

The PENSIONS Advisory Service

People first, pensions second.



Midlife Review Pilot Report

Foreword

“Retirement used to be simple. You finished your last day with your long term employer, you were presented with a gold clock and your pension started being paid. The retirement world has dramatically changed.”

Michelle Cracknell, Chief Executive



Most people will have multiple jobs in their lives and an increasing number of people will not be “employed” in the traditional sense of the word. We are living longer and family structures are being affected with issues such as long term care and getting on the housing ladder.

The Pensions Advisory Service is about helping people to get the best possible pension they can in retirement. With this in mind, we set about designing a midlife review that would help people better understand the options they have for saving for their pension. We believe that a Midlife Review is a necessary intervention to deal with the new challenges that people face in planning for their retirement. We also challenged ourselves to design the review for self-employed people who do not have the support that some employees receive.

This report covers what we learned during our pilot. We remain firmly of the belief that a Midlife Review to look at the financial aspect of retirement needs to become the social norm for everyone.

People first, pension second!


Michelle Cracknell
Chief Executive

The midlife cohort and saving for retirement

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A search for the definition of midlife produces a variety of age ranges – starting at 40, 45 or 50 and finishing at 60, 64 or 65. The difficulty in pinning down a standard definition is compounded by many people within these age ranges not identifying themselves as being in midlife. Given the common negative associations with midlife as a marker of the onset of physical decline, and even the contemplation of the end of life, it is perhaps not surprising. Equally, those who try to deny the realities of ageing by clinging to youth are often portrayed as stereotypical figures of fun. As people who are at best tragically overcompensating for a new-found insecurity; or at worst actually suffering from a full-blown psychological crisis.

The term “midlife crisis” was coined in 1965 by Elliott Jacques, but most academic research has debunked the myth that this is an inevitable part of ageing. Researchers have found that midlife is often a time for reflection and reassessment, but this is not always accompanied by the psychological upheaval popularly associated with a “midlife crisis”. There has been wider consensus, however, in respect of the fact that people are often ill-prepared for the transitions that typically occur from their mid-40s.

Midlife can be a period of increased anxiety and emotional stress. It can include some significant transitions affecting work, family, mental and physical health¹. The “Sandwich Generation” is a term coined for middle-aged couples with responsibility for caring for older relatives, whilst also accommodating grown-up children unable to afford their own home

Unfortunately this kind of attention on midlife problems has inevitably played a part in obscuring the potential for regeneration and renewed motivation midlife could otherwise

1 Ageing Better, 2017, Health warning for employers: Supporting older workers with health conditions

bring, with suicide rates for men and women peaking at around age 50.²

Against this backdrop a consensus has emerged around the principle that building financial resilience is fundamental to an individual's ability to weather such storms³. But unfortunately, many people are not saving enough, with an estimated 12 million people⁴ heading towards an insufficient retirement income. This sad fact may not be surprising when we consider that a reported "22 million working-age people say they don't know enough to plan for their retirement".⁵

Here in the UK there have been major initiatives in public health and career planning support to help with midlife reviews. Pilot schemes addressing Midlife Career Reviews ran between 2013 and 2015, led by the National Institute of Adult Continuing Education (NIACE). NIACE's concluding report highlighted how reviews had "helped people take stock of where they were and who they are, and what they wanted to achieve for the rest of their lives". It also identified the importance of helping people "to make good decisions about the new flexibilities in pensions and save more where appropriate".

Workplace wellbeing programmes have increasingly taken a comprehensive approach: combining career and training advice with physical and mental health programmes and financial guidance. These initiatives are most commonly supported by large public and private sector employers, and are seen to have a positive impact on employee satisfaction and retention levels. It must be remembered that the growing numbers of self-employed workers will have far fewer opportunities to participate in such programmes yet have the same need for such support.

2 ONS, 2017, Suicides in the UK

3 Demos, 2016, Next steps for financial resilience

4 DWP, 2014, Fuller Working Lives: a framework for action

5 Financial Capability, 2018, Calls to Action: setting a new vision for financial capability

In his independent review of the State Pension, John Cridland highlighted that a midlife MOT could be a useful trigger to encourage people to take stock and make realistic choices about work, health and retirement.¹ The review recommended that: “people should be able to access a midlife MOT and that this should be facilitated by employers and by the Government”.

