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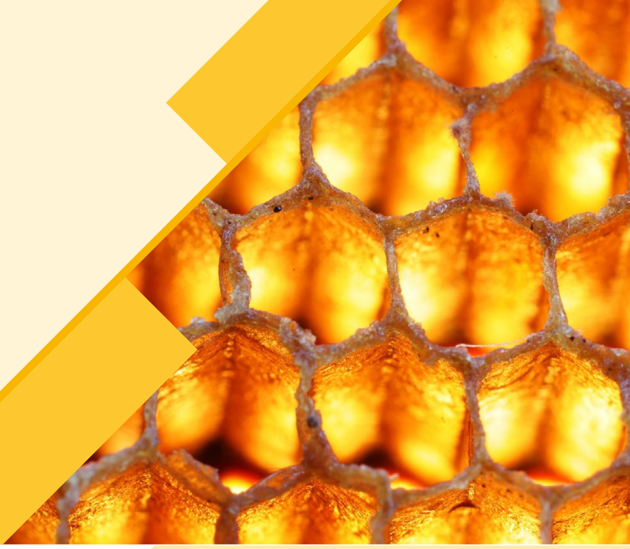

Retirement adequacy: identifying future risks in your workforce

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The retirement adequacy crisis is quickly becoming an issue that employers can't ignore. Over the last year we've been exploring retirement adequacy, not just because it's a key government focus affecting the industry, but because we recognise that the commercial impact for employers is becoming too large to simply be a bystander and wait to see how policy will affect change.

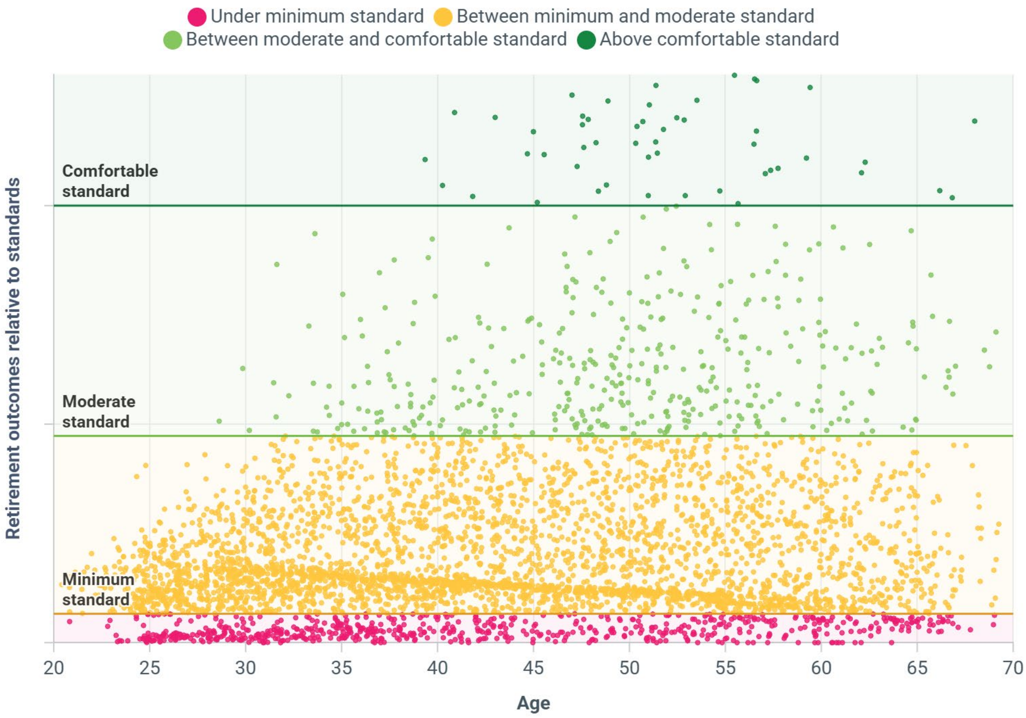
As part of our Future of UK Retirement project, our webinar on the commercial impact for employers highlighted that:

- Financial stress, including from retirement inadequacy, affects employee productivity and absenteeism, costing UK employers several billions of pounds each year.
- Changing retirement behaviours are causing workforce planning challenges.
- Trends of later retirement and a reduced healthy life expectancy have negative consequences for employers, both now and going forward.

