Reward & Employee
Benefits Association

PURSUING BEST PRACTICE

Pensions and Master Trusts Research 2020

Responsible retirement saving is changing to meet new workforce needs

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Together with

A shift in focus for pension saving

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PURSUING BEST PRACTICE

Shifts in the world of workplace pensions tend to happen slowly, so they can be easy to miss. Step back for a moment and we can see the future direction of travel for both pension plans and the importance of long-term financial wellbeing for workforce planning and organisations business strategies.

The rapid growth of the pension master trust market is something we particularly want to flag up to all those who have any responsibility for workplace pensions. Even if your organisation has no intention of using a master trust, the predicted level of investment going into this sector means it will have hugely significant influence for many decades. What appeared to be a niche area pre-2012, and before pensions auto-enrolment, has now become an important sector and will significantly impact pensions savings outcomes and financial wellbeing for employees.

The research in this report shows that already as many as one in five of our respondents (18%) use a master trust arrangement to auto-enrol employees. This makes master trusts the most common form of trust-based pension plan in the workplace. Although right now they still have some way to go to catch up with contract-base group personal pensions, which are offered by 61% of our respondents.

This big shift towards master-trusts, is down to employers wanting to guarantee quality governance, security and investment expertise without the costs of delivering these themselves. In addition, the number of employers offering a single-trust scheme for their own staff has shrunk dramatically over the past decade. Fewer, well-run large master trusts schemes should be a lot better for employees' saving outcomes than many smaller, employer-sponsored single trusts which cannot always afford the same level of skill to run them as the big players.

While the use of master trusts by employers has grown fast, the number of providers has shrunk due to The Pensions Regulator putting in place Master Trust Authorisation in order to ensure only quality providers are able to operate. Clearly, a big attraction for employers that are used to offering trust-based schemes is the ability to have robust trusteeship in place, while sharing costs across broader base of employers. This is good for employees too because lower costs mean more money staying invested to grow for their futures.

Our report demonstrates just how much care so many employers do put into the long-term financial wellbeing of their employees, even though very few employees truly engage in their pensions until closer to their retirement. While some organisations do this because it is the right thing to do, for many, achieving good retirement savings outcomes for employees is not primarily about being good to staff. It is about ensuring good future business outcomes: with employees who want to retire being able to at their chosen age.

To our mind, a good financial wellbeing strategy, especially long-term savings is about an organisation's talent management and workforce planning. Pensions are the mechanism to get there, while covering the hygiene factor that all employees need a pension.

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About the research:

The REBA Pensions and Master Trusts report, in association with Scottish Widows, explores employers' views on their pension schemes; the challenges they face with encouraging staff to save for retirement; and what actions they plan to take to address those challenges in the future. It also explores employers' views on master trust pensions and their position within the pensions market.

The report is based on the results of two complementary phases of research. In phase 1, carried out in April and May 2020, 105 reward and benefits professionals completed an online survey of pensions and financial wellbeing. Phase 2, carried out in July and August 2020, involved a series of in-depth interviews with ten reward and benefits directors, drawn from REBA's membership.

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Modern master trusts lead the way with scale and innovation

Sharon Bellingham

Master trust lead
Scottish Widows

"In moving to a master trust, employers still expect a high-quality solution that provides excellent value both for the business and for its people"

Over the last ten years, master trusts have shifted from being a niche product to a mass market pensions solution. And there is still more exponential growth to come, with assets under management expected to reach in excess of £424bn before the decade is out.

The march away from defined contribution (DC) single-employer trust arrangements towards a fully outsourced master trust model is already in progress. There has been significant movement across the last decade, from just over 4,500 employer trust-based schemes during 2010 to the current position of around 1,740* schemes.

The Pensions Regulator has a stated ambition to shift smaller, poorly governed DC schemes into master trusts but we see a ripple effect across the whole market, with modern master trusts offering a compelling solution for many employers and their people. The stringent Master Trust Authorisation regime (see page 11) has removed any previous uncertainty about the security, sustainability and robustness of the market. Authorisation has pretty much achieved what it set out to do, with the outcome being greater consumer protection and much needed market consolidation.

Master trusts enjoy economies of scale, and their future growth potential makes them ideally placed to lead the way in delivering genuine innovation. We are already seeing significant investment and development in areas such as responsible investment, technology and communication. Employers can capitalise on this and offer a modern, market-leading solution for their staff.

Sustainable and responsible investment is fast becoming a differentiator for master trusts. As well as providing opportunity to deliver long-term returns, it can help to engage members with their savings. Wider research shows that many savers are engaging in pensions more than ever before and asking questions about how their money is invested.

One key concern for employers is whether their employees are planning sufficiently for retirement. Many of us are unsure of how much we need to save for the future and member engagement and financial education plays a crucial role in addressing this widespread problem. An increasing number of master trusts offer ancillary benefits and financial wellbeing solutions and taking an holistic approach allows pensions to be considered as a piece of a broader savings and financial wellbeing jigsaw.

In moving to a master trust, employers still expect a high-quality solution that provides excellent value both for the business and for its people. The relationship between the employer and the master trust is critical and it's crucial that businesses give time and due consideration to selecting the most appropriate provider partner, especially as moving pensions schemes can be complex and disruptive.

The Covid-19 pandemic has put many businesses under significant financial pressure, and that could heighten the pace of change towards using master trusts in place of employer-based DC trusts. Making this move provides a robust and compelling alternative solution for members, and enables employers to make savings on their pension provision relatively quickly.

The modern master trust is firmly established as a credible and sustainable solution. There is still work to be done, but I believe that we can confidently enter the next decade in decent shape, with a focus on creating richer member-centric experiences which will make a positive difference to retirement outcomes.

