PENSIONS AND LIFETIME SAVINGS ASSOCIATION

SUPPORTING SAVERS THROUGH THE COST-OF-LIVING CRISIS:

A RESOURCE FOR SCHEMES

CONTENTS

EXECUTIVE SUMMARY

The rising cost of living means many may be seeking additional help to support their financial wellbeing. The financial decisions that savers make now – both in relation to their pension and otherwise – could have a significant impact on their long-term financial resilience and retirement income. Given the important role that pensions play in securing each individual's financial future, schemes are well positioned to provide additional support to savers at this time.

This resource is intended to provide guidance to schemes that wish to share additional information with savers struggling due to the increased cost of living. It seeks to consolidate relevant information from a range of sources that may be helpful to savers for schemes to share. Broadly, the topics covered within the resource include:

1. How schemes can *support savers' overall wellbeing*, signposting them to mental health resources, basic budgeting support, government benefits and information on protecting themselves from scams; and
2. How schemes can *support savers' fiscal health in retirement*, including information on saving for retirement, accessing pension money early (for over 55s), and what schemes might say to savers looking to opt out or opt down.

We recommend schemes publish the information within this resource online, notify members of these (or other similar) materials and actively partner with employers to help disseminate relevant information to savers.

INTRODUCTION

The cost of living increased sharply in the UK in 2021 and 2022, with the annual rate of inflation reaching a 41-year high in October 2022 and remaining high well into 2023. These heightened inflation rates have been directly felt by families and individuals at home. The rise in food costs, energy bills and gas prices have caused increased financial strain across the country, and many people may be seeking additional help to support their financial wellbeing.

During this difficult economic period, pension providers are well positioned to support savers facing these heightened financial pressures. As a membership body for pension schemes, the PLSA has developed this resource to provide guidance to schemes on ways to support savers through the cost-of-living crisis.

This resource includes information on how schemes can support savers' fiscal health as well as ways to encourage their overall wellbeing. Structured in an easy-to-read, question-and-answer format, this resource includes answers to some of the major questions savers may be asking – like "how much do I really need to retire" or "what are ways that I can reduce my costs now" – with signposting to key resources.

While some schemes may already provide information to their members that addresses the cost-of-living crisis, others may not yet have materials available. Schemes may therefore use this resource to supplement the information they already provide or as a foundation from which to start.

Regardless of how a scheme uses this resource, connecting with members on this important topic – and in plain English – can provide reassurance and build confidence in pension saving and wider financial understanding. We recommend working with the sponsoring employers within the scheme to develop communications strategies that allow savers to best access and engage with these materials.

USING THIS RESOURCE

Although this guidance is intended for schemes, its ultimate aim is to support savers facing financial hardship due to the cost-of-living crisis. So that the information included within this resource reaches savers, we recommend schemes take three key steps:

1. **Publish cost-of-living resources from this guidance online, including the signposted materials.**

Schemes may choose to mirror how the information is organised within this resource (in a Q&A format), to organise things topically in a way that suits its members or to supplement any topical gaps in their existing materials. Regardless, schemes should make sure that cost-of-living resources are easily accessible and digestible to savers on their websites. This resource is comprehensive, and we recommend each topic be included online.

2. **Notify members of the new materials once they have been added to the scheme's website.**

Schemes could email their members to notify them of any new or additional resources related to the cost-of-living crisis, highlighting key information depending on member needs. While it is always helpful to send resources to members via email once they are posted online, we recommend that schemes also think creatively of additional ways to communicate this information to savers. Some schemes have held "roadshows" for members, providing virtual tours around their company website. Others have hosted quick webinars that highlight cost-of-living information, either on their own or in conjunction with employers. These are both helpful strategies to let members know what resources are available to them.

3. **Notify the employers within the scheme, so that they may help disseminate these additional resources.**

Often, savers are more likely to engage with materials sent to them directly by their employer, so working with employers within the scheme on an effective communication strategy is important. Schemes may also consider working with employers to connect directly with savers during regularly held staff meetings, so that their members with limited time can learn about these resources.

SAVER WELLBEING

There's little doubt that families and individuals facing the increased cost of living may be feeling additional stress, negatively impacting their mental health. They may also be searching for additional financial support given the immediate pressures they face.

Although pension schemes have no legal obligation to address their members' overall wellbeing – whether that be mental health support or high-level financial information outside of the retirement space – we do recommend schemes signpost their members to certain resources related to these topics. Below are some basic questions savers may be asking, with answers and signposted materials for schemes to provide.

Where can savers find support for their mental health?

