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Building the financial resilience of the UK workforce

The case for automatic enrolment into workplace savings schemes

A research paper by Cushon

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Foreword

Ian Hodson

Head of Reward at University of Lincoln

Like many other employers, we're concerned about the financial resilience of our employees and particularly those who fall outside of the pensions auto enrolment regulations – they're not saving at all and are not benefiting from valuable employer contributions.

People will argue that this group of outliers have the choice to opt-in to the pension but as we know, with any financial services product, inertia prevails which is why pensions auto enrolment was introduced back in 2012.

And what a success it's been; in 2011 just 47% of UK employees had a workplace pension and this has now jumped to 79%! It's a phenomenal achievement and shows just how strong inertia is – before auto enrolment people didn't take action to put themselves into pensions and now people don't take action to take themselves out!

But can this model work for other areas namely workplace savings – getting people saving for other life events other than just retirement? Well, as this paper shows, the answer is a resounding yes!

Pensions are important but as current economic conditions show, so are accessible savings. With the best will in the world, a healthy pension pot that can't be accessed until age 55 is not going to help someone younger with more immediate financial needs.

I would argue that the current cost-of-living crisis needs a two-prong approach from employers – helping put more money into employees' pockets today whilst helping them build financial resilience for the future. And long-term, the second point is critical.

As pensions auto enrolment has shown, our employees understand the need to build up a financial buffer but they never get started – it's not necessarily an affordability issue or a lack of motivation – they just don't take action. Academics call this the "intention gap" – the gap between what people want and what they actually do.

Auto enrolment into workplace savings can easily close this gap and get the UK saving and become more financially resilient.

Executive Summary

Steve Watson

Director of Policy & Research at Cushon

Back in 2016 the then Money Advice Service warned us that there was a savings crisis looming. Its study found that more than 16 million people in the UK had savings of less than £100; clearly something needed to be done to get people saving more.

Who could have guessed that within five years we would be facing two massive global events that would truly test the financial resilience of the general UK population? And the unfortunate thing is very little has changed in terms of people's savings levels since 2016. In fact, our research shows that 60% of people on the lowest incomes have no savings at all. This means that now we face two challenges; helping people build up a financial buffer so they're able to weather any future crisis, at the same time as helping them through the current cost-of-living crisis. **It's a challenge but not impossible.**

In our previous two whitepapers we highlighted ways in which employers can help employees with increasing their disposable income and in this one we focus on helping them save for the future. Our latest research shows that employees want to save but, just like pensions, they need a helping hand to get started. In 2012, the "helping hand" was pensions automatic enrolment which has done a fantastic job at getting millions more people into pensions. How? By turning inertia on its head.

The fact is people generally don't engage with financial services products; they know that they need to save but for different reasons, they never get round to it. Pensions automatic enrolment has shown that if you turn the situation around i.e. you automatically do what people instinctively want to do but don't, inertia again prevails and they don't reverse out. You've effectively taken away the friction and pain, and that's what people want. We believe this is the answer to getting people more financially resilient – it's worked for pensions and in this paper we show through research and a case study that we think it will work equally well for workplace savings.

Although employers can already consider contractually enrolling employees which achieves the same aim, it isn't as frictionless or as efficient as automatic enrolment. For automatic enrolment into workplace savings to become a reality, we need some regulatory changes and we are calling on Government to make those changes.