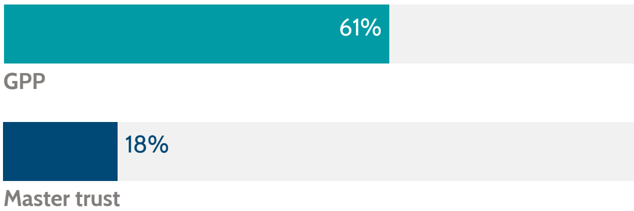
*schemes with 12 or more DC members - this includes DB/DC hybrid arrangements

SCOTTISH WIDOWS

In numbers: five key findings for 2020

Group Personal Pensions and master trusts are favoured over in-house trust schemes

Businesses want ease of management, but still expect a good quality, well run scheme at an appropriate cost. The recent master trust authorisation regime from The Pensions Regulator, plus growth of the market, has helped improve confidence in master trusts.

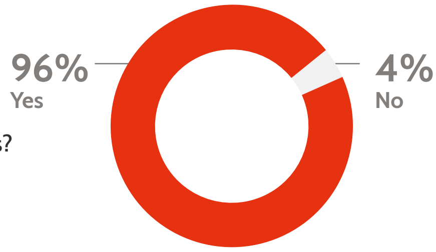


Savings, not just pensions

Almost all respondents see value in closer integration between pensions and other forms of financial products.

Retirement products that help integrate pensions with other forms of financial wellbeing, either to help manage finances, or through support for financial education are a priority.

Do you see value in employees having access to other savings alongside pensions?

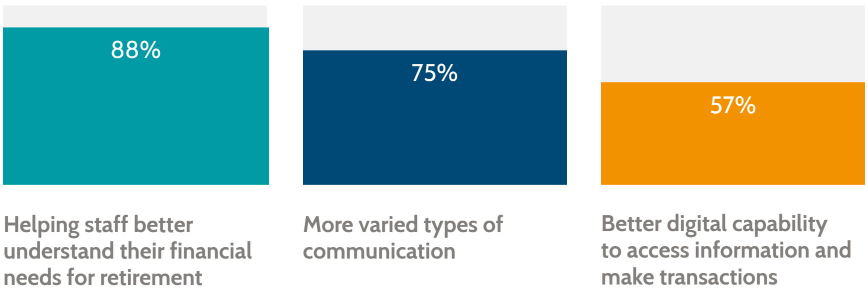


Understand financial needs

Helping staff to quantify how much money they need to save for a comfortable retirement is a priority that will help employees engage more effectively with their pensions.

Thinking is also shifting towards 'long-term savings' rather than a pension in isolation.

Ways to help improve employee engagement



Communications are key

Employers' top priority for pensions in the next year is better communications.

Communication with pensions remains a key concern for respondents, but this is less about volume and more about the way they are delivered and the quality of interaction. Greater use of technology is a focus – 20% said that digital capabilities are also a priority for the coming year.

Communications are biggest priority for their auto-enrolment pension scheme next year.

Engage with responsible investment

Sustainable, responsible investment has the potential to engage members with their savings, as well as delivering long-term returns.

Three fifths of respondents say they are with a provider that offers a responsible investment approach to their default fund. However, providers could do more to make members aware of the fact – only 25% said this was clearly communicated to members.

Say their pension scheme invests responsibly

Part 1: The pensions landscape

Auto-enrolment has brought retirement saving to more employees than ever before and has helped to reshape UK pension provision over the last decade. Around 77% of all workers saved into a pension in 2019, compared to just 47% when auto-enrolment began in 2012[1]. With minimum contributions now set at 8% of earnings, younger workers in particular should be able to save effectively for retirement over the long term.

The types of schemes that employers use to fulfil their pension duties are changing too. Outsourcing pensions to a third-party provider – whether a Group Personal Pension (GPP) or a master trust – is now the norm for employers. Almost eight out of ten (79%) of respondents to REBA's survey now look to either a GPP (61%) or master trust (18%) to run employees' pensions.

Only 11% of participants run their own in-house trust-based DC scheme. Although this option offers employers complete control and oversight of their pension scheme through the trustee board, it comes with a significant time and cost burden for the business. Outsourcing doesn't mean employers can abdicate responsibility for their pension provision, but one of its major advantages is the significant reduction in company time and cost required to manage a pension scheme.

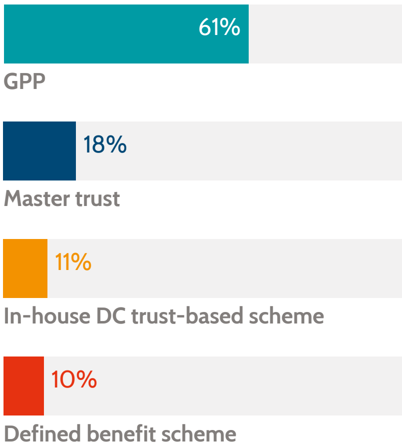
One participant in our research explained: "We are moving to a master trust arrangement in September, with the aim of increasing the simplicity of our pension scheme, reducing the admin burden, simplifying processes and better managing risk."

A major factor behind the rise in popularity of master trusts is its 'best of both worlds' status. An independent board of trustees manages the scheme, providing strong oversight and focus on members' and employees' interests, but without the need for the employer to be involved on a day-to-day basis.

"Our [in-house] trustees ask some very difficult questions of our provider to make sure our members are well-served by current arrangements, such as fees and fund performance. We do see ourselves moving to a master trust arrangement in the long-run, as it would maintain the trust-based structure we have already, but it would help us to manage the associated admin costs."

Figure 1.1

What type of pension arrangement do you have for auto-enrolled staff?



1. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2019provisionaland2018finalresults]

Selecting and monitoring a pensions provider

An employer's relationship with its pension provider is likely to be long-term. Deciding to move a company pension scheme is a major undertaking, which requires rigorous research and strategy review on the part of the employer. Only 14% of those in the survey said that they are actively considering changing provider at present, although REBA's in-depth interviews showed that longer term shifts in pension strategy could trigger a change of provider.

Use of technology to help engage members, cyber security and responsible investment are just some of the factors that are becoming part of employers' due diligence in selecting or monitoring their scheme. See 'what to look for in a pension scheme' on page 9 for a wider checklist.

