PUMP UP THE VOLUME

I'm not sure about you, but early morning breakfast reports occasionally pass over my head as I contentedly munch my cornflakes. However, last Thursday's BBC business news caught my attention.

Although nearly 3 million people have been signed up under the new auto-enrolment workplace pensions plan, and for many people the scheme means some money is being put aside for retirement for the first time, the BBC questioned if this was enough and whether contributions from employers are too small to count. They reported that the biggest pension managers have told them that only the minimum possible level was being contributed by up to 90% of employers under the scheme although these amounts will increase to a minimum 4% contribution from the employee, 3% from the employer and 1% in tax relief from October 2018. There are fears that this will still be insufficient. We at TISA agree with the BBC that 4% by 2018 will not be enough for a comfortable retirement, even with the increase proposed.

Automatic-enrolment began in October 2012 and employers are now obliged by law to pay in with the government adding a little extra through tax relief. In the early stages an employee only sees a minimum of 0.8% of earnings going to their workplace pension with tax relief adding another 0.2%. Additionally the employer is obligated to add a contribution equivalent of 1% of the worker's earnings.

Unless the government and we in the industry can encourage people to put more money into their pensions there is a risk of disappointment in the intended end result. It is great to get this initiative started but we need to get to a point where more money is going in to support these people otherwise there will be many disappointed employees when they arrive at retirement.

Interestingly, TISA's newly launched Savings and Investments Project has been looking at this alongside many other issues, to help encourage more savings for the nation. The project has already found that there is some inadequacy in expected incomes. PPI research indicates that about half of individuals saving at 8%, plus getting the single tier pension from age 22 to state pension age, will achieve their target replacement income. Whilst this figure is a baseline, achieving that target is impacted by a number of factors including maintaining the triple lock on the state pension and contributions to both state and personal pensions. The fees charged by the pension provider and the investment returns over the period, together with the annuity rate at the time of purchase, will impact on results. The PPI estimates at least 10% of earnings to be a more realistic minimum savings level, increasing where necessary to accommodate those foregoing factors.

For the low earner, a 10% savings rate between the auto-enrolment proposed bans would result in a 74% chance of achieving the replacement income target at retirement with investment in a lifestyle fund and triple lock-up rating of a single tier pension . For higher earners, this should be 12% of banded earnings. This would improve the current situation of limited savings for lower income households but still does not take into account costs of long-term care and meeting unexpected life events on the journey to retirement.

The numbers of people enrolled into a workplace pension is projected to rise to between 9-10 million by 2018 in addition to existing private scheme members, by which time 1.2 million employers of all sizes will have to automatically enroll eligible employees into a scheme. Research by Sanford Bernstein indicates these will be very small pension pots amounting to £30 billion by 2020, just 4% of DC pensions, equivalent to £300 per pension.

It is clear from this that TISA, the government and the financial services industry has a lot to do to ensure meaningful retirement incomes to the majority of the population for future generations.

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