- Understandably, the cost-of-living crisis may have had a substantial, negative impact on savers' mental wellbeing, including increased stress, anxiety and depression. Schemes should consider signposting direct links to mental-health support services on their website.
- For individuals in immediate danger, the quickest way for them to get help is to call emergency services by dialing 999.
- Samaritans provides several resources for those worried about their mental health. Individuals can also contact a "Samaritan" for free any time, day or night, by calling 116 123 or emailing (however, it may take several days to get a response by email).
- If an individual is seeking general support or advice to support their mental health, the Mental Health Foundation provides information on how to connect with a GP, who may be able to offer help directly or provide a referral to a mental health specialist.

What should savers do to reduce their household costs?

- Savers feeling increased financial pressures may be looking for ways to reduce their household costs, gain control over their finances or improve their understanding more generally.

- MoneyHelper has created a "beginner's guide to managing your money," which includes information for savers on how to set up a budget, getting your budget on track, managing debt, setting a savings goal and more.
- Savers might also utilise quick guides like this example, with "top tips" for reducing household costs related to energy, broadband, mobile phones and TV, food, petrol and diesel, and national insurance.

What are some government benefits that exist for savers struggling with the increased cost of living?

- There are several government benefit programmes available to the public to help individuals and families cope with the increased cost of living, though many remain unaware that this support exists.
- The UK government provides a tool for individuals to check what benefits and financial support they are eligible for.
- Below are several examples of government support that schemes should consider signposting for savers on their website. These benefits are housed on the government's main benefits page.
    - **Pension Credit.** For individuals above the State Pension age and on a low income, the Pension Credit will top up an individual's weekly income by a certain amount. Savers can learn if they're eligible, what they'll receive and how to claim the Pension Credit.
    - **Cost of Living Payments.** Cost of Living Payments are offered by the UK government and are automatically paid to those already receiving certain benefits or tax credits. They may also apply to those found eligible at a later date. Individuals can find out if they are entitled to Cost of Living Payments.
    - **Help with energy costs.** The Energy Price Guarantee and Energy Bills Support Scheme are government reductions that apply automatically to all UK household energy costs. In addition, the government offers support and guidance related to energy bills and suppliers, as well as additional energy tips to save money. Learn more about the UK government's energy resources.
    - **Help with childcare.** The UK government offers certain benefits to families with children, including financial support for childcare, a Child Benefit, free school meals, help with maternity costs and more. Check out how the UK government is helping with childcare costs.
    - **Income Support.** For certain qualifying individuals looking for additional income support – for example, those on a low income or who cannot work – the government provides certain benefits. Savers can check whether they qualify for additional income support.

- **Financial support for people with health conditions or impairments.** Benefits and financial support are available to individuals living with a health condition or disability, including benefits like the Employment and Support Allowance (ESA) – for those with a disability or health condition that impacts how much they can work – and the Personal Independence Payment (PIP) – to help with additional living costs for qualifying individuals. Learn about the other types of benefits available for those with a health condition or living with a disability.
- **Help with household costs.** The UK government provides several programmes and benefits to help households cover a range of costs. This includes budgeting loans, cheaper phone and broadband, help paying for water, rental and housing cost assistance, tax support and more. Savers can look for support with household costs.
- **Help with travel costs.** Commuting can be expensive, so the UK government has compiled a list of options and benefits for qualifying individuals looking for ways to cut down on travel expenses.

What can savers do to protect themselves against the rising threat of scams?

- Throughout the cost-of-living crisis, there has been a notable increase in the number of online and phone scams targeting savers, with fraud offences increasing by 25% (to 4.5 million offences) compared with the year ending March 2020.
- These scams may look like they come from reputable sources, such as HMRC, banks or the government, making them even more dangerous.
- Given the rising threat of digital pension fraud, scheme governance bodies and trustees should put in place strong security measures to protect savers.
- In addition, to protect savers' hard-earned money now, it is important that schemes highlight the present risk of scams and the resources available to savers to protect themselves.
- Schemes should:
    - Routinely update savers of current threats using a resource from MoneyHelper, which details the most common types of scams.
    - Direct savers to the FCA's ScamSmart, where they can learn how to avoid or report pension scams, check the Financial Services Register and more.
    - Signpost savers to the appropriate bodies, such as Action Fraud. There, savers can find more detailed information on fraud and cybercrime, as well as what to do if they fall victim to a scam.
    - Direct savers to a resource from Which?, a not-for-profit dedicated to protecting consumers, where they can learn how to try and recover money if they've lost out to a scam.

SAVER RETIREMENT HEALTH

Schemes are directly connected to their members' financial health, specifically upon their retirement. However, schemes also know very well that achieving a strong financial footing in retirement starts early in a saver's life, even during times of economic hardship such as the current cost-of-living crisis.

Schemes should not only help educate savers on how much money they'll need in retirement (specific to their lifestyle preferences) but should also inform them of the financial implications related to accessing or changing their pension savings (for example, opting out or taking pension money early, for those over 55). Below are several questions savers might be asking regarding their retirement as well as guidance for pensions on how best to answer them.

