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Realigning the workplace savings offering to meet the needs of millennials

A research paper by Smarterly

Executive summary

The concept of 'financial wellbeing' has received a great deal of publicity in the past couple of years – and many employers are now starting to develop strategies to support staff in this area. However, our research shows that the strategies they are implementing are not meeting the needs of all employees – particularly millennials. Financial support in the workplace continues to focus on providing pensions and pension guidance, but this is not a priority for 18- to 35-year-olds.

This group instead would welcome more support on making savings in the short-to medium-term and to help them buy their first home. Employers need to recognise this and realign their priorities to ensure they provide workplace savings support for employees at every stage of their lives – not just those for whom pensions are a focus. Offering workplace Lifetime ISAs alongside pensions, together with a robo-guidance or robo-investment service, would go some way to bridging this gap.

One size does not fit all

Financial concerns are extremely widespread among today's workforce. More than nine in ten (91.2%) of our respondents suffer from money worries – and the problem is even more acute among millennials: nearly all (96.6%) of 18 to 35-year-old respondents are concerned about one or more aspects of their financial situation.

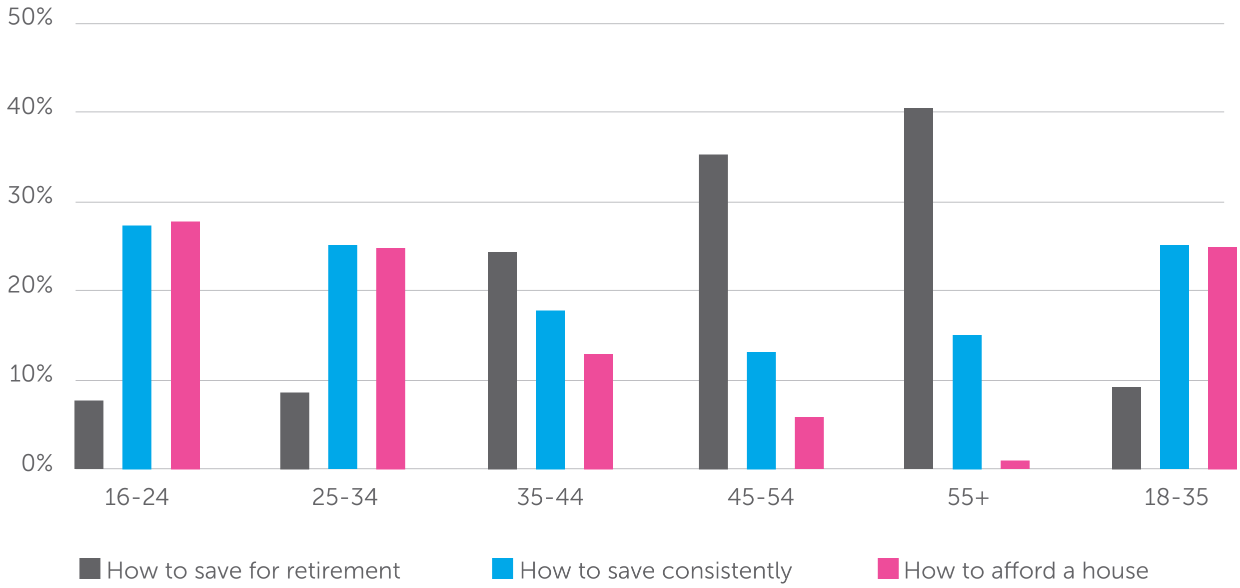
This is not a new finding, of course. Recent research by the CIPD found that money worries were the biggest cause of stress among employees[1], with 19% of employees losing sleep because of worrying about money and 10% finding it hard to concentrate or make decisions at work because of money worries[2]. And a 2018 study by the Centre for Economics and Business Research found that the combined overall cost of absence and lost productivity due to poor financial wellbeing was calculated at more than £1.5 billion a year in the UK[3].

Most of our respondents' financial concerns revolve around a lack of savings – and this is a universal issue, affecting just as many 16- to 24-year olds (81.6%) as the 55s and over (79.1%). However, while a lack of savings is a concern for all generations, what these employees are trying to save for is very different.

For our oldest respondents, the key concern is having enough money put away in their pension pots – two in five (40.2%) of those aged 55 and over are most concerned about saving for retirement. In contrast, fewer than one in ten (9.3%) millennials are worried about their retirement savings. Instead, these 18- to 35-year olds are most concerned about how to save consistently (25.3%) and how to afford a house (25.1%) (see figure 1). These issues are not really a concern for the over-55s, with just 14.1% having worries about saving consistently and a mere 1.3% being troubled by saving to buy a property.

