aspire to.[5] Auto-enrolment should, however, help to embed the habit of saving for later life – as well as forming an essential part of many people's target retirement income.

*"We need to monitor employees' savings – we don't want people to not have enough and end up with a significant number of people who can't afford to retire."*

LARGE BUSINESS

## Businesses are investing heavily in their employees' futures

Combined employer and employee statutory minimum auto-enrolment contributions rates will rise to 5% in April 2018 and then again to 8% in 2019. By 2019/20, in the wake of these higher contribution rates, it is estimated that an additional £17billion will be contributed to pensions annually through auto-enrolment.[6]

Businesses structure their pay and reward packages to attract and retain talent, so as employer contributions to pensions rise faster in the next few years, it will be the businesses who best engage their workers who gain an advantage.

In all, there has been a huge investment in pensions by business. Ensuring businesses see a return on this investment in the future of their employees is crucial. But, there is a lot more for businesses to do if they are to achieve this.

## Stronger employee engagement is essential to secure a return on pension investment

The key is strengthening employees' engagement with their workplace pensions. Employees who are engaged with their pensions are more likely to value this benefit. They are also more likely to play an active role in shaping their pensions by increasing contributions, for example, or selecting their own investment funds. And being engaged delivers results – research shows that employees who choose their own investments typically see improved returns.[7]

But while the case for stronger employee engagement with pensions seems clear, the steps to achieving that engagement are less obvious. That's the focus of this report: what should businesses be doing to bring about a step change in levels of employee engagement with their pensions schemes?

CHAPTER 2

# Businesses want to help workers save for retirement

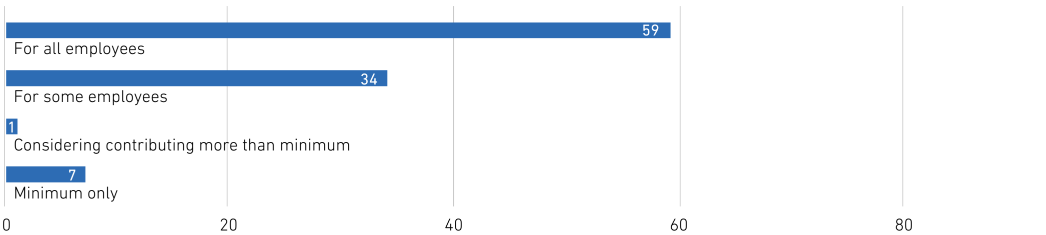
*Workplace pensions are the best means of building up high-quality, affordable retirement incomes and of doing so in a fiscally sustainable way. Businesses recognise they have an essential role to play. They also recognise that pension provision can yield valuable returns. But businesses will only realise the full returns on their investment if employees engage with their pensions and attach proper value to the benefit.*

## Pensions matter for everyone – and businesses are committed to delivering for their staff

Businesses recognise the importance and value of pensions. Almost all business leaders (96%) say there is a strong business case for providing a workplace pension scheme.[8] Businesses also believe they have a duty of care to help their employees save for retirement through workplace pensions. In all, two thirds of business leaders (67%) take the view that they have a moral obligation to contribute to staff pensions.[9]

Research conducted for this report shows the strength of businesses' commitment to pension provision (**Exhibit 7**). The vast majority of participant businesses (92%) contribute above the minimum level required for auto-enrolment for at least some employees. Over half (59%) of employers report contributing more than the 1% statutory minimum for all their employees.

### Exhibit 7 Businesses contributing above the minimum auto-enrolment employer contribution (%)*




* Because of rounding, percentages add to more than 100

The strength of commitment to pensions across business matters because there are only two ways of delivering quality, affordable retirement incomes at scale: government schemes and employer provision. Both depend on a successful, thriving economy. The role of business is, therefore, key to ensuring pensions are fiscally sustainable over the long-term.

## Employees too see the case for pensions...

For their part, employees also recognise the significance of workplace pensions in building up their savings for retirement. Three quarters (75%) of employees say that they see saving into a workplace pension as very important.[10]

Businesses understand the value that employees place on their pension schemes. When asked to identify the workplace benefit most valued by their employees, more than a third of businesses (36%) point to pension provision, above both private medical insurance (15%) and additional holiday entitlement (12%).[11]

## ...and this is shown through low opt-out rates

Employees demonstrate the value they place on workplace pensions by retaining their membership of their schemes after they have been automatically enrolled, as well as by choosing to interact with their pensions in other ways, for example by increasing contributions. Our survey respondents report very low opt-out rates virtually across the board (**Exhibit 8**).

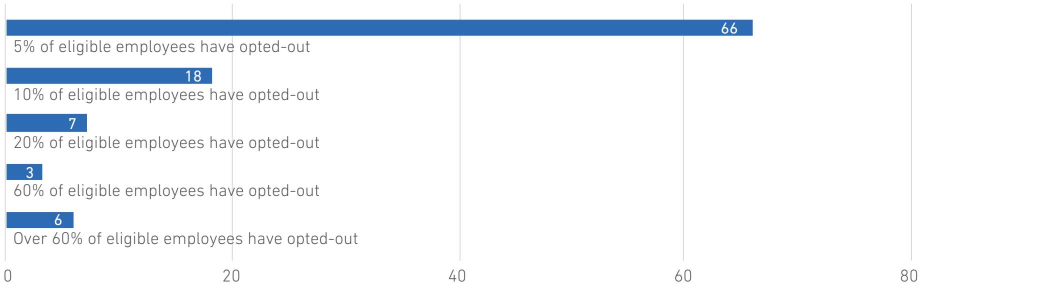
Across two thirds (66%) of businesses, only 5% or less of eligible employees have opted out of their auto-enrolment pension scheme. In all, among our respondents, the proportion of businesses where more than 10% of eligible employees have opted out stands at just 16%. This is a remarkable and welcome result.

However, despite most firms seeing positive opt-out levels, a minority reported worryingly high numbers of employees choosing to leave their schemes. A quarter of small businesses (25%) reported opt-out rates of over 80%. This indicates that pension contributions may be more of a challenge for employees of smaller firms.

It is yet unknown whether the number of individuals opting out of their schemes will rise as the timetable of planned increases in employer and employee auto-enrolment contributions is fully implemented in 2019. A period of reflection after the 8% combined contribution is reached will be crucial to understand the impact on employee opt-out rates and to inform plans for further contribution increases beyond those already planned. The high level of opt-outs among some small businesses reinforces the need to consider the impact of upcoming increases when thinking about future rate rises. The decision not to announce further contribution increases in response to the 2017 review of auto-enrolment suggests the government's intention to closely monitor opt-out rates to assess impact.