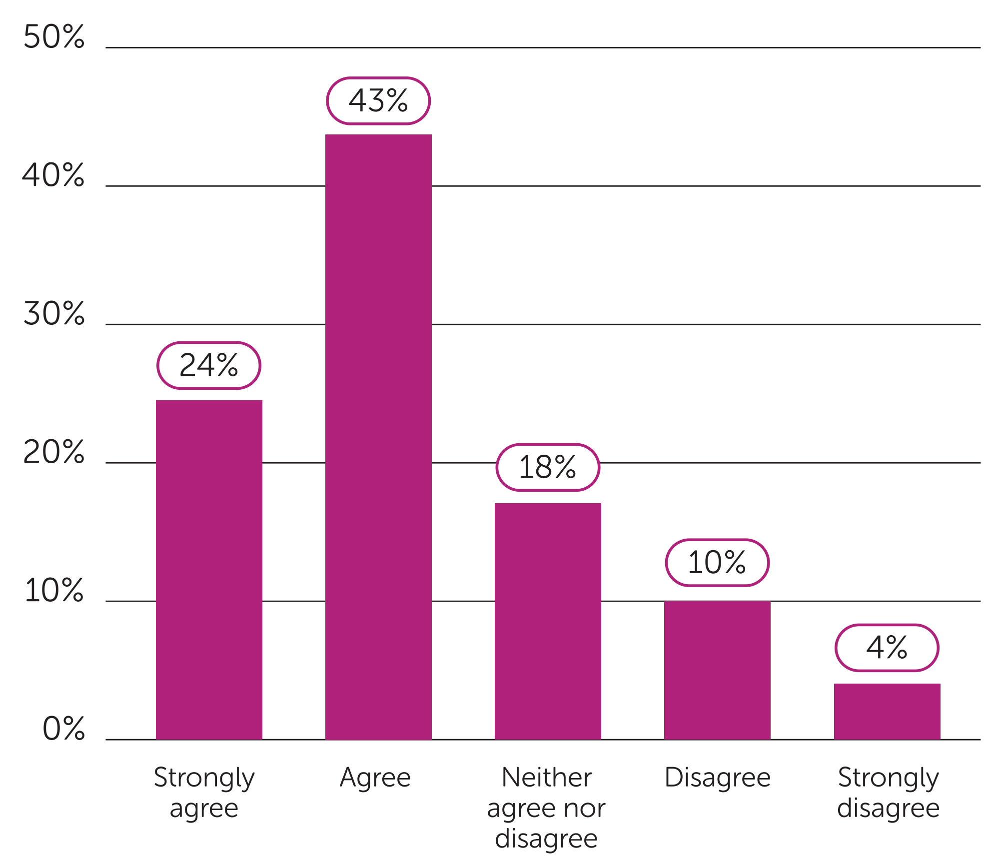
We are not proposing that Government make workplace savings compulsory for employers – as we recognise employers are equally facing challenges at the moment – but rather where they choose to introduce them, they can take the path of least resistance – which, as pensions have already shown, is automatic enrolment.

A lack of financial resilience – and a lot of worry

Recent events have shown the UK population's lack of financial resilience. The Covid-19 pandemic, followed by the current cost-of-living crisis and spiralling inflation, has seen hundreds of thousands of people struggling to make ends meet as the cost of their bills soars past the value of their paychecks. Some have been able to dip into savings to make up the shortfall – but the vast majority have been left with no choice but to cut back on essentials, including food, fuel and heating. The sad truth is that many people were simply not financially ready for a moment such as this and they do not have enough accessible savings to weather the storm.

The severity of the situation is laid bare by the findings of our latest research, which surveyed more than 2,000 employees across the UK: just a quarter (25%) of respondents feel prepared to cope with the rising cost-of-living; more than two-thirds (68%) feel anxious about their finances; and almost half (48%) say they feel terrified about their financial future.