1. *Employee Outlook: Commuting and flexible working, April 2016, CIPD*
2. *Financial wellbeing: The employee view, January 2017, CIPD*
3. *Financial wellbeing and productivity: A study into the financial wellbeing of UK employees and its impact on productivity, October 2018, Cebr*

Figure 1: What is your biggest financial concern?



For many millennials, this problem is compounded by their family circumstances. A third (33.2%) of 18- to 35-year olds have no financial support from their parents or family – contrary to the media reports, relying on the 'Bank of Mum and Dad' to stump up the deposit on a first-time buy is not an option for many young people. Moreover, a further quarter (26.6%) of employees in this age group expect to have to provide financial support to their parents in later life. So not only do many millennials not have access to additional funds now – they will need to find additional funds later.

So there is a clear division here between two groups with very different priorities. While older employees are concerned about having enough money in their pension pots to give them a comfortable retirement, younger staff have more pressing concerns.

>25%

of millennials said affording a house was their biggest financial concern, whereas only just over

1.28%

of 55+ year olds were concerned about affording a house.

They need savings to help them pay for life events in the more immediate future, such as getting married or buying a house – and they also need to be able to put money aside for the medium-term to help assist with future caring responsibilities.

<10%

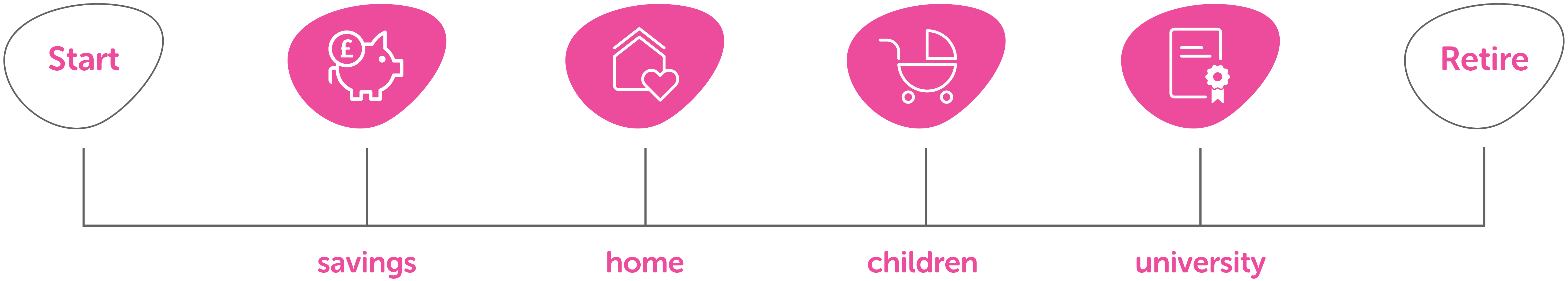
of millennials are concerned about saving for retirement compared with

>35%

of 35-44 year olds, rising to

>40%

at the 55+ age group



>25%

of millennials said saving consistently is their biggest financial concern, compared to only

12%

of respondents aged 45-54

Employers are providing support…

Given the all-pervasive nature of financial concerns in the workforce, what are employers doing to help their employees? On the face of it, they seem to be providing a decent level of support. Almost nine in ten (88.2%) of the senior HR and benefits professionals who responded to our research believe it is their responsibility to provide support on financial wellbeing to their employees – and, indeed, well over three-quarters (82.7%) have some form of support in place to help protect the financial wellbeing of their 18- to 34-year-old employees. This includes one-to-one consultations with advisors, online financial education material and financial education seminars.

And there is definitely an appetite for this kind of support among employees – almost nine in ten (85.7%) respondents with financial concerns tell us they would take up financial support from their employers and two-thirds (65.9%) of all employees feel having support from their employer would make them feel much more comfortable in making financial decisions.

So, if the support is there – and employees are happy to use this support – why are so many employees still experiencing financial concerns?

...but there is a lack of alignment

The simple answer is: employers are not providing the right kind of support to meet the needs of all their employees. While millennials are mostly interested in short- to medium-term savings such as getting onto the property ladder, employers' main priority is pensions – and as a result most employers are generally only providing guidance and support on pensions and retirement. Their offerings are based on a mindset from a previous generation. Before rocketing house prices. Before spiralling debts. And before rising life expectancy left many full-time employees with caring responsibilities on top of their day job. Simply put, employers' approaches to financial wellbeing have not kept up with employees' changing priorities.