As a consequence of low opt-out rates, there has been a radical increase in the total amount of money devoted to pensions. Businesses are committing billions of pounds in auto-enrolment contributions each year – £52.1bn in 2016.[12] But if UK businesses are to sustain and increase their contributions above the minimum requirement for auto-enrolment in the years ahead, it is crucial that employees recognise the value of this huge investment.

Exhibit 8 Businesses with eligible employees opting out of Automatic Enrolment (%)




## Some businesses recognise the positive impact that their pension schemes already have...

As seen above, the vast majority of firms believe there is a strong business case for helping employees build up pension savings. Almost half of businesses (49%) believe their provision of pension schemes has had a direct positive impact on at least some aspect of managing their workforce (**Exhibit 9**). That a slight majority did not believe there had been a direct impact shows there is a lot of progress to make.

Businesses felt similarly positive about the impact of their pension schemes on specific areas of workforce management. Two in five businesses (42%) report that their ability to recruit has been improved by their pension scheme. Given the importance that employees attach to pensions as part of a benefits package, it's hardly surprising that some firms have seen an improvement in their recruitment as a result of their pension schemes. Employees see pensions as a clear incentive towards joining a new firm with more than two thirds (69%) saying that a business' pension scheme is an important factor when looking for a new job.[13]

A number of businesses also recognise the importance of pensions in fostering employee loyalty. Two in five businesses (42%) report that pension provision has a positive impact on employee retention. Again, the number of firms already seeing the link between their pension schemes and employee morale is encouraging. Yet, the scale of pension contributions from business is such that more firms should be making this connection.

*"We need to focus on retention as we are a small firm – so we pay slightly more to keep them. Pensions are part of this."*

SMALL BUSINESS

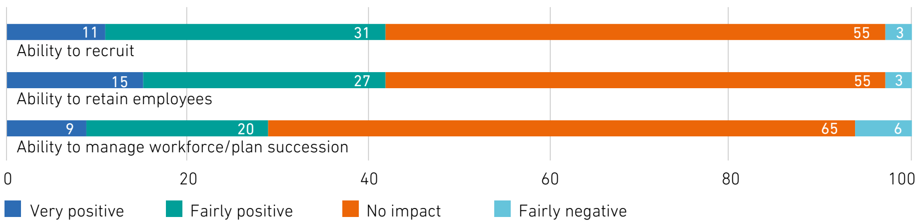
Businesses also attest to the valuable role that pensions can play more broadly in supporting workforce management and succession planning, although to a lesser extent. A third of respondents (29%) point to the positive impact that pensions have had in supporting their business to forecast and manage the retirement of key employees and prepare other employees to step up to those roles.

The high proportion of employers who have already benefitted from their pension schemes suggests that businesses are on their way to seeing a better return on their investment. More encouraging still, many more firms believe that they could unlock greater value from their pension schemes by focusing on employee engagement.

*"It does link to staff well-being; mentally and financially. It is part of our duty of care to help our staff. It is not the sole factor for retention but it is one thing. We want to show we are caring – it is great for recruitment as well."*

LARGE BUSINESS

### Exhibit 9 Current impact of pension provision (%)



## ...and many more see the potential value that they could unlock with better employee engagement

Given the limited proportion of firms whose pension scheme already has its desired impact on recruitment, retention and workforce management, it's hugely positive that there is a widespread view among firms that stronger employee engagement with pensions would yield further benefits (**Exhibit 1**).

Close to half of respondents (44%) believe stronger engagement would lead to better retention of employees. More than a third (36%) think it would boost their ability to recruit. With current skill shortages and the possibility that these will intensify in the future, improvements in retention and recruitment would be important gains for many businesses.

Nearly a third (30%) of respondents also believe stronger employee engagement with pensions would yield greater benefits in terms of their workforce management and succession planning.

Overall, 55% of businesses think that improving pension engagement would lead to better outcomes in at least one of the areas covered in our survey.

## Stronger engagement is key if employees are to value their pension schemes and businesses are to see a return on their investment

Our results highlight how much businesses stand to gain from higher levels of employee engagement with pensions. And when it comes to pension provision, employees engaging with their scheme and valuing their benefits go hand in hand. People who are engaged with their workplace pensions are far more likely to understand their worth and thus, value them. Bringing about greater engagement with workplace pensions will lead to employees placing greater value on this benefit. And benefits that are valued boost motivation, productivity and commitment.

Auto-enrolment has been a success in greatly expanding the number of people saving for retirement. But in its 2017 review of the programme, the government rightly identified engagement as one of the key areas to be addressed to build on the initial success of auto-enrolment. Individuals are beginning to save but far too few actively engage with their pensions.[14]

So, businesses are not yet reaping the benefits they could if employee engagement with pensions was uniformly strong. There is still much to do. Not all firms yet realise they are missing out on potential gains. And many more are uncertain about the steps to take that would boost employee engagement most effectively. This is the focus in the following sections of our report.

CHAPTER 3

# Employee engagement is key to securing returns on investment in pensions – some businesses are leading the way

*More and more businesses are recognising the importance of employees being engaged with their pension schemes. The current level of employee interest in pensions is encouraging. Yet, there is clearly more work to do to improve understanding around pensions and support employees to make informed positive decisions about the future of their schemes. Businesses are exploring how to strengthen engagement, but major challenges exist, such as the lack of financial awareness among employees and difficulties in communicating with staff about pensions.*

## Engagement means more than simply remaining a scheme member

Only a small number of savers have chosen to opt out of their auto-enrolment pensions. This is undoubtedly positive news – and a good indication that most employees see value in at least belonging to their workplace pension scheme.

Engagement, however, goes beyond simply choosing to stay in a scheme rather than opt out. By design, the decision to remain a member of an auto-enrolment pension is a passive one – as is the process of becoming a member in the first place. The success of the programme is, in large part, owed to its use of inertia as a tactic for people staying in their scheme.