"We moved our group personal pension plan 18 months ago and worked closely with a consultant to ensure we got a modern scheme that meets our needs. The key for us was to have a scheme that is simple to administer and offers safe and reliable transactions. We also needed to have a scheme that had digital capabilities and communications to help engage our young workforce."

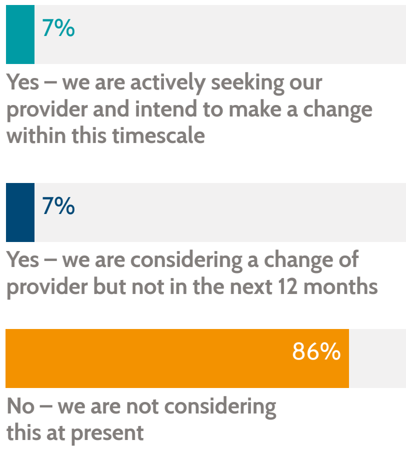
Who makes the decision?

Respondents told us that decisions on selecting and appointing a pension provider are usually shared between several parties within the business, particularly HR and finance. "Our pensions team straddles HR and Finance, so there is clear involvement from both," said one commentator. "It's a joint decision," said another respondent.

"Our centre of excellence in HR and the benefits team present the options to Finance and they make the decision together." However, in some instances, there is a shift to HR taking more responsibility: "Our pension buying decisions have historically been shared between HR and Finance, but increasingly they are being picked up more by HR."

Figure 1.2

Are you planning to make any changes to your auto-enrolment pension arrangements in the next 12 months?



Checklist: What to consider when choosing or reviewing a pension provider

Value for money – are day-to-day running costs affordable and do they provide good value for members? How transparent is the provider about the total costs involved in running the scheme? Can the provider explain their costs clearly? How are these communicated to members?

Administration – are pensions contributions processed efficiently and on time? How are complaints handled? What is the member experience like if an employee has to contact the provider?

Governance – how are decisions made and how is the scheme managed? What independent oversight is there? How are trustees selected in a master trust?

Investment approach – is the default option suitable for employees? How are decisions made about the investment approach? Are fund options for self-selectors suitable for employees? What is the approach to responsible investment/ESG, and is this consistent with the employer's and employees' views and beliefs?

Communications – what type of communications will the provider offer as standard? Will they work with the employer to make sure messages are consistent with other aspects of reward and benefits, or wider policy? What mix of communication channels does the provider support? Are online tools intuitive, informative and easy to access?

Security – How does the provider approach cyber security? How can the scheme guarantee that it will keep members' money and data safe? Is there any support for helping members avoid scams, either through education or online support? How does the provider make sure it remains up to date with the latest security and scam challenges?

Data – What data can the scheme provide to help employers understand employee engagement, and other key questions? What format is this data provided in, and how frequently is it available? Will the scheme's data be compatible with other industry initiatives, such as pensions dashboards and OpenBanking?

Next-generation master trusts must continue to innovate

EXPERT VIEW

Maggie Williams

Content director
REBA

"The shift from in-house trusts to master trusts is likely to happen over time, rather than overnight."

Formerly a fringe pensions option used by just a handful of employers, master trusts are now a significant and growing force in UK pensions.

Corporate Adviser's *Master Trust and GPP Defaults 2020* report estimates that the sector will grow to £190bn assets under management (AUM) by the end of 2025. It anticipates that could include at least six master trust default funds with assets of more than £10bn – and at least three could have an AUM in excess of £20bn.

That figure represents the retirement prospects of over 16 million individuals, so The Pension Regulator's rigorous process of Master Trust Authorisation (see page 11) has been an important comfort factor for both employers and employees.

Before 2019, the bulk of master trusts' business growth came from employers complying with auto-enrolment. Many were providing staff with a pension for the first time, or increasing the scale of their DC pensions offering to include the majority of their workforce.

Now we are entering a new phase. The growth predicted by Corporate Adviser will come from year-on-year accumulation of assets under management from existing members' contributions. Additionally, more employers are exploring the potential for transferring in-house trust-based DC schemes into master trusts. The cost of running in-house schemes, economies of scale, wider opportunities for investment and communication, as well as demonstrable good quality governance are likely to be drivers for employers reviewing their future pension provision. One example is Vodafone's record-breaking move of £1.4bn DC assets into a master trust during 2020.

The shift from in-house trusts to master trusts is likely to happen over time, rather than overnight. However, our research found that this is increasingly in employers' plans.

Future directions

In addition to fund growth, the next few years will see other developments as the master trust market matures. Commitment to responsible investment in the default fund is already becoming a differentiator and is increasingly important to scheme members. See 'Responsible Investment – the new default?', page 13 for more details.

Recruiting more diverse, inclusive trustee boards, and adding governance structures such as members' or employers' panels could also help master trusts to truly represent their members.

Innovation in retirement products, particularly drawdown, is another area of potential focus. A survey by Pensions Expert magazine found that 15 out of 18 major master trusts give savers access to drawdown without having to transfer out of the scheme, often at the same annual management charge as the default fund. In contrast, many in-house DC pension schemes require employees to leave the scheme and find a retail solution themselves, with little financial advice or guidance.

Master trusts' economies of scale mean they should also be in a better position to innovate with technology compared to in-house schemes. This can be used to help members get a better understanding of the relationship between pensions and the rest of their savings, as well as understanding whether they are saving enough for the standard of retirement that they want.

How master trust authorisation protects pension confidence

EXPERT VIEW

Nick Gannon

Policy specialist
The Pensions Regulator

"There is still a huge oversupply of defined contribution occupational schemes, some of which struggle to meet adequate standards of governance and pose a risk to good member outcomes"

As the master trust market has grown, so has the need for members and employers to feel confident in their choice of pension provider. That is a key focus for The Pensions Regulator.

The number of members saving into master trusts has swollen from 270,000 in 2010 to nearly 16 million today, as a result of auto-enrolment. Despite that explosive growth, these schemes were operating under a regulatory framework created with single-employer schemes in mind. This was inadequate for master trusts, which are often commercial arrangements.

