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Fighting the war against **Pensions apathy**

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People are not saving enough, we hear that all the time. And yet we just move on.

Only half of us have a pension scheme[1]; even allowing for other savings and investments most of us have probably not provided enough for our old age, especially given spiralling care costs as we live longer, but not necessarily healthier, lives.

We must get people saving more

The tough economic climate has forced people to cut back on life's comforts; and there are many people simply living hand to mouth. Nevertheless, I believe we must get more people saving for their futures. Otherwise society becomes increasingly reliant on State Pensions, which I foresee will prove unsustainable in the longer term. To foot the bill we will need tax increases or spending cuts, we will lose talent and hence economic growth to other countries. Ultimately the UK will slip backwards on the economic world stage.

[1]http://www.independent.co.uk/news/business/news/crisis-looms-as-only-half-of-brits-have-a-pension-9707164.html

Not saving is irresponsible

I therefore think it is socially irresponsible for any individual who can afford to save something towards their future, however little, to not be doing so, and doing so now. Of course, it is hard to classify who can – and who cannot – afford to save. No one's view of "life's necessities" is the same as anyone else's. Having said that, it's simply too easy to hide behind "I cannot afford to" and I feel that we should challenge that excuse.

For the price of a cup of coffee

In my view, if you can afford two holidays a year, or buy a couple of coffees from a high street chain every day (instead of boiling the kettle at work or taking a travel mug on the train), you could almost certainly afford to put some more money away. If from age 20 one of those daily £3 coffee hits instead went into a pension, this might provide £14k a year in pension from age 70[2].

Putting a little away, not a lot

The benefit rapidly decreases the later you start. So younger generations need to take responsibility for their futures now. I know your 20s are the time to have fun, but that doesn't mean we can't expect those who have got jobs and can afford the pub on Friday and Saturday night, to put a little away. When we allow for inflation, £14k a year is not a lot (just under £5k in today's money) but an extra £400 a month could enable a little fun in retirement![3]

Better late than never

So is it too late for the 50 year old? Absolutely not. Why not add to the coffee savings by taking just one holiday a year. Saving the £500 cost of a second holiday as well as £3 a day would give a total lump sum of £13.5k and £2k a year into the pension pot[4]. That could be the difference between a difficult retirement financially, and being able to enjoy a meal out now and then or buy Christmas presents for the grandkids.

Some may argue that these things are of great importance to their current happiness, which I do understand; but have people really thought through the future awaiting them if they do not provide now.

The business reason

It's not just individuals. As corporate citizens, I believe that employers have a responsibility to make saving the expectation and the norm for anyone working for them. Today, many businesses make life assurance and healthcare provision non-optional – why not do the same with saving. There's a business reason too, with the abolishment of the default retirement age employers need to reassure young talent that older workers will be able to afford to retire, not block progression.

Younger generations need to take responsibility for their futures now.

[3] Inflation assumed to be 2% p.a.
[4] Single life non-increasing pension based on September 2014 annuity rates (assuming 25% of the fund is taken as cash at retirement). Accumulated fund at retirement calculated using an interest rate of 5% p.a. net of fees

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However, whilst I strongly encourage parents to save on their children's behalf, they must not lose sight of their own retirement arrangements. If your children end up paying for your costs of care in old age then have you really helped them?

An employer to employee conversation

An obvious answer is employers should pay more, but it's ultimately all a wage bill so this would probably just mean less cash or other benefits. So more importantly I believe employers can change things through making it clear that they expect employees to be saving. Why not ask individuals about their pension arrangements as part of an on-boarding process or at appraisal time? Reward structures could back this up: how about additional bonuses only if it goes in to savings, or automatic (i.e. non-optional) increases in savings if pay increases.

Scoring points

I also think the government needs to look carefully at the confusing messages it sends out. Auto-enrolment encourages saving but why do political parties then score points by treating those who are saving enough to not need to rely on the state as though they are tax dodgers (after all tax is still paid on the majority when it is drawn at retirement).

Saving for your kids

In fact I would like the government to not only encourage saving for ourselves but also on other people's behalf. We cannot assume our children will be affluent enough to provide for their future retirement; reports say young people are graduating with debts and struggling to find work, never mind get on the housing ladder and then try to start saving. For those who are fortunate enough to afford it, we should actively encourage people to also put something away for their family.