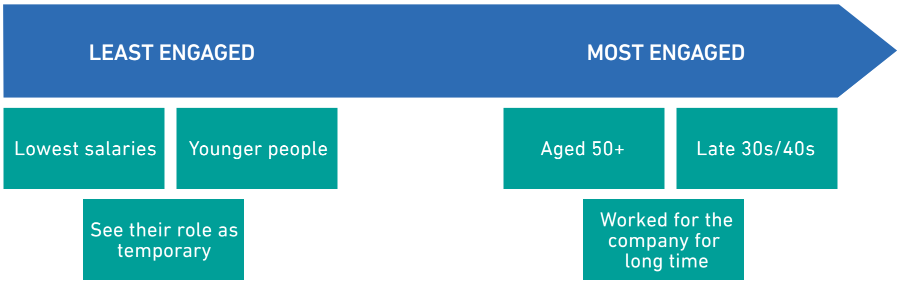
Although engagement was not formally defined in the survey – and indeed, there is no single definition – we asked businesses what they considered to be the key characteristics of an employee who is engaged with their pension. An engaged employee was understood to be one who displays a combination of behaviours including choosing to remain a member of the scheme – an indication of a basic level of engagement – and making proactive decisions around their participation in the scheme, based on a sound understanding of their pension. Examples of proactive behaviour include employees increasing or decreasing contributions, regularly monitoring their pension pots and changing their investment fund.

## Engagement varies across groups of employees, affected by factors such as age...

The majority of businesses (60%) consider their employees to be engaged with their pension schemes to some extent. Understanding engagement as a combination of passive and active behaviour, this suggests that firms have already taken steps to ensure their employees are able to manage their pensions. However, two out of five employers (40%) report that their staff are not engaged, showing the pressing need to strengthen engagement.

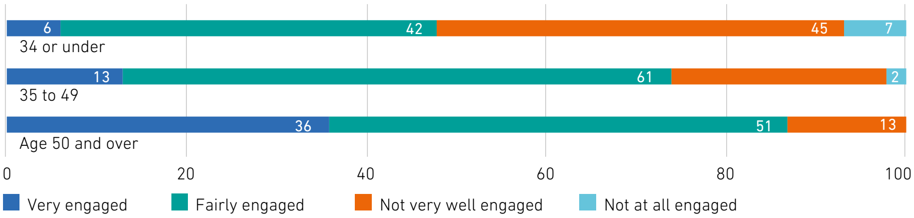
Businesses see levels of staff engagement varying across different groups (**Exhibit 10**). An employee's age, income and length of service with their employer can all lead to big differences.

### Exhibit 10 Engagement from least engaged to most engaged



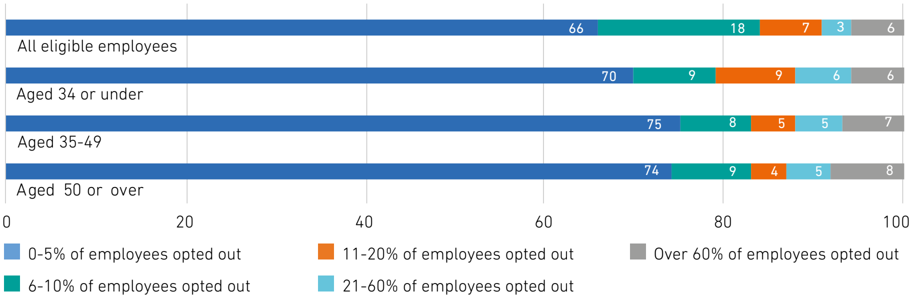

Perhaps predictably, engagement rises steadily as employees increase in age and approach retirement (**Exhibit 11**). Employees aged 50 and above are seen as being almost twice as engaged with their pension scheme as those aged 34 and under. And employees aged 35 to 49 are more likely to be engaged that those under 35.

### Exhibit 11 Employee engagement with pension provision by age (%)



Auto-enrolment opt-out rates reported by businesses support the view that engagement increases with age (**Exhibit 12**). Opt-out levels are highest among those aged 34 and under.

### Exhibit 12 Businesses with eligible employees opting out of Automatic Enrolment by age (%)




*"Rising inflation and stable pay could drag on pension contributions and lead to greater opt-outs – as they need more money to live on now. The younger ones [employees] have competing priorities eg university debts."*

SMALL BUSINESS

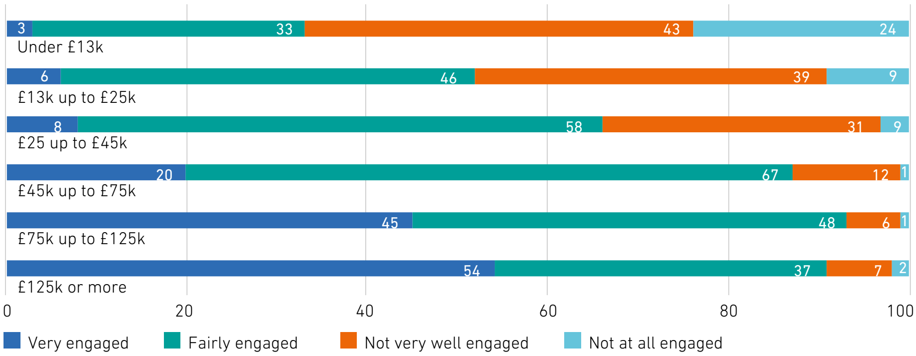
The variation in engagement between younger and older employees is seen as having several causes. Some businesses report their younger employees having to juggle competing financial priorities resulting in money being diverted away from pensions, such as a student loan or saving to buy a home. Conversely, employees aged 40 and above are more likely to own their home and therefore be better able to invest in pensions. As employees near retirement age, the desire to maximise the value of their pension is seen as motivating increased engagement.

## ...and by income and length of service

The level of engagement is also affected by an employee's salary (**Exhibit 13**). Engagement is seen to rise steadily with income.

Only 33% of employees earning less than £13,000 are thought to be engaged compared with 52% of staff earning between £13,000 and £25,000. Employees earning £25,000 and over are considered to be still more engaged, with the level of engagement rising significantly once employees earn £45,000. Those earning very high salaries – £125,000 or more – are not only seen as being engaged in greater numbers but also engaged to a greater extent. 48% of employees in this salary bracket are seen as being very engaged with their pensions.