There were specific areas of risk, such as profit motives, the huge volume of savers involved, and the impact on confidence in pension savings should a scheme fail. It became clear that we needed authorisation and ongoing supervision to protect saver confidence and reduce risks from failure and fraud.

New safeguards, introduced on 1 October 2018, meant all existing schemes had to meet demanding new standards - or close. The market consolidated by nearly 60%, from 90 schemes to 37, reflecting the high bar for authorisation and our open discussions with schemes to clearly set out expectations. Some schemes chose not to apply or realised they would not be able to meet these standards and wound up with members transferred safely into authorised schemes.

Other schemes either made improvements to their governance processes and business plans in advance of applying, or as a result of the authorisation process. These improvements saw significantly more money put into financial reserves, changes in the people running some master trusts and documented evidence showing systems and processes were adequate.
Every authorised master trust has proven, and must continue to prove, it and its trustees meet the standards laid out in the legislation and code of practice. They must be run by fit and proper people and have the right systems, processes, plans and finances in place. They are subject to our risk-based supervision regime that ensures they continue to meet standards.

How often we interact with authorised master trusts depends on a range of factors, including a scheme's scale and complexity and any particular risks. Schemes that present a higher risk are supervised more intensely. New schemes will also be more intensely supervised than existing ones as they lack an operational track record.

This market is likely to continue to grow in terms of members and assets, and authorisation will ensure that savers are better protected. There is still a huge oversupply of defined contribution occupational schemes, some of which struggle to meet adequate standards of governance and pose a risk to good member outcomes. In future, we may see more consolidation into master trusts.

Our powers ensure financially weak or poorly governed master trusts cannot open for business in the first place. Those that already exist have met – and must continue to meet – tough governance standards.

By reducing the risk of high-profile failure or fraud in the master trust sector, authorisation is protecting confidence in pension saving in the UK, as well as the good reputation of auto-enrolment. Ultimately, it's good news for all members saving into a master trust.

Responsible investment – the new default?

There has been a huge surge of interest in responsible and ESG investment in trust-based pension schemes over the last few years. The Pensions Regulator now requires all pension schemes to document how they are addressing ESG issues in their investment strategy, both in terms of their investment beliefs and how these are monitored over time.

Employers and employees too are starting to ask questions about the nature of their pension scheme's investments. Corporates that take a strong stance on managing climate change, or behaving as a responsible employer will require their pension scheme to invest to the same standards. And, recently we've seen the launch of the Make My Money Matter campaign, which aims to raise individuals' awareness of how their pension fund invests.

Analysis from responsible investment campaign group ShareAction in December 2019, *Is Regulation Enough? A review of UK master trusts' ESG policies*, paints a very mixed picture when it comes to addressing climate change and ESG. It found that of the 37 master trusts active in the market at the time of its report, only 8 had taken action towards using a climate or ESG tilt (i.e. favouring shares or other investments that meet ESG criteria) into their default portfolio. Another six were discussing it with their asset managers. While this shows there is still a lot of work to do, it is a huge improvement on ShareAction's 2018 analysis of master trusts, which showed just one scheme had taken this action.

In REBA's survey, on the whole, respondents felt that pension providers are responding to the challenge of addressing responsible investment. Three-fifths (60%) of our respondents are with a pension provider that offers a 'responsible' or ESG investment strategy for its default fund.

There is still room for improvement here, however – it is telling, for example, that almost a quarter (25%) of employers do not know if their provider offers a responsible strategy.

Some schemes have addressed ESG as an option within their fund range, but there is increasing recognition that this needs to be embedded in the default: "We currently offer a specific 'environmental' fund as one option for investments, but we are also reviewing our default fund with a view to swapping out some existing holdings for some with better ESG credentials."

Investing responsibly can also be an opportunity to help employees engage with pensions and make a long-term form of investment seem more tangible day-to-day. "We are expecting our members to become more active in asking for a strictly ESG fund," said one commentator. Another agreed: "We do get members asking questions about ESG options and we can see that it's becoming more and more important to people."

Figure 1.3

Does your current auto-enrolment pension provider have a responsible investment strategy for its default fund?

Case study: Master trusts in practice

CASE STUDY

Jo Fairbairn

Head of pensions
Marks and Spencer

"We have quarterly reviews against the service standards we have in place, to ensure they are maintained and to give us an opportunity to correct it if not"

Marks and Spencer has been using a master trust since 2012 when auto-enrolment regulations came in for us. There's now 75,000 members in our scheme.

That includes both active members paying in plus deferred members, and our assets under management is over £900m. It is a large and growing scheme with lots of members to consider.

We went through a very robust selection process when choosing the provider [of our master trust], as they would be taking on the majority of functions that an in-house team would otherwise do. On an ongoing basis, we have quarterly reviews against the service standards we have in place, to ensure they are maintained and to give us an opportunity to correct it if not.

Communications are also a vital part of our pensions strategy. We sit down at the start of the year with our master trust provider to plan our communications strategy for the next 12 months. Our communications are a combination of in-house and provider – but the provider runs its communications past us first to ensure they are consistent with our tone of voice. We consider whether we need to supplement what they send with further communications, especially when our annual benefits statements come out. This is important, as one drawback of scheme communication is that their emails come from an outside party and may be deleted by our spam filters. So, sending internal communications as well helps ensure our messages reach our people.

We review service standards every quarter against our agreed SLA. Investment funds are reviewed annually to see how well they have performed relative to the benchmark, both for the default fund and options in our fund range.

There's also a value for money check every three years, where we invite independent pension advisors to check our colleagues are getting value for money based on the fees they are paying.

The sudden impact of Covid-19 showed across the country as a whole how little emergency savings people have – and we're also aware that colleagues will have different needs at different stages in their live, which has meant that we need to make sure we have the correct balance between the different elements of our reward package.