How much do savers need for retirement?

- To support savers at all ages as they plan for retirement, especially as they adjust their household budget against the rise in costs, schemes should direct them to the PLSA's Retirement Living Standards, developed in partnership with Loughborough University.
  - This resource was built to help savers understand what their retirement lifestyle might cost – either as an individual or as a couple – by estimating key expenses across several categories like food, home, transport, holidays and leisure, clothing and other personal expenses and giving.
    (Note: while savers navigate this useful resource, they should be reminded that it excludes the cost of a mortgage, rent and social care; in addition, savers should be reminded to factor in the State Pension).
  - Combining these costs, the Retirement Living Standards then break down three possible retirement expenditure levels for savers to choose between – either minimum, moderate or comfortable – which affords them different lifestyles depending on their preferences and retirement goals.
- Notably, the cost-of-living crisis has impacted retirement, as rising food and energy prices now mean that more money is needed to achieve each of the three lifestyle types.
  - For example, the amount of money needed by a single pensioner to retire at the minimum living standard (which would cover all your needs, with some leftover for fun and social occasions) is now £12,800 per year, an increase of almost 18%. Retired couples will now need £3,200 more per year, or £19,900, an increase of 19%.

- Savers should therefore be directed to this resource not only to help them plan their retirement, but also to consider whether and how they might adjust their contributions given the current economic landscape. This will help them ensure they are able to achieve either a minimum, moderate or comfortable standard of retirement, depending on their specific preference.

What should schemes say to over 55-year-olds thinking about taking their pension money now?

- Savers who are 55 or older can withdraw from their workplace pension pot; however, savers nearing retirement should know that dipping into their pension pot early – perhaps to cover short-term expenses in the face of the cost-of-living crisis – could have a significant impact on their future retirement income (as well as certain tax implications).
- In general, schemes should signpost savers to Pension Wise from MoneyHelper, which offers free, impartial guidance to over 50s, especially if the scheme or workplace has limited in-house saver support available.
    - This government service is for 50+ year olds with a UK-based defined contribution pension pot (either personal or workplace) and includes an approximately 60-minute appointment for the saver with a pension expert.
- Schemes should flag that withdrawing money early may reduce the amount a saver has in retirement, due to the loss of that saving's potential investment growth.
    - An example from *The Guardian* details this: a person with £100,000 in their pension at 55 can expect to see it grow to almost £165,000 by the time they reach 65 (if they don't pay in anything additional into that pot), based on annual growth of 5%. However, if they take £25,000 out at 55, bringing the pot down to £75,000, it could grow to only £123,000 – a potential loss of £32,000.
- Schemes should also notify savers that withdrawing money early from their pension could have certain tax implications.
    - Savers over 55 can take out a cash lump sum of 25% of their pension pot tax-free, but any money taken beyond this will be taxed as income for that year.
    - If an individual decides to take money from their pension early, they may also lose out on certain tax relief if they trigger the Money Purchase Annual Allowance (MPAA). Each year, an individual can pay up to £60,000 into their pension and receive tax relief on those contributions. However, if the MPAA is triggered, this reduces the amount that can be paid into a pension pot with tax relief to £10,000.

What should schemes say to savers looking to opt out of automatic enrolment?

- Understandably, savers may be looking for ways to increase their access to cash now and might be considering opting out of their pension contribution to do so.
- Although it is a savers choice to opt out, it is important that schemes help them make informed decisions. This may, for example, mean highlighting other ways for savers to cut down on costs – or notifying them of other flexibilities within the scheme – given the potential long-term implications of opting out. Schemes might signpost them to:
    - MoneyHelper's beginner's guide to managing money or other general tips for reducing costs; and
    - Benefits and financial support they are eligible for from the government.
- They should also provide information to savers regarding the future implications of opting out, as pension savings may grow over time. Contributing to pensions savings now could have a meaningful impact on financial security at retirement.
    - According to information from Penfold, if a 20-year-old contributing £200 a month to their pension with a 5% annual growth rate were to stop for three years, the value of their pension pot at retirement would fall by £28,000, from £268,000 to £240,000 if they retire at the age of 67.