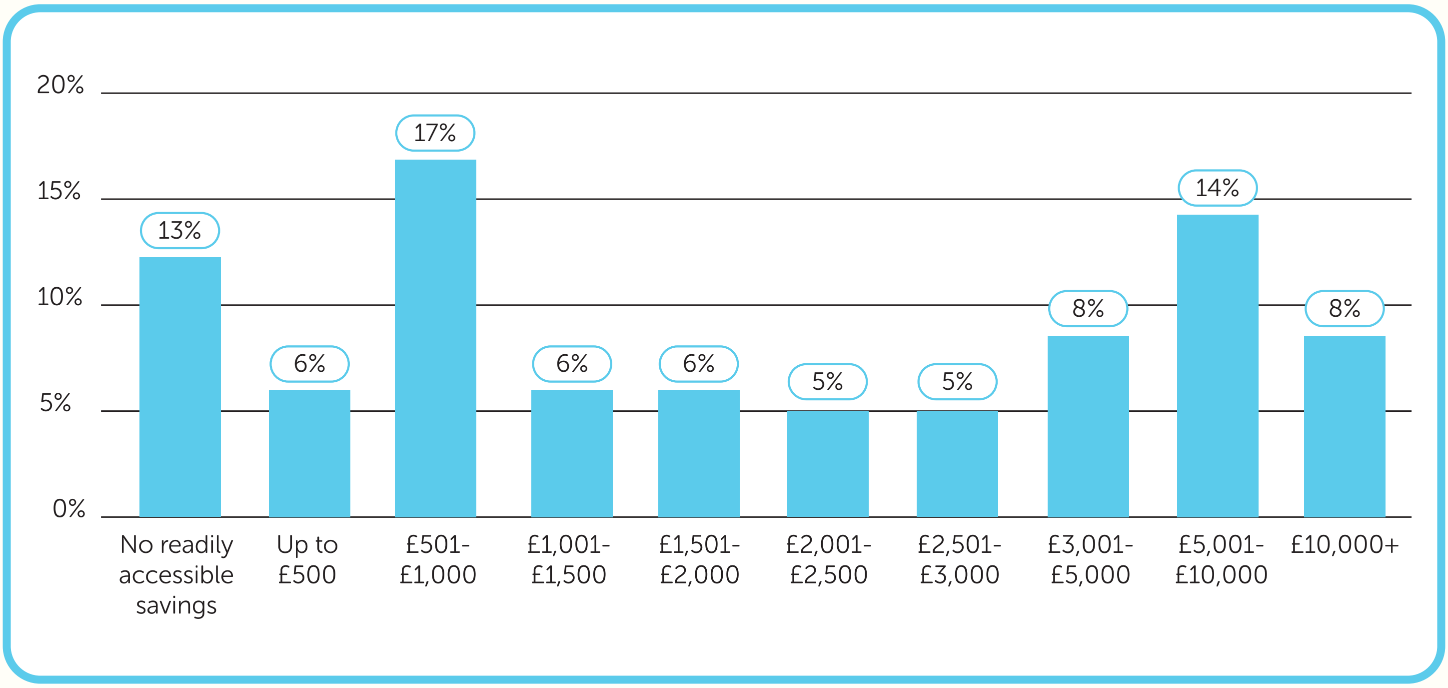
Figure 1: When considering your outlook on your financial situation over the next six months during the cost-of-living crisis, to what extent do you agree or disagree with the following statement: "I feel anxious about my finances"



UK employees are missing short- and medium-term savings

While external economic factors have brought about the current crisis, it is underpinned by a widespread lack of short- and medium-term savings across the UK workforce. Half (50%) of employees have no savings or investments outside of their pension or property and nearly four in ten (37%) have less than £1,000 of readily accessible savings. The potential repercussions of this situation are stark: two-thirds (66%) of employees report that if they lost their job, they would not survive for longer than three months – while more than half (52%) believe they would not be able to last more than 30 days.

Figure 2: If you have savings, how much money do you have saved that is readily accessible? (e.g., in an instant access savings account)



Understandably, these worries are having a detrimental effect on wellbeing – and this is spilling over into the workplace. Nearly seven in ten (68%) employees say that when they worry about money it affects their mental health – and more than two-fifths (43%) admit that financial worries affect them at work. Given this, it is important for employers to take responsibility for supporting their employees' financial wellbeing.

A role for workplace savings

– and automatic enrolment

The best way for employers to help their employees save money for the short and medium-term is to offer them a workplace savings scheme, alongside a pension. Such schemes operate through payroll deduction, in a similar manner to employee pension contributions, with a regular amount set aside each month and directed into a savings account. **This kind of automated process is designed to make it easy for employees to get into the habit of making regular contributions to an accessible savings pot**, just as they would into a long-term pension fund.