We've also sent out communications related to Covid-19 to our staff. We wanted to make sure people didn't panic when markets fell earlier in the year, and warn staff to watch out for scams. We've also been closely monitoring colleagues' actions to see if there are more opt-outs as a result of the environment around us. There's no evidence of that yet, but we will keep a careful eye on it.

A more mature market brings new challenges for master trusts

EXPERT VIEW

John Adams

Senior Policy Analyst
Pensions Policy Institute

"For employers looking for a scheme to enrol their employees into, charges are a visible differentiator, and an important deciding factor in which pension scheme to use"

Master trusts have been a major success story since the introduction of auto-enrolment. As the market matures, providers and master trust users have some new questions to address.

Charges: - Master trusts levy charges on the pots and/or contributions of the members in order to meet the costs of running the scheme, and create a profit. For employers looking for a scheme to enrol their employees into, charges are a visible differentiator, and an important deciding factor in which pension scheme to use.

Schemes used for auto-enrolment are subject to a charges cap, so that members are not exposed to excessive fees. Low charges are an important factor in getting a better outcome in retirement, but there are also other issues such as 'does the charge provide value for money?'

But value for money is a difficult term to quantify and means different things to different people. Charges can also take different forms, including flat fees, a proportion of the pot, or a charge on contributions.

Different charging structures can affect members differently depending on their circumstances. For example, former employees' small inactive pots may be whittled down by flat fee charges. Or, a charging structure based on charging contributions may hit active members who are still making contributions more than inactive members.

Inactive pots: - Inactive pots are those that no longer receive contributions, because employees change jobs, or simply decide not to be a member of the pension scheme any more. As employees are automatically enrolled into a pension scheme each time they start a job, a person who has 11 jobs throughout their working life might have 10 inactive pots and one active pot associated with them by the time they retire.

Currently there are as many inactive pots in master trusts as there are active pots. The number of inactive pots is projected to increase faster than active pots, leading to deferred pots far outnumbering active pots in the future. On average they are too small for a traditional proportion of fund charge to cover the costs associated with administering them, without the charge breaching the cap. This means that the costs must be subsidised, or the master trust will make a loss.

Proposed solutions tend to focus on consolidating a member's pots. This increases the size of the resulting pots and reduces administration. Some master trusts already consolidate pots belonging to a single member (for example if the member returns to a previous employer, or two different employers both use the same master trust). But there are also ideas about consolidating pots across providers on a swapping basis, or by there being an automatic transfer when an individual moves employment and pension provider.

COVID-19: - Master trust pension schemes are, like all businesses facing unknowable future consequences of the global pandemic. Possible consequences include the impact on stock market asset prices affecting pension savings over the longer term, unemployment stemming from redundancies or business closures, and perhaps changes in working practices having knock-on impacts on employment levels and sectors.

Part 2: Employers' pensions challenges

REBA's research exposed the wide range of challenges that employers face when supporting employees with saving for retirement. The three key issues that stood out were:

- Employee engagement with pensions
- Linking pensions and wider financial wellbeing
- Helping employees understand their retirement savings needs.

Other challenges included pressure from senior management to demonstrate the value of their pension scheme. One participant said: "It is important for us to demonstrate we are getting value for money. Is our pension scheme helping us attract people to work for us and to retain our colleagues for longer? Or would investing the money elsewhere have a greater impact on colleague morale and retention?"

The Covid-19 pandemic has also raised new challenges for employers, concerning both stock market performance and employees' ability to maintain their contributions in the face of other money worries. "We have concerns that Covid-19 might cause people to lower their contributions back to the default level. We've not seen that yet, but we are watching closely."

Different parts of the workforce – especially younger workers and higher earners also have specific concerns. "One challenge is making sure our contribution rates offer enough flexibility for employees of all ages. As our workforce demographic becomes younger, we need to make sure people feel comfortable making generous contributions to their pension, rather than diverting all their funds into trying to buy a home, for example," said a commentator.

Another said that the constraints of the lifetime allowance and annual allowance, which limit the amount that individuals can save into a pension tax-free, were an issue: "The annual and lifetime allowances provide challenges for us, particularly for our higher earners. People don't like paying tax, so if we provide high pension contributions and our employees end up paying more tax because of that, they only see the tax charge and not the value of the pension."

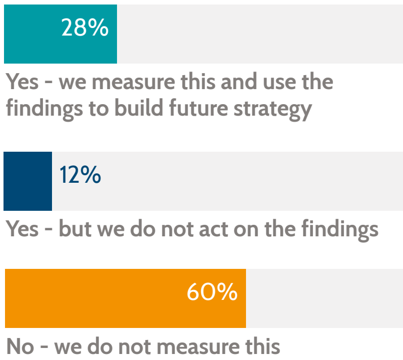
Employee engagement with pensions

Encouraging employees to engage with pensions remains a major challenge for employers – although only just over a third (37%) of respondents measure how engaged their employees are with their pension – and a quarter (26%) use this information to help inform their future strategy.

Most achieve this by looking at membership and contribution rates and by asking pension-specific questions in their employee engagement surveys. One respondent said: "We look at the voluntary joining rate, whether members are increasing or decreasing their contributions and the amount of transfers in and out of the scheme. We also monitor which areas of the pensions website they visit – for example, are they just visiting the main overview area or are they drilling down into their personal pages. And we use this data to help shape our communication campaigns."

Figure 2.1

Do you measure how engaged your employees are with their pension?



"We used to think people being active in managing where their contributions are invested was a good thing, but actually, managing investments is very tricky. So as long as the default fund is performing well, we are happy for them to stay there. But we do like to see people using the website and we'd like to see more people doing this – currently only around 10% of our members log-in to the platform each year."

Communications

Communication to support engagement remains a key priority. Respondents said that improved communication is also vital to increasing employee engagement with pensions: 19% of respondents think that providing a greater volume of communications is important. But for most employers, simply increasing the amount of communications they send out is not enough – three quarters (76%) believe it is important to provide more varied types of communication. In all instances, having an understanding of what communications should achieve, and what works for a particular workforce is crucial.

