FINANCE & TECHNOLOGY RESEARCH CENTRE

PRESS RELEASE

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Millions of pension savers facing affordability crisis to meet Auto-Enrolment contributions

- New research finds workers on National Average Earnings will be contributing over 20% of their disposable income under Auto-Enrolment by 2019.
- Additional tools needed to help budget for impending contribution increases

In April, the first of the Auto-Enrolment contribution increases for employees will take effect, rising from 1% to 3%. A new report by independent researchers F&TRC suggests the impact of this increase, and the subsequent increase from 3% to 5% in April 2019, will have a severe impact on consumer's disposable income.

Auto-Enrolment has proved to be a great success, with over 9 million workers enrolled into a workplace pension scheme since it was introduced in 2012, many saving for the first time. Following a gradual staging process since 2012, where the employee contribution level remained at 1%, contributions are set to increase sharply over the next 13 months from 1% to 5%.

F&TRC's 'Making Savings Affordable' report shows this increase will result in the burden of contributions for employees increasing from 4% of their disposable income to 21%, a level that could be unsustainable for many. Further action is therefore required if contributions are to be financially sustainable and not lead to increased opt-outs.

These contribution percentages in the table below are not adaptable to individual circumstances so anyone who refuses to contribute those levels must opt out.

Table of contents levels and impact on income (based on banded earnings):

Employer staging date	Employer contribution	Employee contribution (net basic rate tax)	Tax relief (20%)	Total contributions	Employee contribution as a % of average UK salary (£26,782 pa)*	Average UK disposable income**	Employee contributions as % of disposable income
Up to 05/04/2018	1%	0.80%	0.20%	2%	£14 per month	£326 per month	4%
06/04/2018 – 05/04/2019	2%	2.40%	0.60%	5%	£41 per month	£326 per month	13%
06/04/2019 onwards	3%	4%	1%	8%	£69 per month	£326 per month	21%

Source: *https://www.digitalwealthinsights.com/making-savings-affordable-report/*

F&TRC is calling for pension providers and advisers to provide consumers with tools to help them budget more effectively, spend more wisely and save smarter so that the Auto-Enrolment contribution increases remain affordable and workers continue to save. These services are far more widely available as a result of Open Banking and the security standards put in place by the Open Banking Implementation Entity should mean consumer can do so confidently.

Research carried out by www.ableskills.co.uk stated that the top skill Brits wished that they had learnt at school was how to budget. Millions of UK consumers want to save but have never been taught how. F&TRC's 'Making Saving Affordable' report analyses how pension providers and financial advisers can help consumers better manage their spending and budgeting each month. This is turn should help to create additional savings each month to ensure that rising pension contributions are met, pension providers retain projected new assets and Auto-Enrolment opt-out rates don't rise.

Robert Reid, Syndaxi Financial Planning, said: "This research underlines the impact of even a small change in outgoings can have and for many it could be enough to make them consider or worse still actually take the step of opting out. We need to engage people in their future by making their present better, that comes from making budgeting the smart thing to do rather than a chore to be avoided. Social Media can play a big part but to make this happen we need our sector to think about people and not about shifting products and or investments"

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Ian McKenna, Director at F&TRC, said: "Auto-Enrolment has been very successful to date, especially in reaching low to middle income earners. However, as employee contributions are set to rise, our research shows that the burden it will place on the disposal income of the average UK employee could be too great for it to succeed without more work being done to help the workforce budget better.

"What we don't want to see, after so much good work to date, is employees opting out, making them even less prepared for their future and throwing away the additional 4% they receive in employer contributions and tax relief. It is crucial that pensions and tech firms develop and deliver digital tools and services that will help consumers better manage their budgets in order to meet these increasing pension contributions and save for retirement."

-ENDS-

*Average Salary - £26,782 (figures take into account qualifying earnings)
http://themoneycharity.org.uk/media/February-2017-Money-Statistics.pdf

**Average disposable income - £326
Https://www.retailgazette.co.uk/blog/2017/07/average-disposable-income-uk-falls-100/

https://www.vouchercodes.co.uk/press/release/feeling-flush-the-average-brit-has-426-disposable-income-a-month-453.html

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Notes to editors

About F&TRC
Established in 1995, the Finance & Technology Research Centre (F&TRC) is a specialist research consultancy.

The company has four key areas of activity:

- Facilitating industry collaboration in the life assurance and long-term savings industries via a range of forums which bring together leading players from manufacturing, distribution and support services to identify where working together can achieve better outcomes for consumers and the industry
- Research and benchmarking through the delivery of software and ratings to help financial advisers compare the quality of financial products, available at www.advisersoftware.com
- Insight reports which focus on key strategic issues such as the future of financial advice and how organisations can enhance the quality of their services to consumers
- Bespoke consultancy on any of the above