However, while this type of arrangement undoubtedly helps more employees save – and we encourage employers to set up such schemes – we do not believe that the widespread introduction of workplace savings schemes alone would have the level of impact required to build the financial resilience of the UK workforce. Instead, we would like to see **regulatory changes that would allow employers to automatically enrol their staff into a workplace saving scheme**.

Over the last ten years, we have seen the huge impact that automatically enrolling employees into pension schemes has had on getting people to save for their retirement. Since the phased launch of auto-enrolment pensions, membership of defined contribution workplace pension schemes has soared from just **2.1 million in 2011 to 21 million in 2019**.

This impact is supported by our own research, which found that auto-enrolment has captured a lot of people who might otherwise still be without a pension. Almost half (49%) of our respondents say they only have a pension because their employer automatically enrolled them into one, while **more than a third (37%) say they would not have paid into a pension if they had not been automatically enrolled**.

However, question marks remain over whether employees are contributing enough to these pensions, and whether the government should further increase the minimum contribution rates to ensure people save enough to properly fund their retirement. The Government also needs to follow through with it’s commitment to lower the minimum age and consider reducing the earnings trigger to ensure more people are covered by the legislation.

But **the numbers show that auto-enrolment works**: when employers automatically enrol their employees into a contributory pension scheme, very few opt-out – at present opt out rates are generally running between **8% and 10%**. Our own research confirms that the majority of employees would continue saving if they were auto enrolled into a workplace savings scheme - six in ten employees **(60%)** would stay in and continue to contribute if they were automatically enrolled into a workplace savings scheme, increasing to two thirds of employees (66%) if the employer contributes too.

As such, we believe that auto-enrolment for workplace savings schemes could have the same impact for short- and medium-term savings.

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Research trials of workplace savings schemes

Research has shown that – when implemented – workplace savings schemes can work. In 2019, for example, Nest Insight launched a long-term research trial of 'sidecar' savings. This is an arrangement where employees can choose to save via payroll into an emergency savings account. When they reach their savings target any additional savings are made as extra contributions to their workplace pension. The savings solution, called 'Jars' is currently being trialled at several UK employers.

Savings levels and engagement are high...

Nest Insight's research is not yet complete – the Jars trial is due to run until early 2023. However, early results have shown that once employees have signed up for a workplace savings scheme, it delivers tremendous benefits. For example, participants are saving an average of £100 a month into their Jars pots – with 18% saving more than £150 a month, and 5% saving more than £300 a month. Engagement levels are also relatively high: 15% of users have gone into their account to change how much they save from the default monthly amount, and 27% have made at least one deposit in addition to their regular payroll savings. And – perhaps most encouragingly – just 2% of the accounts created by Jars users have been closed, demonstrating a high level of savings persistency.

Qualitative feedback from users has also been positive, with employees particularly upbeat about the payroll-deduction saving mechanism. The study quotes one Jars user as follows:

> **"You don't have to look at your wages, it's already gone. You do it without even thinking about it. It alleviates the stress and worry about financial situations. You know your net sum is your net sum, you don't have to worry about putting that money aside. It's one bill out of the way."**

...but opt-in rates are extremely low

Unfortunately, however, the bottom line is that take-up of the Jars scheme among trial participants is very low – at less than 5% across all the employers which offer Jars. This highlights one of the major drawbacks of this type of 'opt-in' scheme: it relies on employees being aware of the scheme; recognising its potential benefits; understanding how to join; and, finally, making the effort to enrol themselves. Each of these clearly represents a major barrier to scheme participation.