### Exhibit 13 Employee engagement with pension provision by annual earnings level (%)



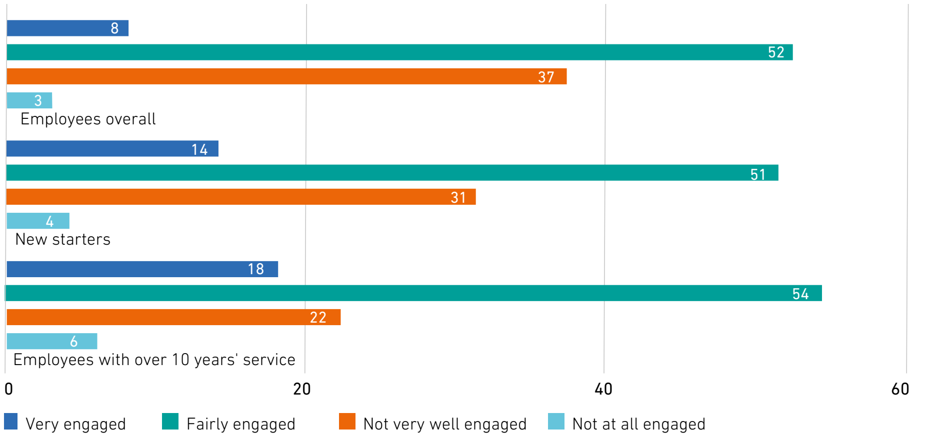

*"The least engaged are younger staff, ... and those on lower pay – I am worried they may opt out when contribution levels rise."*

LARGE BUSINESS

Although our research indicates that the greatest challenge lies in strengthening engagement among the lowest earners, the combination of the new State Pension and auto-enrolment is expected to provide an adequate replacement income in retirement for this group. The importance of engaging all staff better is shown by research suggesting that it is those with higher incomes whose pensions are most likely to fall short of their expectations unless they choose to save more.[15]

As **Exhibit 14** sets out, length of service with an employer also has some impact, although to a lesser extent than age and income. Businesses report 65% of employees who are new starters as being engaged compared with 72% of employees with more than 10 years.

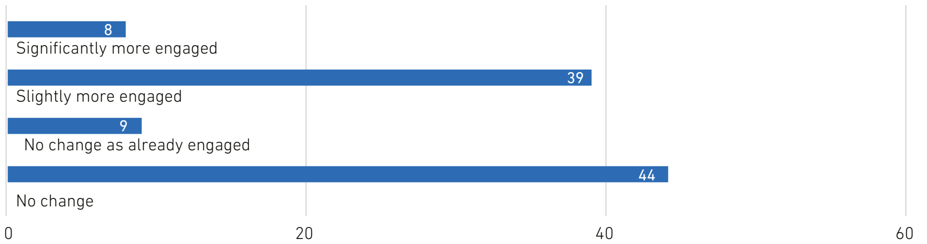
### Exhibit 14 Employee engagement with pension provision by length of service (%)




## The new pension freedoms have impacted engagement

External factors are also cited by some firms as having an impact on employee engagement with pensions across their workforces. Just under half of businesses (47%) believe that engagement levels have risen since the introduction of pension freedoms in 2015, giving savers greater flexibility over how they can access their pensions (**Exhibit 15**).

### Exhibit 15 Impact of 2015 pension freedoms on employee engagement with pensions (%)




## Employers recognise that there is more to do to ensure every employee is getting the most out of their pension…

Despite encouraging levels of engagement among some employees, businesses remain largely unsatisfied with the current state of play. Among our participants, only 12% of firms report being happy with the current level of their employees' engagement.

## ...and they are working hard to raise levels of engagement across their workforces

Businesses are already taking steps to address their concerns. Firms report using a variety of techniques to improve employee engagement with their pension schemes (**Exhibit 16**).

Two thirds of businesses (63%) include information about workplace pension schemes in the induction process for new staff to engage them from the beginning of their company career and in many instances, from a young age. This is unsurprising given that employers identify young employees and new starters as the least engaged with their pensions schemes. In 14% of businesses, HR departments speak to employees about their pensions at specified milestones, ensuring staff are given opportunities for engagement throughout their careers. A minority of businesses (15%) offer financial health checks to employees at age 50 to help staff think about their finances as they move closer to retirement.

Seeking external advice for employees or advising staff to make use of publicly available pension guidance is also common. Over half of participant firms (60%) include pensions guidance from an external adviser as part of their pension scheme proposition. A majority also encourage staff to visit public sources of pensions guidance, such as Pensions Wise. A smaller number of businesses (29%) have appointed a dedicated in-house pensions adviser that employees can approach for information or to answer questions about their scheme, but more (49%) hold in-house group seminars for staff. Seminars are a good setting for employees to meet with advisers in small groups – which is seen as preferable to conducting pensions education in larger groups (**Case study 1**).

## Case study 1

### ENGAGEMENT IN SMALL GROUPS WORKS

This large business found that speaking to staff about their pension schemes in small groups or individually was beneficial for engagement. To that end, the Finance Director organised seminars for small groups of 10 to 12 staff to learn about a variety of topics, such as pre-retirement planning and pension tax personal allowances, from an independent financial adviser (IFA). Seminars were also conducted specifically for new starters to support employees to make informed decisions about their pension schemes throughout their careers.

**Large business, Financial Services**

As **Case study 2** shows, some businesses believe that giving employees the option of taking greater control of their pension scheme is key to strengthening engagement.

## Case study 2

### EMPLOYEES WANT AUTONOMY OVER THEIR PENSION SCHEMES

Giving employees the opportunity and flexibility to make decisions about their pension scheme was found to support engagement by this small business. One step that was taken by the CEO to improve breadth of choice for staff was to allow them to select their pension provider (from a pre-approved list of providers). To protect employees from making impulsive decisions, the business recommended that staff seek advice from an independent financial advisor (IFA) for which the firm covers the cost.

This firm also concluded that offering high employer pension contributions increased engagement levels among employees.

**Small business, Not for profit**

A number of channels are used to communicate pension scheme information in an engaging way to employees. Nearly two thirds (63%) of businesses use communications around the workplace whilst 51% have established digital platforms or portals for employees to access information about their pension schemes. These firms believe that technology has a positive impact on engagement. A further 38% include pension scheme information in monthly payslips to provide employees with more frequent updates beyond the annual benefit statement. Many firms believe using a mix of communication methods is the most effective way of improving employee engagement with pensions, as **Case studies 3** and **4** describe. A minority of firms (24%) employ auto-escalation to improve employee engagement.