The Self-Employed and Saving for Retirement

Over the last 20 years there have been some significant shifts in the labour market and none more so than the growth in self-employment. Rising by 50% since 2000, the total number of self-employed people in the UK now stands at 4.8 million, which is 15% of the labour force - almost as much as the entire public sector. Self-employment is most prevalent in the 45 to 54 age group, representing just over 4% of total employment in 2016. Indeed, the average self-employed person is age 47, and, on current trends, that figure is set to increase to over age 50 within the next 6 years.²

For some, self-employment is a solution to the desire for more flexibility and a better work/life balance, particularly among women, the young and those approaching retirement. For others, self-employment is not a choice and some have to combine self-employment and paid employment simply to make ends meet. Types of self-employment range from part-time gig economy jobs, to highly paid professional service roles, which highlights the diversity of the self-employed sector. So, while the typical image of the self-employed is of a sole-trader, it can also include partners and those with their own limited companies.

1 DWP, 2017, State Pension age independent review: final report

2 Hitachi Capital, 2017, The Economic Impact of the Silver Pound

What does set the self-employed apart from employees is the fact that they have to find their own work, and, possibly as a consequence of this fact, are not saving enough for later life. New research from IPSE, conducted by ComRes³, shows what can only be described as a looming crisis for the self-employed. While automatic enrolment has pushed the number of employees paying into a pension up to 78 per cent, that figure has fallen in the burgeoning self-employed sector. Just 31 per cent of self-employed people are currently paying into a pension.⁴

This is especially concerning because of the number of people approaching retirement age in the self-employed sector with 44% of all self-employed people in the UK right now are aged between 50 and 65. Research shows that the self-employed have less trust in pensions, more faith in property, and higher expectations of State benefit provision than their employed peer group. However, it is not only attitude shaping behaviour, as one in five solo self-employed people are 'insecure' and cannot afford to set aside money without being able to draw on it.⁵

A quarter of self-employed in the 35 to 54 age group do not have any net property wealth. However, while these shares are similar across employees and self-employed, the self-employed do tend to have a higher share of individuals within the upper net property wealth brackets. Among the same age group, 27% of the self-employed have more than £250,000 in net property wealth compared with only 17.6% of employees.⁶

There is also a clear divide between employees and the self-employed when it comes to private pension wealth. Among the 35 to 54 age group, a large share of the self-employed do not have any private pension wealth (45.1%) compared with employees

3 ComRes, 2017, Survey of the self-employed conducted on behalf of IPSE

4 IPSE, 2018, How to solve the self-employed pensions crisis

5 Demos, 2018, Free Radicals

6 ONS, 2018, Trends in Self Employment

(16.4%).⁷ This highlights the very different mix of wealth holdings between the midlife employed and self-employed, with the latter's greater reliance on property although this data also ignores the value potential that some of the self-employed have stored within their business.

But IPSE research shows that across a range of educational backgrounds, income, working patterns and property wealth, two-thirds of the self-employed are concerned about being financially prepared for later life. When asked what would encourage or help them to save for later life, 26% opted for clearer advice on pensions. This is a very telling story that the self-employed are not adverse to saving into a pension, as is often assumed, they just find it difficult to set one up.

The Government has recognised the gap in provision for the self-employed and the financial burden on the State that this could entail in future years. Following the 2018 Autumn Budget⁸, The Department for Work and Pensions (DWP) is to launch a paper setting out the Government's approach to increasing pension participation among the self-employed. As previous studies by Citizens Advice⁹, Resolution Foundation¹⁰ and the Centre for Ageing Better¹¹ have shown, a concerted effort is needed to increase trust and understanding of pensions among self-employed people in order that they can see the benefits of this type of saving.

With this background and knowing that the self-employed have limited access to support, TPAS formulated a Midlife Review that was specifically tailored to the diverse self-employed audience with a focus on encouraging pension saving.

7 *ibid*

8 HM Treasury, 2018, Budget

9 Citizens Advice, 2016, *Shy of retiring - addressing under-saving among self-employed people*

10 Resolution Foundation, 2015, *The self-employed and pensions*

11 Centre for Ageing Better/ Resolution Foundation, 2017, *A Mid-life Less Ordinary*

The Pilot

What we did

We piloted the concept of a Midlife Review based on the MOT proposal mentioned in the Cridland review.

21 members of the public each received a 45 minute one-to-one telephone call with a pensions specialist. This gave the participants the opportunity to review where they were in their by focusing on four essential pillars: work; family; health; and money. The discussions aimed to bring these topics together by looking at how they interact, and how saving into a pension could in turn be beneficial to each.

The participants were all between the ages of 35 to 55 and were all self-employed. The pension specialists delivering the appointments had good knowledge and expertise in the areas under discussion and received further training on appointment content.