However, all of these obstacles could be overcome with one key change – making the workplace savings scheme something that employees need to 'opt-out' of, rather than 'opt-in' to. In a Nest Insight trial of this opt-out approach at SUEZ recycling and recovery UK, participation has increased from around 1% to just over 50% of eligible employees saving through payroll

Automatic enrolment at the University of Lincoln

To test this concept, in December 2021, Cushon partnered with the University of Lincoln to deliver an automatic enrolment savings scheme, funded through a combination of payroll deductions and employer contributions. This involved contractually enrolling student employees at the university (who fall outside of the auto enrolment regulations) into a savings pot, provided by Cushon, which they can choose to invest in an ISA of their choice. By default, the scheme is set up for employees to contribute 3% of their salary into the pot directly from payroll, with the university contributing 6% – but individuals can choose to pay more, with the university matching their contribution up to a maximum of 8% of salary. Employees also have the option to opt-out of the scheme at any time.

In the first academic year of the scheme, a total of 1,105 students were automatically enrolled in the scheme – and just 7% decided to opt-out, which is within the range of pension auto enrolment opt-out rates. According to a survey of the student employees involved, nearly half (46%) were saving for the first time and more than two-fifths (42%) said they now feel more positive about their finances. Engagement is also high, with around four in ten 40% members using the Cushon app to check on their savings every week, and six in ten 60% saying the experience improved their thoughts and feelings surrounding campus jobs. One student employee was able to save £5,000 over the academic year.

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More about the University of Lincoln Case Study

Campus Jobs, the University of Lincoln's in-house student employment agency, has been offering jobs to students, combining the ability to earn money with financial education and employability skills, for several years. Like all employees, students working through Campus Jobs are entitled to pension auto enrolment if they are eligible, and the employer pension contribution that comes with this. However, the vast majority earn less than the auto enrolment trigger of £10,000 a year or are under the qualifying age of 22, and so are ineligible for this benefit. Rather than just accepting that most student employees will miss out on the employer pension match, the university decided to work with Cushon to offer an equivalent contribution into an Individual Savings Account (ISA) for those who are not eligible for pension auto enrolment. They decided to offer it on an opt-out basis to ensure that students didn't miss out on saving because of inertia and the effort involved in having to sign up to a benefit. In order to be able to take an opt-out approach to payroll saving, the University of Lincoln made a universal contract change for all employees working for Campus Jobs.

When an employee starts a Campus Jobs role they are automatically put into the Cushon workplace saving scheme, and start saving 3% of their pay, with an additional 6% contributed by the university. They can choose whether to save into a cash or stocks and shares ISA, or alternatively they can opt for a Lifetime ISA, Junior ISA or General Investment Account (GIA) if they prefer. They can also choose to increase their monthly savings amount, with an escalating match available from the university in line with the pension scheme contributions matching structure. Employees can opt out of saving at any point by emailing payroll services. Money can be withdrawn from ISAs or GIAs at any time via the Cushon app.

While the scheme is relatively new, the early signs are promising with high participation levels and positive engagement levels.

You put in	The university puts in	Total paid in
1%	2%	3%
2%	4%	6%
3%	**6%**	**9% (default)**
4%	8%	12%