"The annual benefits statement remains our most effective piece of communication, because it is so comprehensive and colleagues can refer back to it if they wish. We get most of our activity on the scheme around four to six weeks after we post the statements out."

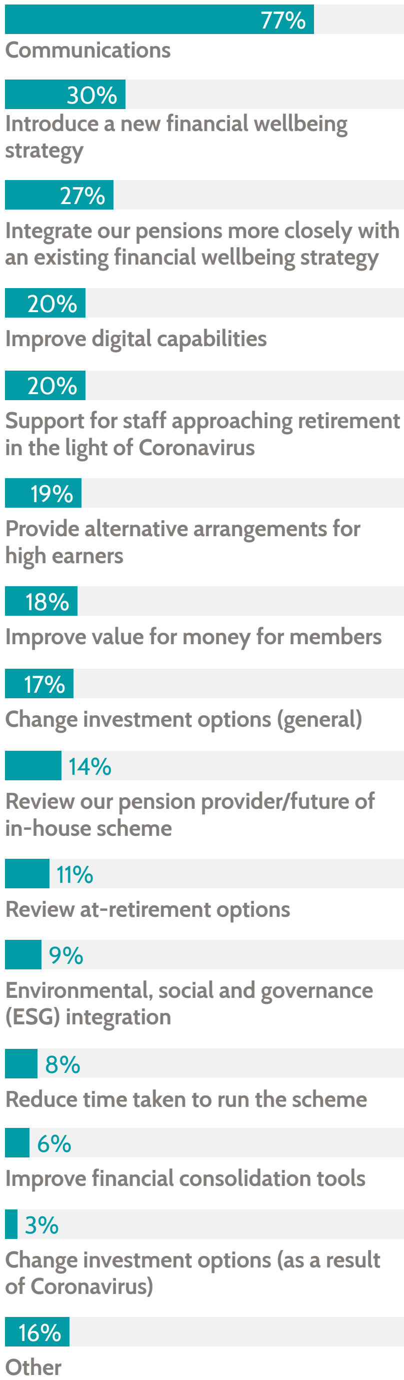
"Our pensions app and portal are incredibly effective – having access to everything staff need on a smartphone using a single sign-in really suits our digitally-minded employees. Our pensions engagement levels are four times higher since introducing our pensions portal and app."

There is plenty that pension providers are doing to support employers. One respondent was full of praise for a new provider: "Trying to engage our young employees with pensions is by far and away our biggest challenge – just the word 'pension' is problematic. But our new provider offers a wide range of very visual communication tools, including videos. When we hold benefits roadshows, they bring in presenters who mirror the age group of our employees. We've seen a big jump in engagement."

Employers with complex corporate structures said that delivering pension communications can be difficult. "We have two schemes with different rules, so it's not easy to share information until this is resolved," said one commentator. Another respondent needed to align pension communications across a group of six different companies; and others had the challenge of reaching staff both at client premises and the company's own headquarters.

Figure 2.2

What are your three biggest auto-enrolment pension scheme priorities for the next year?



Making pensions a priority

Respondents said that pensions are often seen as a low priority by employees, particularly those in younger age groups who are a long way from retirement. One solution is to provide more personalised communications that are tailored to individual interests and needs. "We've found it very useful to break down our communications into three different age groups – under 40, 40 to 50 and 50+. It means we can be really clear in our messaging and make it more relevant to people's needs," said one interviewee.

"The Covid-19 pandemic has accelerated the move towards using technology to help employees manage their finances, especially on their smartphones. Our younger employees now almost expect a 'Netflix' approach to their pension – it needs to be personalised and accessible."

Linking pensions and financial wellbeing

Employers are starting to take a broader approach to financial wellbeing, complementing their workplace pension with other forms of financial support for employees. This is being driven both by greater awareness of the relationship between mental wellbeing and financial wellbeing – as well as the recognition that long-term forms of saving (such as pensions) are interdependent with managing day-to-day finances.

Just over half (52%) our respondents have integrated their auto-enrolment pension scheme into a wider financial wellbeing strategy, while almost a third (31%) plan to create an integrated strategy in the next two years.

Almost a third (29%) of respondents cite 'introducing a new financial wellbeing strategy' as one of their main auto-enrolment pension scheme priorities for next year, while just over a quarter (26%) plan to 'integrate pensions more closely with their financial wellbeing strategy'.

"We recently appointed a wellbeing manager and we'll work closely with her on how we manage pensions engagement, as financial wellbeing is one of our 'four pillars' of wellbeing."

Figure 2.3

Is your auto-enrolment pension scheme integrated into a wider financial wellbeing strategy?

What products are on offer?

There is now almost universal agreement among employers (96%) on the importance of providing other financial products alongside a pension to help employees manage their money.

Nearly all (96%) of our respondents see value in their staff having access to other financial products, and respondents said that they are already beginning to provide this: "We are in the middle of reviewing our financial offering to offer more choice to employees. We believe that financial wellbeing involves giving people the confidence and knowledge they need to make decisions that are right for them at whatever stage of life they are at," said one respondent.

We are already starting to see master trusts and other providers understand the importance of this. Exploring 'sidecar savings', which enable employees to save for the short and the long term from within their pension is one option. Other providers offer access to apps that enable employees to see all of their savings products in a single place, or have support for OpenBanking.

"It might sound odd coming from a pensions professional, but we recognise that pensions are not the 'be all and end all'. We are focusing on pensions being just one aspect of a broader benefits provision and allowing individuals to truly choose a pathway that is right for them."

"We provide guidance and education on matters such as debt, short-term savings and pension all in one place, to help ensure these areas link together in colleagues' minds. This close integration should help them see the full picture and consider where to prioritise where they put their money at different times of their life."

For many employers, additional support for financial wellbeing takes the form of financial education or guidance. More than three quarters (77%) of our respondents provide online access, while two in five (43%) provide education or guidance in person. However, this is funded in different ways. Almost a third (31%) of employers have arranged access to financial advice that employees fund themselves, while one in five (23%) offer employer-paid financial advice.