## Case study 3

### FIRMS ARE REACHING OUT TO STAFF THROUGH MULTIPLE CHANNELS

This firm targeted employees with several different engagement techniques to increase the level of interest and understanding around their pension scheme. Pension newsletters were circulated to staff once or twice a year and the business also encouraged their employees to make use of the online portal to access information about their scheme. The firm's Pensions Manager also believed that employees should be given the opportunity to learn about their pensions in different settings including roadshows and one-on-one sessions. Sessions were held for graduates to educate young employees about the impact of engaging with their pension schemes.

**Large business, Energy and Water sector**

# Case study 4

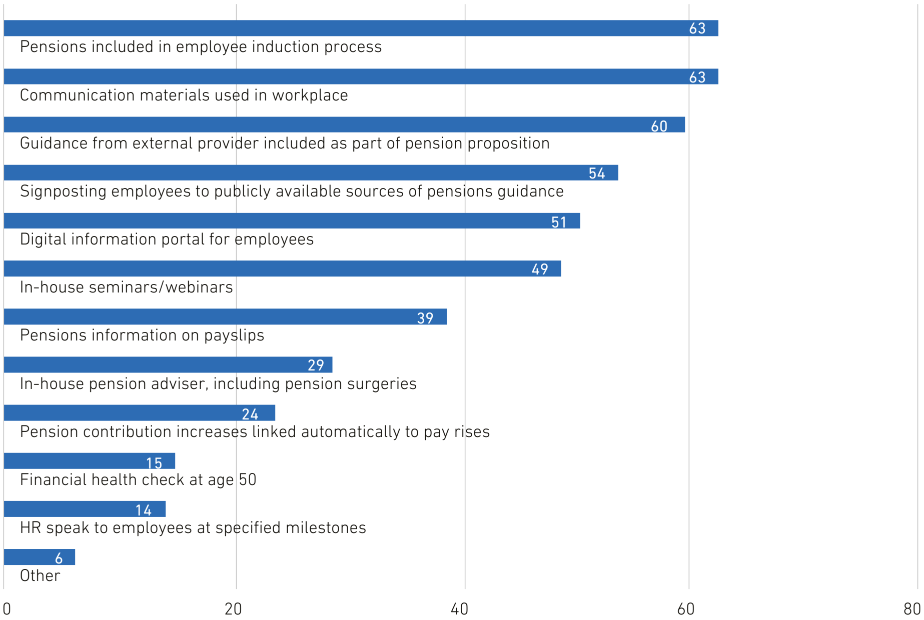
MAKING PENSIONS EDUCATION INTERACTIVE IMPROVES ENGAGEMENT

To reach their employees in regional offices across the country, this firm's Director of People collaborated with their pension provider to organise 11 roadshows to educate staff about their pension schemes. The Director found that sessions that were entertaining and required employees to be active participants resulted in high attendance.

The firm also used online interactive tools to help employees understand how engaging with their scheme could impact their pension, such as how the predicted size of their pension pot could increase. Case studies of employees interacting with their pension schemes in different ways were shown to employees to help them visualise the consequences of the options available to them.

**Large business, Not for profit**

## Exhibit 16 Approaches to boosting employee pensions engagement (%)*




*Based on those businesses with a strategy for employee engagement.

## Low levels of financial awareness and communications are key challenges to overcome

Drawing on their experience of steps to strengthen employee engagement with pensions, businesses have identified core challenges that need to be overcome (**Exhibit 17**). These centre on employees putting off saving (identified by 61%), partly because of other financial demands and partly because of inadequate awareness of the critical importance of saving into a pension. Overcoming the inclination to postpone saving for retirement is key to employees getting the most out of their pensions – the earlier they begin to save the greater the benefits will be.

A principal barrier, reported by 59% of firms, is employees diverting money away from their pensions due to other financial pressures, such as living costs, debts and other types of savings. The same proportion cite a lack of awareness among employees of the importance of saving for their retirement.

The State Pension is the foundation of income in retirement for many people, with other pension provision building on it. Lack of understanding of how much income they will receive in retirement from their State Pension is seen by many businesses (42%) as a challenge in fostering engagement. In addition, 44% of firms believe that one of the main challenges to engagement is employees' confusion around their own pension scheme. Pension freedoms, although believed to have improved engagement by some businesses, may have further complicated matters for employees. For example, 22% of employers think that employees are not clear on the rules around accessing their pensions from age 55.

Firms also attest to problems communicating information about pension schemes to employees. Almost a quarter of employers (23%) cite a lack of resources or expertise within their business to communicate effectively with employees about pensions. In the wake of mis-selling scandals, a substantial proportion of businesses (15%) are uncertain about where to find high-quality advice for employees. And a minority of firms (13%) find the cost of providing information about pensions to employees prohibitive. In addition, some employers are unclear about the extent to which they are legally allowed to provide pension information to their employees. For these firms, confusion around the rules on dispensing pensions guidance is a barrier to fostering engagement.

Negative perceptions of pensions are also highlighted as a cause of disengagement among some employees. **Case study 5** sets outs how one business has tried to overcome this problem.

## Case study 5

BUSINESSES ARE OVERCOMING EMPLOYEES' PRECONCEPTIONS OF PENSIONS

This firm's Reward and Pensions Manager altered the firm's custom of referring to their pension scheme as a 'pension' and instead introduced the term 'lifetime saving scheme', which also included employees' access to ISAs. The manager became aware that many of the firm's employees associated negative connotations with the term 'pensions' and were, in fact, fearful of discussing pensions as a result.