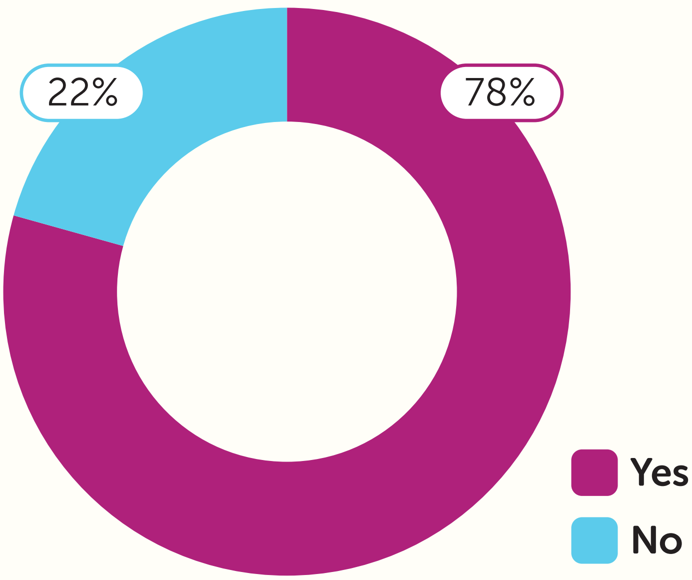
Employees have an appetite for saving

The promising results of the University of Lincoln trial confirm another important finding from our latest research that is, while many employees currently have very little cash set aside, their appetite for saving is strong. Nearly nine in ten (87%) respondents told us they wish they had more in savings and more than eight in ten (82%) said they want to start saving more for a rainy day.

Employee demand for workplace savings schemes in particular is also high. For example, 55% of respondents believe their employer should offer a savings scheme they can pay into, in addition to a pension scheme. And demand is even higher for employees aged 21 and under, with three-fifths (60%) of this group calling for their employer to take action.

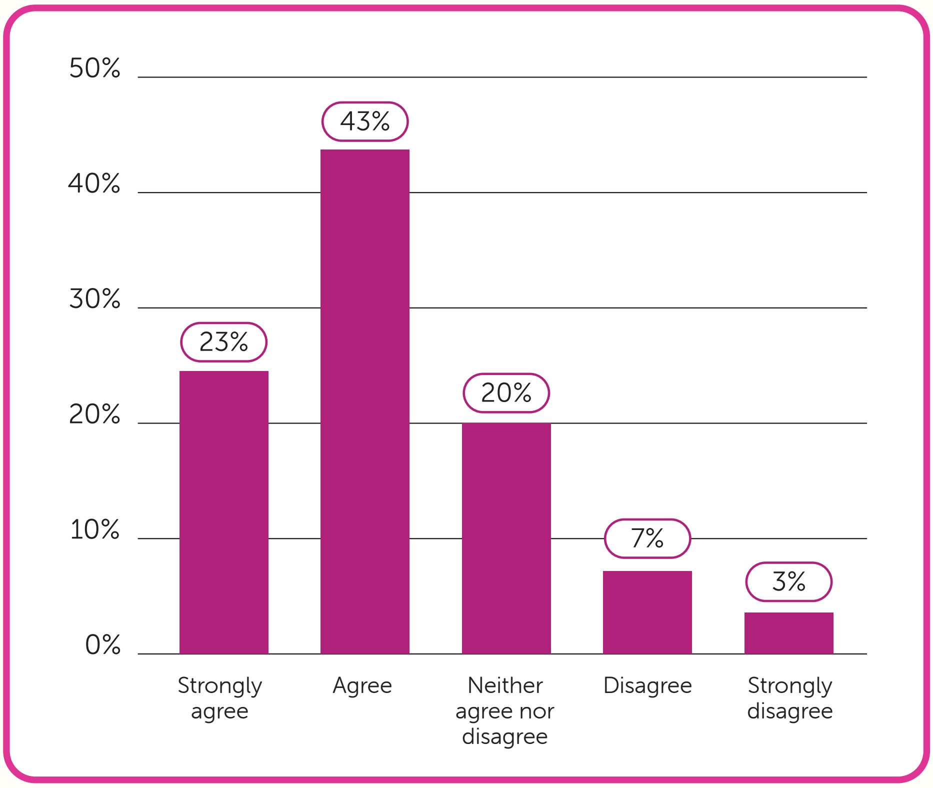
Employees are confident they would make use of such schemes if they were made available. For example, a remarkable eight in ten (78%) respondents say that if their employer set up a workplace savings scheme that allowed them to save direct from their pay, they would pay into it. Among younger employees, take-up could be even higher – almost nine in ten (86%) employees aged 21 and under say they would pay into such a scheme.

Figure 3: If your employer set up a workplace savings scheme that allowed you to save direct from your pay, would you save into it?