A quick look at what employers believe their employees' financial priorities to be and their employees' actual financial priorities serves to highlight this stark disconnect between perception and reality: fewer than one-in-ten (9.3%) millennials say saving for retirement is their number one financial concern – yet two-thirds (65.6%) of employers believe that pension schemes are the priority for all of their staff (see figure 2). In part, this may be down to the individual priorities of those setting the HR agenda – and our research shows that older HR leaders are far more likely to view pension schemes as a priority for employees than their younger counterparts.

If employers are going to provide the financial support their millennial employees actually need, they clearly have to recognise this disparity and realign their priorities – perhaps by appointing younger members to their benefits boards to ensure the views of this generation are represented. What is absolutely clear is that the benefits agenda needs to change: simply offering more support on pensions is not going to help this group.

Rank	Employers' perceived priorities for employees	Millennials' actual priorities
1st	Pension schemes	How to save consistently
2nd	Living costs	How to afford a house
3rd	Saving for milestone purchases (houses, university, etc.)	How to best manage debit and credit card debt
4th	Lifestyle	How to limit expenditure
5th	Investments	How to save for retirement

Source: Smarterly analysis

Moving beyond pensions

Making this shift may be difficult, however, as when it comes to financial wellbeing most employers are firmly wedded to the idea that pensions are their only – or at least their primary – responsibility to staff.

More than a quarter (28.0%) of respondent organisations believe employers should be responsible only for providing pensions and no other form of savings, while well over half (58.7%) acknowledge that other financial needs are important but that pensions are the priority. Just one in twenty (6.1%) believe that all financial needs should be addressed equally by employers.

And employer practice backs this up: less than a quarter (21.9%) of our respondents offer any kind of workplace savings vehicle, such as an ISA, in addition to their pension scheme.

So how can employers bridge this gap between millennials' need for support with short- to medium-term savings and their own focus on providing long-term savings for retirement?

Changing the focus

The recently introduced Lifetime ISA (LISA) appears to offer an ideal compromise for employers. Introduced in 2018, the LISA is designed to encourage individuals to save for a house or for retirement. Individuals can contribute a maximum of £4,000 a year, to which the Government will add a 25% bonus up to an annual maximum of £1,000. Savers can withdraw money from their LISA to buy their first home and/or when they reach 60 – and they can also access their savings at any other time, although they will be subject to a 25% charge on any amount withdrawn.

Thus offering a workplace LISA in addition to a traditional pension would seem to provide the short- and medium-term savings – and the opportunity to save for a house – that millennials crave, while also satisfying employers' focus on providing long-term savings for retirement.

What's more, LISAs also satisfy two other important needs. Employees told us they would be more likely to pay into tax efficient savings if the process was easy (42.2%) and if the minimum contribution was affordable (44.2%). LISAs tick both of these boxes – they are available on many easy-to-use investing platforms and the Government has not set any minimum threshold on the contributions that individuals must make each year.

Almost a third (29.7%) of millennials also told us they would be more interested in workplace savings if they were able to contribute less to their pension and have this paid into a savings plan instead – so there is room for employers to think creatively about how a LISA (or other savings vehicle) might dovetail with their pension scheme (bearing in mind the employer's auto-enrolment obligations).

So a LISA would appear to offer a perfect vehicle for workplace savings – but what about offering support to employees on their investments? Various studies have shown that employers are often uncomfortable when it comes to providing guidance on savings.