Figure 2.4

Do you see value in your staff having access to other financial products alongside their pension?

Access to other financial products that support retirement saving is less extensive, but still almost a third (30%) of respondents provide a workplace ISA for all staff, with 18% providing access to the relatively new Lifetime ISA, which offers an additional means of building long-term savings for younger workers.

Long-term savings incentives are also available through a share incentive plan or SIP for around a quarter of employees (27%), and similar numbers (25%) offer a share save or save-as-you-earn scheme.

"We have a young employee population who are engaged with our pension scheme and see value in having a long-term goal. But they also have an appetite for saving for short- to medium-term goals too and we are in the process of designing products and options for them, such as share plans."

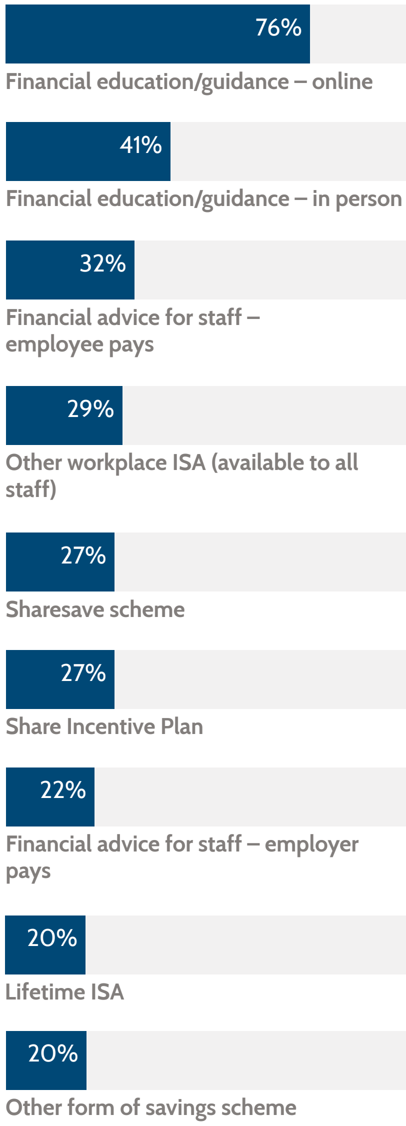
The effect of Covid-19

The Covid-19 pandemic has also convinced some employers of the need to provide short- and medium-term savings vehicles in addition to their pension schemes. "We'll be revisiting our whole benefits package in the light of Covid-19 to check we are providing the right balance of salary, pension savings and other benefits," said one respondent, adding: "We recognise that our employees need to save for more than just retirement, particularly as Covid-19 has highlighted how little emergency savings a lot of people have. We need to do more to help colleagues save for emergencies as well as house deposits and retirement."

However, this approach to workplace savings is not shared by all, with some organisations concerned that offering additional vehicles will involve greater administration and could distract employees from saving for their retirement: "We looked at offering access to other financial products two to three years ago, but we decided against it for a number of reasons. First, because our pension is so generous, we felt the majority of members would be better off keeping their investments going into the scheme. Second, we didn't feel offering an ISA was a strong enough benefit, as they are easy to set up as an individual anyway."

Figure 2.5

Do you offer any of the following options that could also help support employees' retirement savings? (Please select all that apply)



Understanding retirement needs

Employers' number one priority when it comes to improving pensions engagement is helping their staff better understand their financial needs in retirement. Almost nine in ten (88%) respondents believe educating employees about how much money they need to fund a comfortable retirement will help them engage more with their pension.

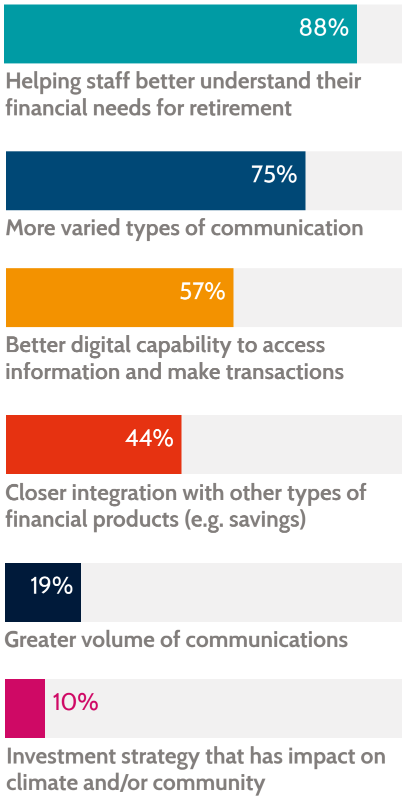
This is a major shift from pension provision in the past, where the value of a defined benefit pension income was typically related to an individual's final salary. Now, the combination of every employee being responsible for managing their own level of retirement savings, coupled with the complexities of how to spend pension savings after the age of 55, has made answering 'how much is enough' a vital part of workplace pensions design.

Helping employees gain a better picture of what they need to save for retirement is also a priority for the wider pensions industry, including schemes such as master trusts. Initiatives to help schemes and employers communicate this include the Pensions and Lifetime Savings Association's Retirement Living Standards, released last year. This assesses how much an individual needs to spend each year in retirement to maintain a minimum, moderate or comfortable standard of living. A number of providers have also introduced reviews such as 'mid-life MOTs' to help employees understand whether they are on-track to achieve their retirement goals.

"A major challenge for our DC pension scheme members is trying to understand the annual income their pot will provide when they retire. This was very straightforward with DB schemes, but there is a disconnect for DC schemes when trying to convert the fund value into a regular income."

Figure 2.6

Which of the following do you think would help improve employees' engagement further?



About the research

Phase 1: Survey

Phase 1 of this research comprised an online survey carried out between 23 April and 12 May 2020. The survey had 105 responses from employers, representing an estimated collective total of over 400,000 employees.