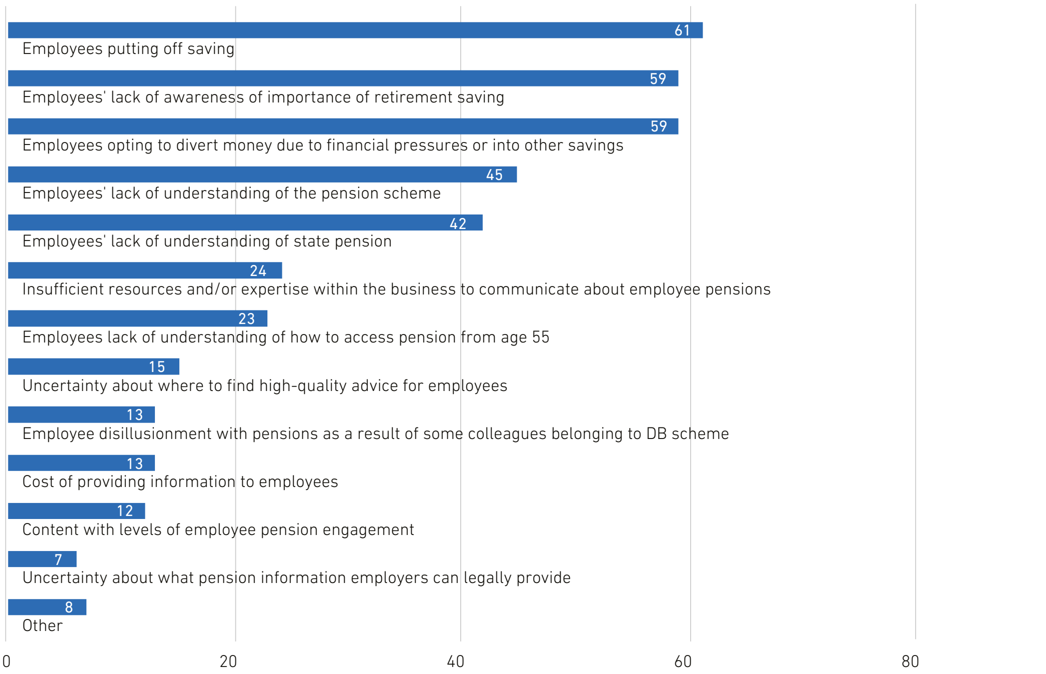
Businesses reported employees associating negatives with pensions including the type of people who they expect to have a pension – viewed as someone who is elderly or in ill health – and the feeling that pensions are highly complicated.

**Large business, Professional Services**

*"Most think of pensions when they are older – it has negative connotations; complicated, ill health etc. Low level of engagement due to lack of knowledge, pension skills and difficulties of thinking of the future."*

MEDIUM BUSINESS

## Exhibit 17 Main challenges in engaging employees with pensions (%)




Businesses feel that barriers to engagement with pensions stem from both their employees' behaviour and their own ability to take steps to improve engagement. In all, 84% of firms report at least one challenge to engagement that relates to the actions of employees while 41% cite at least one challenge that relates to employers or the need for government to aid pensions engagement. Firms see strengthening engagement with pensions as a joint responsibility for businesses, government and employees – a theme we address in the next chapter.

*"2 in 5 businesses report that their staff are not engaged with their pensions."*

CHAPTER 4

# Businesses, employees and government must all play a part in strengthening pensions engagement

*The case for strengthening employees' engagement with pensions is clear. And the government has rightly identified engagement as one of the key areas where auto-enrolment can be built on. Businesses, government and employees themselves all have roles to play. Firms need to find innovative ways to communicate pension information that resonates with employees throughout their careers. At the same time, government must do more to provide a supportive framework for employers working hard to improve the status quo.*

## Business should proactively take steps to improve pension engagement...

Employers are ready and willing to take the lead in making sure their employees are getting the maximum benefit out of their pensions (**Exhibit 2**).

Among our respondents nearly nine in ten (89%) believe they have a responsibility for engaging employees with their pension schemes. Half (49%) see themselves as bearing the main responsibility. These results are important in highlighting the need for businesses to take the initiative in fostering employees' engagement with workplace pensions.

## ...but employees and government also have important parts to play

While much responsibility rests with employers, this does not mean they have sole responsibility. The reality is that encouraging employees to engage with the process of building up sufficient funds for retirement requires a partnership involving government and employees themselves, as well as businesses, and potentially others.

The great majority of businesses (76%) see employees as having a responsibility to engage with workplace pensions. A third (35%) see employees as having the main responsibility. Rather than taking any clear-cut action, businesses feel strongly that employees' responsibility is not to be passive observers. This is not simply an issue of principle. Those who are sufficiently engaged to actively participate in shaping their pension scheme are not only more likely to value the benefit but, on average, also gain in investment terms.[16]

Businesses also believe that government has a significant part to play. In all, 61% think government has a responsibility to engage employees with their pensions. Some of that responsibility relates to the tax and regulatory framework that the government creates around pensions, but some concerns making it easier for businesses and employees to have crucial conversations about pensions. Pension scheme providers and advisers also have potentially valuable roles to play in encouraging members' engagement.

## An engagement strategy can prove its value

A majority of respondent businesses (57%) already have a strategy in place for improving employee engagement with pensions (**Exhibit 18**). This is reassuring, but it still means that there are many businesses that have yet to formulate plans for how to maximise returns on the significant investment they are making in pensions.

### Exhibit 18 Businesses with a strategy to improve employee engagement with pensions (%)


Our results show the benefits of a strategy for engaging employees with their pensions. Those businesses that have a strategy in place are much more likely to report that their employees are engaged with their pensions than those who don't (67% compared to 49% respectively).

## RECOMMENDATION

- Employers should develop a specific strategy for engaging employees with their pension schemes, as businesses that do are much more likely to achieve better engagement.

## Businesses are clear about the steps that would boost levels of employee engagement

We asked respondents that reported an improvement in employee engagement since 2015 about the factors that they believe influence employees' engagement. The results highlight the most promising areas for action (**Exhibit 19**).

A focus on financial education and communication is seen as the best way to strengthen engagement. Two thirds (66%) of firms believe that further educating employees about the benefits of saving through a workplace pension would improve engagement with pensions. Most also see a case for taking a broader approach: 58% believe that making pensions part of a wider programme of financial education for employees would have a positive impact.

*"There is still a lot to do on financial literacy – to get people to understand the importance of a pension and to start saving sooner. With new legislation, there needs to be more comms to show why this is the case to avoid opt-outs."*

LARGE BUSINESS

Better understanding of pensions, leading to stronger engagement, could also be aided using clearer language. Nearly two thirds (63%) of businesses reporting improved levels of engagement believe that using less technical jargon when communicating information about pensions to employees would improve understanding and engagement. And employees agree – businesses who avoid using jargon when communicating with staff are seen as being less remote by the public.[17]

The form of communication is also important. Technology can be a valuable aid to communication and engagement, a suggestion made by 54% of firms. It can, for example, enable employees to model the impact of different levels of contribution and investment options over time.

A personalised approach can make a significant difference in the opinion of nearly half of respondents (49%). For staff who are not office-based or work in remote locations, for example, and who may, therefore, find difficulty in attending meetings or seminars to learn about pensions, communications that are more tailored to individuals could be the answer. There is also a case for individualising communications for all staff as far as possible, to make them more relatable to employees at each age and at points in their career (**Case study 6**).