Every employer is different and understanding how these challenges impact your business will be crucial, but also individual.

To support employers with this challenge, we've used our Guided Outcomes modelling to review expected retirement outcomes across workforces. This helps employers understand how big a commercial problem they may face.

The heatmap below illustrates the expected retirement outcomes for employees of a large employer in the health sector. It shows how the pension savings built up with their employer compare against the income needed in retirement, measured against the Pension and Lifetime Savings Association's minimum, moderate and comfortable living standards.



For this employer:

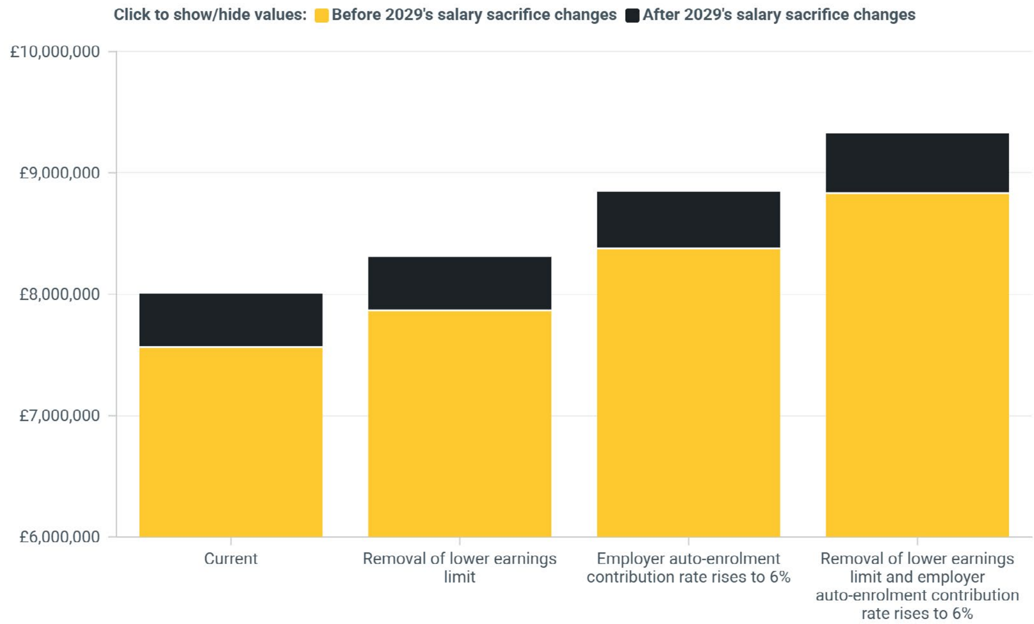
- 15% of employees are at very high risk of retirement inadequacy and don't even meet an expected minimum income in retirement.
- Three quarters of employees sit within the minimum and moderate retirement living standards, which may put these members at risk of retirement inadequacy.

With such large numbers of the workforce affected, this employer faces significant challenges in their business.

Tackling the inadequacy challenge will come with its own commercial implications too.

The government is already looking at what may be required at a policy level to improve standards of retirement in the UK. This includes an extension in auto enrolment eligibility criteria (already passed in the Pensions Act 2023, but not yet implemented) and a rise in employer minimum contribution rates to 6% minimum (often discussed as part of what the Pensions Commission may recommend). At the same time employers should be planning for an introduction of a cap on salary sacrifice savings of £2,000 from April 2029.

The changes will have significant cost implications - in the example above, costs could increase by 25%.



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While the changes may help improve the expected outcomes for some staff, they may not be the golden ticket for all. Imposed solutions may not result in the best spread of corporate spend across entire workforces vs impact on desired outcomes.

In a world where most employers are already facing wider economic pressures, not being on top of these possible changes and influencing your own pensions strategy comes with significant risks to your business.

> Get in touch to see how your organisation compares on retirement adequacy. Using our modelling tools, we can help you understand the challenges facing your workforce and explore options to strengthen your long-term strategy.

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