The first five years of your child's life

This idea fits more of our social norms. People feel a responsibility to provide for their children. Did you know that putting money away for just the first five years of your child's life, will give them just as much at age 70 as if they saved all the way from age 30 (which is when most of us start to think about pensions)[5].

An Asian retirement model

It was recently reported that in the US many single parents contribute more to a 'college fund' for their children than for their own retirements[6]. This may be a good strategy if your child then earns enough to support you, and of course is willing to do so, but it could be a high risk investment if they don't. That said, for many cultures (such as in Asia[7]) there is an expectation that children will look after their parents, so it will work for some.

Anyone for penal tax rates?

If the government really wanted to encourage saving, perhaps we should even have penal tax rates for those who can unquestionably afford to save (i.e. the very highest earners) but aren't. But the government has actually gone the other way: the combined effect of reducing the Lifetime Allowance (the maximum pension pot someone can get tax relief on) and increasing annuity rates has reduced the likely pension by almost 50 percent since 2012; even someone maxing out their Lifetime Allowance might now only get around £30k p.a., a reasonable income but hardly excessive[8].

[5] Accumulated funds at retirement calculated using an interest rate of 5% p.a. net of fees
[6] http://money.msn.com/saving-money-tips/post--single-parents-save-for-kids-college-not-retirement
[7] http://www.theguardian.com/politics/2013/oct/18/jeremy-hunt-uk-families-asia-elderly
[8] https://www.linkedin.com/pulse/article/20140813140207-39714-please-don-t-discourage-saving

Scrapping State Pensions

Some may say my ideas are difficult or extreme, but I believe we have to think bolder to curb the crisis now. I think we are likely to see the State Pension as a universal provision scrapped in years to come; it will have to be a safety net for those who really need it. How do we deal then with people who could afford to provide now for their futures, but choose not to? Is it right that future tax payers, our children, have to provide for them because they couldn't forego some of life's comforts?

A potential talent fail

In 2013 it was estimated that State Pensions currently accounts for 7.1% of Gross Domestic Product (GDP) and in just 50 years time – when current 20 year olds may want to retire – it is projected to rise to almost 10%[9]. That's an extra £140 billion that the government will have to find from somewhere. Generation Z is already worrying about the tax consequences of this[10] and it becomes a massive disincentive to the working population in the UK; we risk losing talent and will harm economic growth as a result.

In 10th place

We are not unique in this challenge. For example, Brazil came 48th worst of 50 countries in Allianz's 2014 pension sustainability ratings, and we are told that the strain is only going to become greater as their population continues to age[11]. Although the UK currently comes in at 10th place on Allianz's index, we mustn't be complacent as we certainly share Brazil's issue of an ageing population; indeed, in the next 17 years the number of people aged 65 and over is projected to rise by nearly 50 percent (which will then equate to almost half of the UK population.)[12]

[9] http://www.theguardian.com/money/2013/dec/10/state-pensions-age-68
[10] https://www.kpmgslant.co.uk/topics/the-future-of-work/generation-z-response/
[11] http://knowledge.allianz.com/demography/retirement_pensions/?2723/Brazils-pension-system#2
[12] http://www.ageuk.org.uk/Documents/EN-GB/Factsheets/Later_Life_UK_factsheet.pdf?dtrk=true

The UK has enjoyed a world-leading position for centuries, giving most of us a lifestyle which most people across the globe envy; do we want to risk losing that for ourselves and future generations because we won't challenge each individual's responsibility to provide for themselves?

A 50 year issue

It's too easy to say the government should address this through greater compulsion in saving, but I think it is naïve to think politicians on a five-year cycle can really address a 50 year issue. Plus, I would rather see those of us who are fortunate enough to be able to provide for ourselves, take personal responsibility to do so.

Play your part

So what do I ask? I ask my countrymen and women to consider – next time they buy that cup of coffee, pint of beer, or Friday night take-away, what may be awaiting them at the end of their working lives, and whether they will take a few easy steps to retain financial independence. And I ask employers out there, as corporate citizens and perhaps the last trusted institutions in our lives, to play their part by making higher levels of saving easy and expected. After all, it's not just the right thing to do, and with the risk of losing talent, the challenge can only get harder.

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