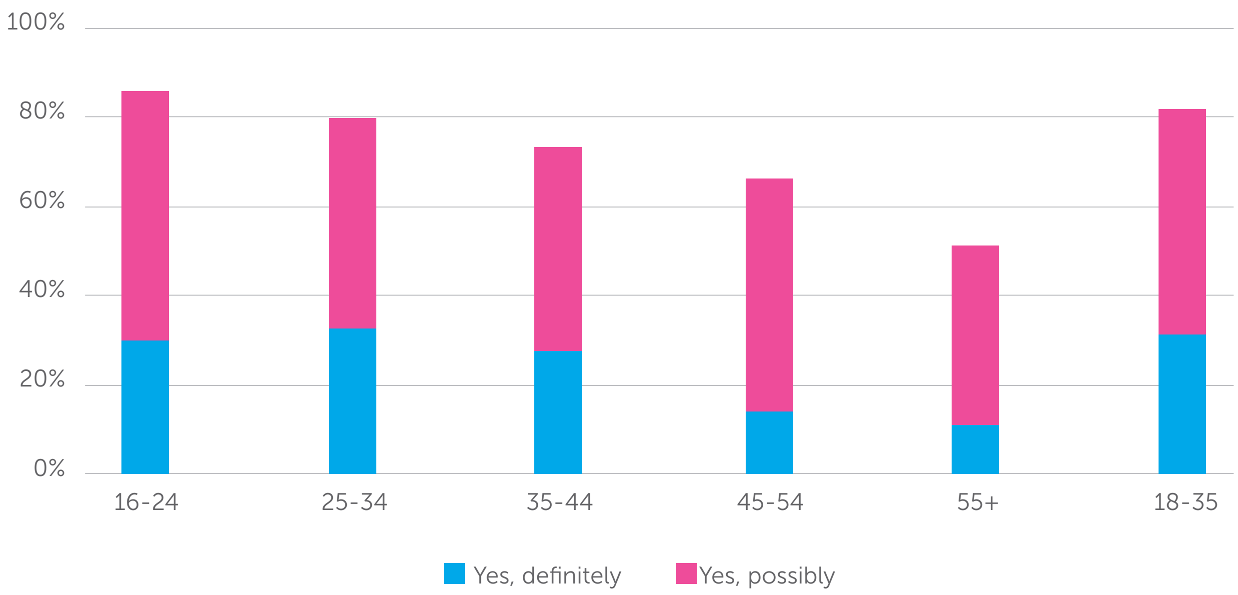
For example, a 2017 study by the Financial Advice Working Group found that "concerns about regulation and potential liability… deter many employers from offering financial support to their employees" and that employers "preferred an 'arm's-length' approach (e.g. signposting existing information that can help employees), rather than more personalised support"[4].

However, employers need not get involved in offering guidance themselves – instead, they can opt to provide employees with access to 'robo-guidance' or 'robo-investing' services. Robo-guidance platforms ask investors a number of questions about their savings goals and attitudes to risk, and then present options for their profile. Robo-investment platforms provide choice and clearly outlined options, enabling employees to make informed decisions.

Our research found that both employees and employers were interested in this kind of 'robo-guidance/investing' – more than two-thirds (71.2%) of employees would use this kind of service if their employer introduced it, and interest is even higher among millennials (80.9%). Interest from the over-55s is more muted – but this group is already well-catered for with pensions provision (see figure 3).

4. Financial well-being in the workplace: A way forward, March 2017, Financial Advice Working Group

Figure 3: If your employer introduced a 'robo-guidance' or 'robo-investing' service as part of a financial benefits offering to its employees, would you use it?



Source: Smarterly analysis

Our recommendations

To summarise, our research reveals a clear picture of a workforce with major financial concerns – and, while employers are meeting the needs of older employees by providing pensions, millennials are not getting access to the short- and medium-term savings vehicles they desire. To help turn this situation around, we recommend that employers should:

1. **Seek to bring a better demographic balance to their compensation and benefits panels – input from millennials in particular should be welcomed to help ensure that benefits strategies align with the needs of younger employees as well as older generations.**

2. **Consider the financial wellbeing of their employees from 'cradle to grave', particularly when it comes to savings – employers could offer a wider range of options, in which a pension is just one part of the overall package alongside schemes such as workplace LISAs and ISAs.**

3. **Provide third-party 'robo-guidance' or 'robo-investing' services to employees – these can help provide guidance on the most appropriate investment funds and strategies for individuals while keeping employers distanced from the process. Employers do not need to get involved in their employees' savings habits – but they should provide the tools to help them manage their finances more effectively at every stage of their career.**

About the research

This research is based on responses to an online survey conducted in March 2019. Usable responses were received from 1,248 employees and 508 employers.

Gender	
Female	601
Male	647
Age bands	
16-24	174
25-34	304
35-44	276
44-54	260
55+	234
18-35	518

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About Smarterly

Smarterly aims to turn the UK into a nation of savers and investors, by promoting the benefits of healthy savings habits via employers. Our digital platform uses artificial intelligence to make investing simple, engaging and accessible for the mass market - buying a Smarterly workplace ISA is just as easy as buying a product on Amazon.

Employers promote Smarterly as a workplace benefit, to help employees build healthy saving habits with the convenience of saving direct from pay, from as little as £10 per month, often with an employer contribution as a more accessible complement to pensions.

Employees need a more effective means of saving due to:

- Reduced pension allowances
- An increasingly millennial workforce with short to mid-term financial goals
- Low interest rates delivering poor returns
- The negative mental and physical effects of money worries

For more information visit smarterly.co.uk
or email workplace@smarterly.co.uk

The value of investments can go down as well as up which means you may get back less than you put in.