## Case study 6

### YOUNG AND OLDER SAVERS RESPOND TO DIFFERENT TYPES OF ENGAGEMENT

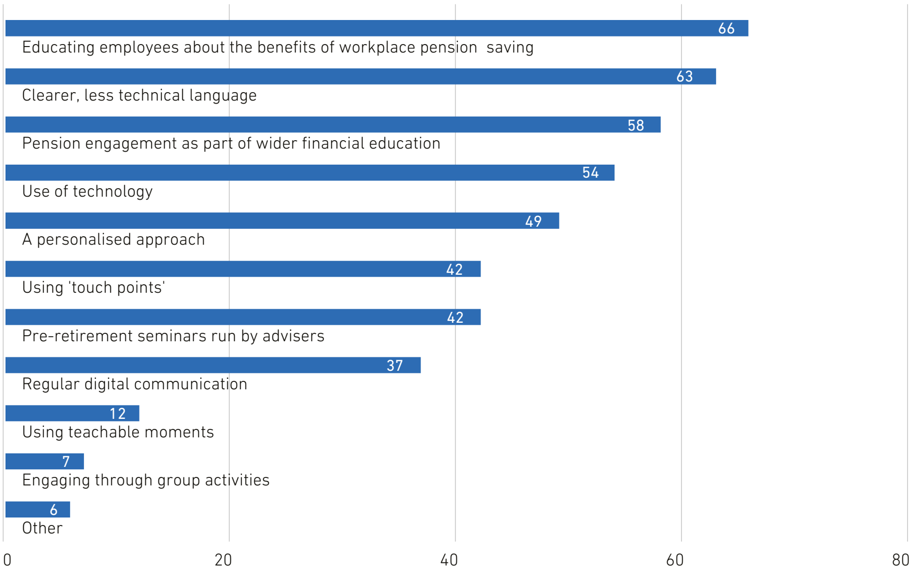
The reward manager at this firm believed that tailoring the way that pensions information is delivered to staff that fall into different social categories is key. As such, pensions communications were customised for employees of different ages, for example younger staff, or those nearing retirement age.

The firm also makes sure that communications around pensions are simple and easy to understand for employees with even the lowest level of financial literacy.

**Large business, Financial sector**

Several respondents pointed to the need for greater clarity around the rules governing employers' freedom to offer pensions information to staff. Specifically, more certainty on the distinction between guidance and advice would be helpful. Businesses worry that it can be all too easy to cross the boundary into unintentionally offering employees advice.

### Exhibit 19 Factors influencing employee engagement (%)*




*Based on those businesses reporting increased employee engagement since 2015

*"66% of firms think that employees need to be further educated about the benefits of workplace pension saving."*

## RECOMMENDATIONS

- Firms should consider making pensions part of a wider programme of financial education to support employees' understanding of their pension schemes.
- Businesses should avoid using technical language when communicating with employees about their pensions as simple language is seen to aid understanding.
- Employers should consider how to incorporate the use of technology into their engagement strategies as a simple way for employees to access basic information about their pension schemes and to consider the impact of different contribution levels and investment decisions.
- Employers should seek to individualise communications around pensions as far as possible to ensure they are relatable to employees at each age and point in their career.

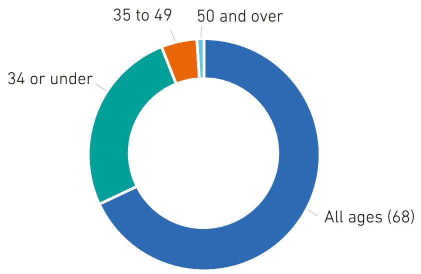
### It's never too early or too late to engage people with their pensions…

The sooner people start saving for their pensions the better. The earlier employees begin building up their pension funds, the more time there is for returns on their investments to be compounded, boosting their value. Recognising this, a quarter of our survey participants (26%) pointed to age 34 and under as the best age for engaging employees with pensions (**Exhibit 20**). The government's proposal to lower the auto-enrolment threshold to age 18 means that embedding good saving habits earlier is all the more important so that the opportunity for increased business investment is not wasted.

Two thirds of respondents (68%), however, believe businesses should be seeking to engage employees of all ages with their pension schemes. Although the messages and the manner of communicating them will undoubtedly need to vary for each age group to be effective, the critical importance of pensions remains a constant throughout a person's working life.

Inevitably, people's receptiveness to the idea of greater engagement with their pensions is likely to increase with time. Well over half of businesses (60%) see the period ten to 15 years ahead of typical retirement age as a good time for engaging employees with pensions. At this stage, there is still sufficient time for employees' actions to make a substantial difference to their final pension. Later, the years when an employee is closely approaching retirement is also an important time for engagement for 61% of firms.

### Exhibit 20 Best ages for engaging employees with pensions (%)



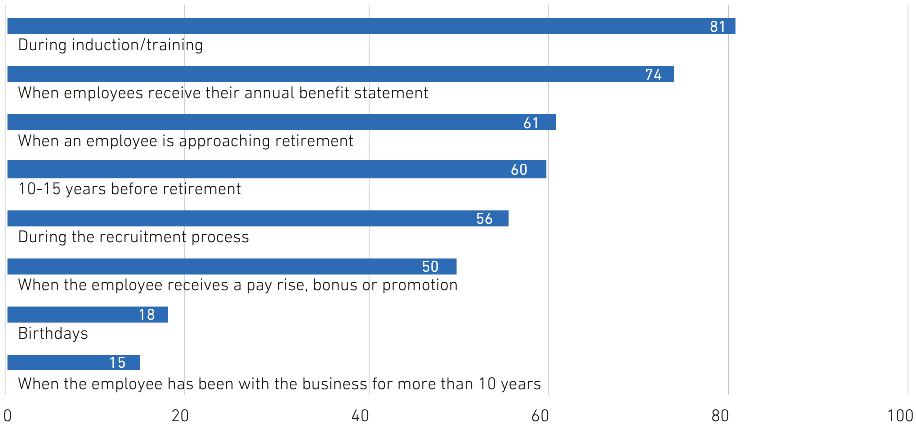

## ...but the start of employment and career milestones are the times when employees are most receptive

While engaging employees with their pension schemes is important at every stage of working life, businesses point to certain stages of an employee's career as offering valuable opportunities to trigger engagement or else, increase it (**Exhibit 21**).

