

Workplace Pensions: Inc Impact of COVID-19 - UK - July 2020

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This report looks at the following areas:

65% of workplace pension holders are confident that they have all the information they need about their pension. This apparent confidence, though, is undermined by the fact that 44% say they do not even know how much of their salary they are contributing to it. Auto-enrolment has been a huge success in expanding membership of workplace pensions but more needs to be done now to improve engagement and understanding to maximise the benefits of this success.

In 2020, workplace pensions have been and will be hit by COVID-19 in two ways. Job losses and reduced incomes due to furloughing will put a dent in contributions, while the stock market volatility brought about by the outbreak has hurt the value of pension funds.

With auto-enrolment having reached all workplaces and no further planned increases to minimum contributions (currently 8%, including 5% from employees), future growth in workplace pensions is largely dependent on savers voluntarily increasing the amount they pay in. With consumer confidence shaken and pensions typically a low-engagement product, this is highly unlikely to happen en masse anytime soon.

There are opportunities to cut through the lack of awareness, though. Despite delays, Pension Dashboards remain a key part of the development of workplace pensions. When they are launched, hopefully in the not-too-distant future, they have the potential to significantly improve consumer engagement, helping pension savers to better understand their pensions and retirement needs.

Key issues covered in this Report

- The impact of COVID-19 on workplace pensions.
- The size of the workplace pensions market and forecast of future new business.
- Innovation and competitive strategies in the market.



“COVID-19 will negatively impact workplace pension contributions and fund values in 2020. However, as jobs return during the recovery, auto-enrolment will see lost pension savers quickly return. Beyond COVID-19, improving understanding of and engagement with workplace pensions are key challenges to ensure the best outcomes for pension savers at retirement.”

- Rich Shepherd, Associate

Director – Financial Services
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- **The penetration of workplace pensions among employees and the types of pensions held.**
- **Consumer understanding of workplace pensions.**
- **Consumer attitudes towards workplace pensions, including attitudes towards ethical investing and communications from pension providers.**

Products covered in this Report

There are various types of workplace pension, which can be broadly segmented into two main groups: occupational trust-based schemes and group contract-based pensions.

The focus of this Report is on insurance-administered workplace schemes, comprising funded occupational pensions, group personal pensions (GPPs) and group stakeholder pensions (GSPs).

Trust-based pensions

An occupational pension is a scheme organised by an employer, or on behalf of a group of employers, to provide benefits for employees on their retirement and for their dependents on their death. Legally, an occupational scheme is defined as one that has scheme trustees and is governed by trust law and, thus, may also be referred to as a trust-based scheme.

Occupational pensions come in two main forms: defined-benefit (DB) or salary-related (eg final salary, career average salary) and defined-contribution (DC) or money-purchase schemes.

A master trust is a multi-employer trust-based scheme that differs only from a normal trust-based DC scheme in that it is open to the employees of many employers, the staff of which are all treated equally and follow the same rules.

Contract-based pensions

A group personal pension is a collection of personal pensions, arranged by an employer for its employees. GPPs are run by pension providers (usually an insurance company) and managed on a group basis. They may have lower charges than individual personal pensions, because the provider may offer the employer a discount for the volume of policies.

Group stakeholder pensions, also known as employer-sponsored stakeholder pensions, are similar to GPPs in that they are group schemes with the same rules for eligibility, transfers, benefits, contributions and taxation. However, GSPs must meet a set of conditions, laid down by the government, relating to charging structure, penalties and minimum contributions.

All contract-based pensions are DC arrangements.

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COVID-19: market context

This update on the impact that COVID-19 is having on UK consumers was prepared on 31 July 2020.

The first COVID-19 cases were confirmed in the UK at the end of January, with a small number of cases in February. The government focused on the 'contain' stage of its strategy, with the country continuing to operate much as normal. As the case level rose, the government ordered the closure of non-essential stores on 20 March.

A wider lockdown requiring people to stay at home except for essential shopping, exercise and work 'if absolutely necessary' followed on 23 March. Initially, a three-week timeframe was put on the measures, which was extended in mid-April for another three weeks.

On 10 May 2020, the Prime Minister announced revised guidance, recommending that people who could not work from home should return to the workplace, and giving people more scope to spend time out of the home. Further relaxations to lockdown rules were announced in the week of 23 May, including gradual reopening of non-essential retailers, and increased opportunities for social interaction across households. Hospitality businesses and other public places began to reopen from 4 July.

The government has announced a series of measures to kick-start the economy, including a targeted VAT reduction, a temporary increase to the stamp-duty threshold to incentivise house purchases and a discount scheme for pubs and restaurants.

At the end of July, though, concerns over a second wave of infections had led to a re-imposition of quarantine regulations of travellers arriving from Spain, and a pause on further relaxations of social distancing measures.

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