The sessions' key objectives were to help customers better understand their existing policies, and to highlight the place pensions might have in their saving for retirement. We also wanted to encourage participants to think comprehensively about their overall position and the place that work and savings have in it.

We posed questions in order to get customers thinking more about their planning, such as “what do you have in place to fund your retirement?”, “how fundamental is the business to your family’s finances?” and: “what would happen to your business and family if you were to fall ill and no longer be able to work?”

“My calls often featured a strong focus on work and retirement areas. Some of the questions worked well such as ‘what will happen to your business at retirement?’ Because it made them focus on that subject, which some of them didn’t seem to have done before.” – Warren (guider)

Central to the success of the pilot was ensuring that participants were appropriately signposted in order that they could continue the conversation after the appointment; be that by obtaining a State Pension Statement from the Future Pension Centre; help with debt from regulated debt advisers; or indeed a more in-depth discussion on discreet pensions matters via our helpline.

“I got everything I needed, I had a list of questions that I needed help with and she (the adviser) pointed me to all the various organisations and websites. She also provided me with her direct number so I can call her back for another chat if I need to. I felt it was a really good personal service.” – Philip (participant)

“Signposts to calculators and other tools were well received, as they allow customers an opportunity to pro-actively engage with the material.” – Kaya (guider)

To gain an understanding of the participants’ needs, we used a pre-appointment survey to gather information about the nature of their work, their retirement plans, as well as their confidence and knowledge around retirement planning.

A post-appointment survey attained their satisfaction levels with the appointment and to measure whether confidence and knowledge around retirement issues had improved, and in particular whether or not the experience was likely to actually cause them to do anything differently.

A qualitative analysis was also performed on a small sample (8) of the participants to enable us to gauge what had worked well, and what needed to be improved, before rolling out the project as a part of our core service.

What we found

Bearing in mind that the participants in our pilot came from a variety of backgrounds and fields, there was a common desire to better understand both what they have already and what more they could be doing to improve their provision in retirement. A sentiment that came through particularly strongly was the feeling - prior to the appointment - that, though they realised they should be saving more for retirement, they didn't know where to turn for guidance on how to do so. This was true even among people who were confident at managing their day-to-day finances. We believe this highlights the broader need for guidance to become a social norm.

“Although I do understand finances and have done quite a bit of reading around, it’s difficult to know how to progress and what my best options are.” – Michelle (participant)

Unsurprisingly, highlighting the way tax relief works on pensions in order to simultaneously reduce their tax burden and boost their savings, proved an effective hook to start the conversation about how they might save more for retirement.

“Tax was a particularly popular subject on the calls. Both gaining tax relief on contributions and the limits around that, as well as how they might withdraw benefits tax efficiently. But all the customers seemed to appreciate the broad nature of the content.” – Tony (guider)

Financial advice plays a crucial role in getting people to save especially in the retirement landscape, and we signpost directories for people to find advisers where we feel it can help. Examples would include if a customer wants someone to provide a specific recommendation for them; to calculate precisely the level of tax relief to which they might be entitled; or simply to provide the administrative support to set up the pension.

Some of the participants were concerned that their overall level of wealth would put

them below most financial advisers' 'minimum pot value' criteria. Others were cautious of engaging financial advisers before attaining a level of understanding themselves due to concerns over their partiality. A free and impartial one-on-one guidance session with a pension specialist to get a customer started seemed to fit the bill here.

"I can trust them. As an organisation there is nothing in it for them, they are just there for me." – Pavinda (participant)

The timing of the service seems to appeal to people in their 40s. Particularly those who are starting to believe that their work-life might have as many years behind it as it does ahead. Many stated they were thinking about their pensions and reviewing their plans, so this had come at a good time.

"We started talking about the State Pension and my National Insurance contributions and then reviewed the benefits of a self-employed pension. I'm much more aware of how my deferred DB pension, alongside my active DC scheme plus the State Pension will all contribute to my retirement." – Mark (participant)

From the qualitative analysis most people stated they are going to do something as a result of their consultation, such as save into a pension following the appointment, or check the level of their state pension entitlement.

"I feel much better informed now, and I am clear about what I need to do next." – Michelle (participant)

What next

“This service should be rolled out to all self-employed people, it’s a fantastic opportunity to review your retirement plans by people who are very knowledgeable and genuinely interesting in helping you.” – Mark (participant)

We are very positive about the results from the pilot and will continue to provide this service, with the launch date set for 10th December alongside a digital offering.

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