The start of an employee's career is considered an optimum time for engagement. Some 81% of respondents see the induction process and an employee's initial training – when new hires are first learning about their jobs and their employer – as a good time to talk about pensions. Over half (56%) favour starting engagement even earlier, believing future employees should begin to learn about the firm's pension scheme during the recruitment process.

The time when employees receive an annual benefit statement is seen as another prime opportunity (identified by 74%) to boost engagement. And half (50%) see the time when an employee receives a pay rise, bonus or promotion as one when an individual's engagement with their pension can be strengthened. This can be a good time to highlight the scope for increased pension contributions or for employees to recognise the value of altering their investments.

### Exhibit 21 Good times for engaging employees with pensions (%)



## RECOMMENDATIONS

- Employers should highlight the value of their pension schemes to employees from recruitment right through to retirement. Remember key career milestones are good opportunities for engagement.

### A stable, predictable tax framework would help support employee engagement with pensions...

Saving for retirement is a long-term process. Funds are built up over many years of working life and then typically drawn on for some two decades of retirement or more.[18]

If individuals' trust and engagement with pensions is to be fostered, there must be a stable, predictable framework so employees can be confident that they know what to expect in retirement. And businesses too need stability so they can communicate consistent messages and develop employees' understanding of the value of their pension pots and the options available to them. A period of stability in the pensions policy space is a core priority for businesses participating in our research.

*"The Government need to stop changing things eg the lifetime allowance. A period of status quo would be the best thing to help people take stock."*

LARGE BUSINESS

One recent change that is, on the contrary, widely seen as having boosted engagement is the introduction of pension freedoms in 2015. Close to half of respondents (47%) believe that pension freedoms have led to a rise in engagement levels. However, even this instance highlights the need for future stability. Many of our participants report that the changes have caused confusion and raised new concerns for employees. Others voice concerns that employees could be making unwise decisions about the future of their pension pots – concerns that have been echoed by the Work and Pensions Select Committee's 2017 inquiry into freedom and choice which considered whether individuals are making pensions choices without seeking, and accepting, appropriate advice.[19] The solution lies in consistent communications about pensions and developing employees' understanding of their pensions and options over time. A stable framework will facilitate this.

Government must also support employers to continue growing their voluntary pensions offer of going above and beyond the auto-enrolment minimum. Businesses understand the importance of contributing to staff pensions and are willing to go beyond the statutory minimums, as demonstrated by the number already contributing above the required level for auto-enrolment. Maintaining and growing private pensions provision is strongly in the interests of the government. The workplace is the best way to deliver low-cost, high-quality pensions in a fiscally sustainable way, particularly against the backdrop of an ageing society. So, it is critically important that the government does nothing to further reduce the incentives for employers to support pensions. Altering their ability to claim National Insurance relief on pension contributions, for example, would make higher levels of saving less affordable for businesses.

## RECOMMENDATIONS

- Government should create a stable, long-term tax framework to give employees the confidence to save into a pension and allow businesses to communicate consistent messages to their employees.

### …and more action by government is needed to spread the message of how much pensions matter

Businesses recognise that they must play the leading role in engaging employees with pensions. But there is also an important part for government to play (**Exhibit 22**).

Our respondents highlight a need for more engaging and simpler communications from government about pensions, both to set out the benefits of pension saving overall and more specifically, to explain recent changes. Businesses would also welcome government action to help support employee engagement with pensions in a range of specific areas.

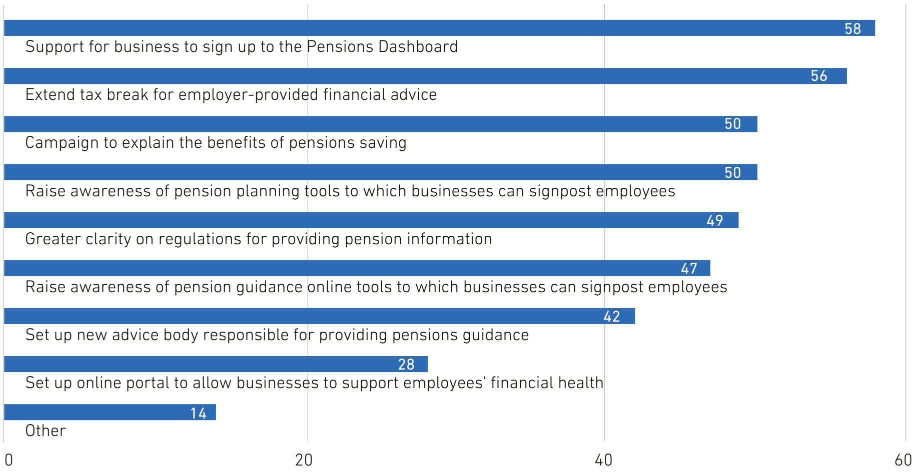
*"The Government need to make their websites simpler and more engaging. Provide an employer and employee advisory helpline. The Government should engage with pension providers as they often have good simple tools."*

LARGE BUSINESS

Over half (58%) believe that the government should support businesses to sign up to the Pensions Dashboard.[20] And almost as many want government to raise awareness of publicly available pension planning tools (50%) and online pension guidance tools (47%) to which they can signpost their employees.

Pensions advice is another area in which businesses would welcome action. A majority (56%) of employers believe that the government should extend the tax exemption for employer-provided pensions advice to more than £500.[21] More widely promoting employers' ability to reimburse staff tax-free for pensions guidance, introduced in 2017 alongside the £500 tax break, would further support firms to offer flexible benefits packages. And nearly half (49%) want greater clarity around the regulations for employers providing pension information, making it easier for businesses to talk to their employees about their scheme and the value of pensions without crossing the financial advice boundary.

## Exhibit 22 Government action to help support employee engagement with pensions (%)



## RECOMMENDATIONS

- Government should continue to support employers to contribute above the statutory minimum to employees' pensions by preserving their ability to claim National Insurance on contributions and by extending the tax exemption for employer-provided pension advice.
- Government should continue to invest in awareness campaigns that promote workplace pensions, and the changes to the way people can access their pensions.
- Publicly available pension guidance tools should be more widely promoted to individuals and government should support businesses to sign up to the Pensions Dashboard.
- The FCA regulations around employers' freedom to provide pension information should be clarified to make it easier for employers to talk to employees without offering financial advice.

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