Finally, employees believe they would remain in such schemes for the long-term once enrolled. For example, six in ten (60%) respondents told us if their employer automatically put them into a workplace savings scheme that they paid into straight from their pay, they would stay in. And if their employer also made contributions to the scheme, that figure rises to two-thirds (66%).

Figure 4: To what extent do you agree or disagree with the following statement: "If my employer automatically put me into a workplace savings scheme that I paid into straight from my pay and they also paid into it I would stay in"



Employers need to harness this desire, both to help give employees the safety net they need to cope with future financial shocks and to alleviate some of their financial stress. Doing so would address a moral need – employers have a duty to safeguard the wellbeing of their employees, including their financial wellbeing. But the business case is also compelling, as employees with fewer money worries should have less stress-related sickness absence and fewer distractions that could hamper productivity. Our previous research conducted in May 2020, found that 3 out 5 employees agreed that money worries affect their performance at work.

Bridging the gap between intention and action

Employers are perfectly placed to help employees bridge this gap between having the desire to save and actually putting money aside every month. However, to achieve this we need to achieve two major breakthroughs.

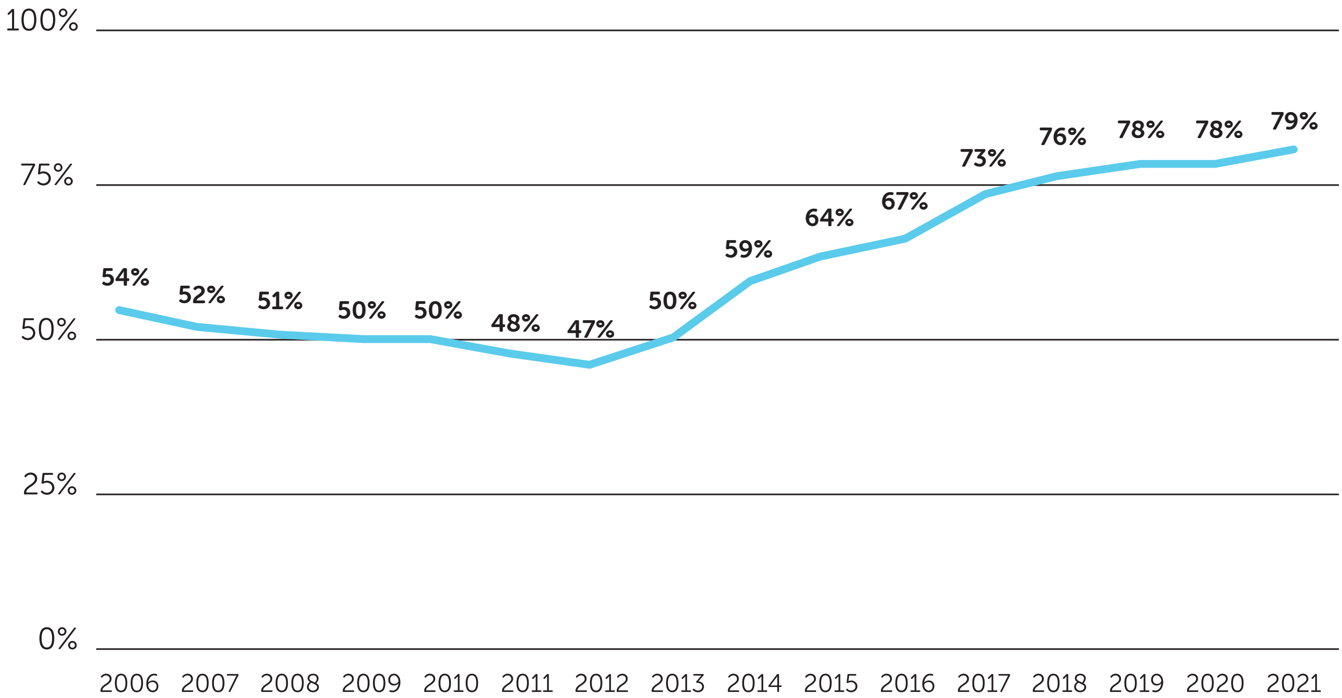
First, we need employers to recognise the valuable role they can play in safeguarding their employees' short- and medium-term financial resilience, on top of preparing them for retirement. At the moment, too few employers understand the appetite among their staff for workplace savings schemes – less than half (45%) of the organisations we surveyed believe employees would take advantage of a workplace savings scheme at their company.