Responses primarily represent medium to large workforces in the private sector:

- 70% of responding organisations had more than 1,000 employees
- 23% had 250-999 employees
- 85% are private sector employers

Phase 2: Interviews

Phase 2 of this research comprised a series of in-depth interviews with 11 reward and benefits directors, drawn from REBA's membership. The sample included a major high street retailer, a large utilities company, an online clothing retailer, a large law firm and several large employers in the oil and engineering sectors.

List of organisations that took part

Aberdeen International Airport . AB-Moller Maersk . AEGON UK . Ageas Insurance . Aggreko . Applus UK . Ascential . Ashurst . ASOS . ATS Euromaster . AWE . Birmingham City University . Bombardier Transportation . British Medical Journal . British Red Cross . Cambridge University Press . CDK . Ceva Logistics . Chrysaor . City & Guilds Group . Civil Nuclear Constabulary . Connect Group . CooperVision . Cushman & Wakefield . DAC Beachcroft . DAZN . Diageo . Direct Line Group . E.ON UK . EPSON . Expro . FCA . Ferguson . Foreign & Commonwealth Office . Financial Reporting Council . Gattaca . Gatwick Airport . GE . Grant Thornton . Hargreaves Lansdown . Havas Media Group . Hearst UK . Hogan Lovells . Hutchison 3G UK Ltd . Institute of Employment Studies . Inchcape UK . Jaguar Land Rover . James Fisher and Sons plc . JDR . Johnson Matthey Plc . KCA DEUTAG . Kindred Group . Lendlease . Linklaters . Low & Bonar PLC . Manchester Metropolitan University . Marketing VF Ltd . Marks and Spencer . Marriott Hotels . Merck Group . Microstrategy Ltd . Molson Coors . MS Amlin . National Grid . Natixis . Novartis . Ocado Retail . Orange Business Services . Orbit . Personal Group . Puig UK . Rathbones . RBC . RBS Group . Royal Borough of Windsor and Maidenhead . Richard Alberto HR Consultancy . Sanctuary Group . Shell . Siemens . Simplify . Sky . South East Water . Springer Nature Ltd . Sunrise Senior Living . Superdry . Systemiq Earth . Taylor Wessing LLP . TGW . The Adecco Group . The Very Group . Thirteen Housing Group . Three UK . TJX Europe . Transport for London . TT Electronics . TUI Group . UCB . Uniper UK . United Utilities . University of Lincoln . Valmet Ltd . Virgin Media . VM . Vodafone . WebhelpUK . Wickes Limited . Withersworldwide . Worley .

Figure 3.1

What is your organisation's industry sector?

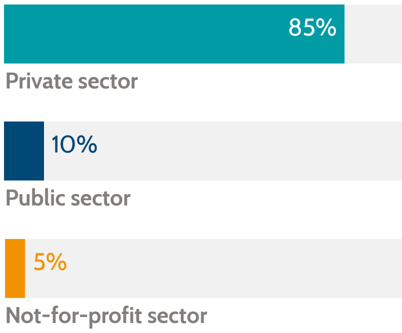
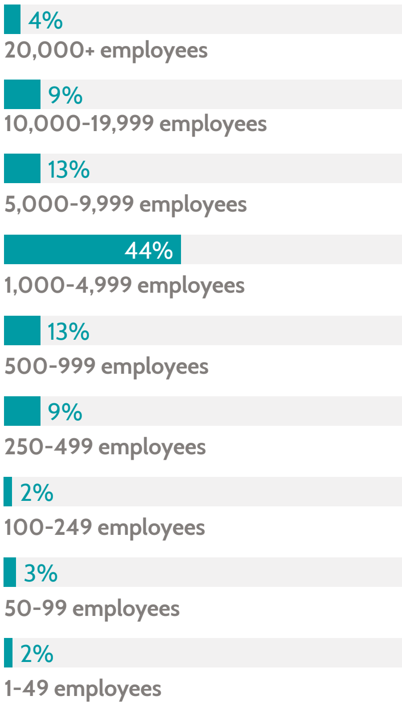


Figure 3.2

How many UK-based staff does your organisation employ?



Who we are

About us: Reward & Employee Benefits Association

REBA is the professional networking community for reward and benefits practitioners.

We make members' working lives easier by saving them time, money and effort through sharing experience, ideas, data and insight with each other.

We help members to pursue best practice, increase professionalism in the industry and prepare for upcoming changes. REBA also lobbies government on members' behalf.

What REBA does:

- Runs regular conferences and networking events, both face-to-face and virtually through webinars and online platforms
- Supports the reward and benefits community through its rebaLINK peer-to-peer networking platform
- Produces benchmarking research, insight & data reports, and analysis on key reward and benefits themes
- Curates an industry-wide research library of reports, government consultations and best-practice guides
- Creates, curates and distributes online content for the reward and benefits community, including industry insights into best practice, case studies and thought leadership
- Delivers focused content to our membership through daily emails and social media channels
- Supports professional members with supplier shortlisting and research.

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Reward & Employee
Benefits Association

About our sponsor: Scottish Widows

Scottish Widows enjoys a proud history, helping people plan their financial futures for over 200 years. As one of the most recognised and trusted brands in its sector* Scottish Widows has over 5 million customers across a broad product range, including life cover, critical illness, income protection, pensions, annuities, savings and investment products.

The brand today is best known for its iconic advertising with a series of famous commercials using its living logo – the Scottish Widow, created over 30 years ago.

'Taking on your Future Together' is the current advert to feature the Scottish Widow and it underpins everything we do – from delivering expertise, guidance and insight to providing products to help people plan for their future

Scottish Widows has been recently recognised for its service by both intermediaries and employers, securing a 5 Star rating at the Financial Adviser Service Awards 2019 and Pension Firm of the Year at the FD Service Excellence Awards 2019.

Customers can access Scottish Widows' products and services through Independent Financial Advisers.

* Prompted Awareness rank = 1, Trust (Character) rank = 1(=), Trust (Competence) = 1(=). IPSOS, December 2019.

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