- *The Times Money Mentor* also provides this specific example of the financial implications of opting out:
    - "Sam earns £2,000 a month before tax. He needs to contribute 5% of this amount, which is £100 a month.
        - His employer pays 3%, or £60.
        - The government pays part of Sam's contribution by giving him 20% tax relief on that £100, which is £20
        - Sam then needs to pay £80
    - Total cost to Sam: £80/month
    - Total pension contribution: £160/month.
    - **By opting out, he would get an extra £80 to spend that month, instead of adding £160 to his pension pot. In other words, opting out is like turning down part of your pay."**

- Providing information on alternative ways to save and the implications of opting out should always be the first step; however, schemes must ultimately respect the final decisions of savers concerning opting out.
    - For savers who have made the decision to opt out of their pension contributions, schemes should inform them their employer is required to automatically re-enrol them after three years.
    - Additionally, schemes may also want to communicate re-enrolment options sooner than three years, in case pension savings becomes affordable to the saver again.
    - Schemes should also signpost saver resources from MoneyHelper specific to opting out.

What should schemes do for savers looking to opt down their pension contribution?

- If a saver wishes to opt down their current pension contribution (rather than opt out entirely) – which would depend on their individual arrangement with the employer – they should be aware of the implications of such a decision.
- Like opting out, opting down can have long term financial consequences, as a smaller pension pot now could lose out on potential future growth.
- In addition, if a saver is able to opt down and reduce their total contribution, it may have an impact on the employer contribution, especially where the total would be below the automatic enrolment minimum level, as that saver will no longer be in a qualifying automatic enrolment scheme. The employer will, however, have to automatically re-enol that saver to the legal level eventually, which happens every three years.
    - As with opting out, schemes may want to communicate re-enrolment options sooner than three years out, in case pension savings becomes affordable to the saver again.
- Ultimately, if a saver is determined to opt down and is able to within the scope of their original employer agreement, their decision should be respected, and the employer cannot legally suggest or encourage them to change their decision. Schemes should again signpost savers to resources from MoneyHelper.

APPENDIX: CONSOLIDATED RESOURCES FOR SAVERS

The PLSA's Retirement Living Standards

- The PLSA created the Retirement Living Standards as a tool for savers to help them understand how much money they might need in retirement. The standards show what life in retirement looks like at three different levels, and what a range of common goods and services would cost for each level.

UK Government

- The UK government has a number of benefits for savers to access in the face of the cost-of-living crisis and otherwise. These are housed on a main page for savers to access.
- The government also hosts information on how pensions are taxed and what savers should be aware of if they're considering taking action regarding their pension.

The Pensions Regulator (TPR)

- TPR regulates and protects UK's workplace pensions.
    - It provides several resources for scheme members (or savers), primarily through MoneyHelper, a free service backed by the government that includes information on automatic enrolment, pensions basics, the state pension and more.
    - It also includes tools, resources and guides to help savers stay on top of the cost-of-living crisis.
- Schemes should pay specific attention to TPR's advice on the best ways to warn savers about scams. They can also direct savers to a resource from MoneyHelper, which details the most common types of scams.
- MoneyHelper also connects savers to free guidance from Pension Wise for those over 50 years old and with a UK-based defined contribution pension pot. This includes a free, 60-minute appointment to talk through pensions options.
    - Those under 50 or those over 50 with only a defined benefit pension won't be able to have a Pension Wise appointment; however, savers can still call at 0800 011 3797 or use the live chat to speak with a pension specialist.

Money and Pensions Service (MaPS)

- The Money and Pensions Service, sponsored by the Department for Work and Pensions (DWP), provides numerous resources to individuals to help them improve their financial wellbeing, specifically providing money and pensions guidance as well as debt advice.

- Many of the pensions and retirement resources are located on the MoneyHelper main page, which houses information on automatic enrolment, pensions basics, the state pension and more.

Financial Conduct Authority (FCA)

- The FCA is a regulator of financial services firms and financial markets in the UK. It maintains several helpful resources for savers, including:
    - A specific page dedicated to helping savers avoid investment and pension scams through ScamSmart.
    - An official public record of government authorised firms, individuals and other bodies through the Financial Services Register.
    - A specific page dedicated to helping individuals with the increased cost of living.

Financial Services Compensation Scheme (FSCS)

- The FSCS protects customers when authorised financial services firms fail. If a financial firm used by a saver has gone out of business and can't pay a claim, the FSCS can help. It provides resources including:
    - A main page which includes a short video on the FSCS and how they can help.
    - Information on how much of a savers' pension is FSCS protected.
    - Details on how the FSCS is handling recently failed financial firms and the option to sign up for email updates.
    - A free service where savers can make a claim.

Pension Advisory Service

- The Pension Advisory Service provides FCA regulated, free pension advice. This includes general advice, transfer and drawdown advice, annuity advice, retirement planning and more.
- A saver can fill out the Pension Advisory Service survey to connect with the right expert.

Citizens Advice

- Through a network of independent charities, Citizens Advice offers free, confidential advice online, over the phone and in person.
- Citizens Advice also offers specific support for savers looking for help with the cost of living.

Pensions and Lifetime Savings Association

T: 020 7601 1700
E: plsa@plsa.co.uk

www.plsa.co.uk