Second, we need the government to change current regulations to allow employers to automatically enrol their employees into workplace savings schemes. Currently there is no legal basis for putting employees into workplace savings, unless they explicitly agree to it in their contract of employment either through a contract change or a pre-employment consent. We believe this has to change if we are going to achieve the level of impact required to get the vast majority of employees to start saving. Ten years of pensions auto-enrolment shows the influence that switching from an 'opt-in' approach to an 'opt-out' approach can have – this should be the template for workplace savings schemes too.

Ten years of pensions auto-enrolment

The phased introduction of auto-enrolment started in October 2012, and under the legislation, employers have to automatically enrol all eligible employees into a pension scheme – this currently covers all employees aged from 22 to the state pension age who earn more than £10,000 a year.

These rules have had a huge impact on pension membership rates: in 2011, just 47% of UK employees had a workplace pension – in 2021, this figure has climbed to 79%.



Conclusion

As we've shown though our research and the University of Lincoln case study, automatic enrolment into workplace savings would be the best way to get people saving and increasing the financial resilience of the UK workforce. Again to reiterate, we are not calling for workplace savings schemes to be compulsory for employers to offer, but rather asking that employers be allowed to auto enrol employees when they introduce these schemes.

There is currently the option for employers to contractually enrol employees and as we've shown through the University of Lincoln case study, this will yield similar results. However, it is not entirely frictionless and so auto enrolment would be preferable.

To make workplace savings auto enrolment a reality, there are a number of regulatory barriers that would have to be removed for instance, to allow for automatic contribution deductions from employees' pay without explicit upfront agreement. We are asking Government to remove any such barriers so that we can get more UK employees savings as quickly as possible.

In the meantime, employers don't have to wait for change to help get their employees more financially resilient which is crucially important. There are steps they can take now including:

1. Introducing workplace savings on an opt-in basis

We have a number of employers who have successfully launched workplace savings on an opt-in basis with take-up rates ranging from 1% and 40%. The top end of the range is where employers have allowed payroll deductions and have given some form of financial support e.g. also contributing, implementing pension redirect or allowing employees to use flexible benefit pots.

2. Contractually enrol employees into workplace savings

As shown by the University of Lincoln case study, it's possible to contractually enrol employees into workplace savings which will give similar results to automatic enrolment.

3. Introduce pension redirect

Whether it's on an opt-in or opt-out basis, employers can help employees with getting more financially resilient by allowing them to redirect some of theirs and the employer's pension contributions into workplace savings. It means that employees will be able to save shorter term financial needs as well as continue saving for retirement.

Whilst the main focus of this paper is about workplace savings, it is critically important that we get the millions of people still not covered by the auto enrolment regulations into pensions. This requires the Government following through on its commitment to lower the minimum age from 22 to 18 and reduce or even scrap the current £10,000 per annum earnings trigger.

About Cushon

Cushon is a fintech workplace savings business, using its world-leading financial technology to bring innovation to workplace savings and pensions to help people get comfortable with saving and investing.

Founded in 2017, Cushon focusses on helping larger UK employers who are looking to improve the financial wellbeing of their employees, by providing them with a simple and convenient way to save from as little as £10 per month, direct from pay.

Cushon currently has over 440,000 customers with £1.7bn of assets under management. Its corporate clients include 250 well known blue-chip companies including many of the FTSE 100, plus over 7,500 smaller employers across the UK.

To find out more about workplace savings, get in touch or visit our website:

hello@cushon.co.uk | www.cushon.co.uk

The value of investments can go down as well as up. Cushon do not provide financial advice.

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