Nottingham University Business School

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Willis Towers Watson

The savings psyche of the UK

A new approach to pensions and savings for 21st-century Britain

2016/2017

About the study

The Savings Choice agenda survey of 1,949 UK workers, was carried out by London-based research agency Loudhouse in June 2016. The research report, published by Willis Towers Watson and Nottingham University Business School, is a comprehensive UK wide study of the approach and behaviour to retirement saving. It reveals the complex motivations and drivers behind each of the key 'personas' that make up the UK's savings psyche.

Willis Towers Watson's retirement business worked in collaboration with James Devlin, Professor of Financial Decision Making at Nottingham University Business School on the study.

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Foreword

Even in relatively benign economic conditions, those in employment often struggle to make appropriate choices when it comes to long-term savings. However, continuing long-term fundamental challenges which employers and the industry have failed to address in a coherent and successful manner have offered a profound new set of challenges for savers, from fluctuating economic conditions and stock markets to low interest rates and, most recently, increased uncertainty due to the Brexit vote.

Those making savings decisions for the long term would be forgiven for falling prey to complete stasis given such circumstances. The findings of the report, *The savings psyche of the UK*, offer some reassurance that this is not entirely the case. Savers continue to face significant challenges due to a combination of inherent consumer traits and the generally complex nature of the marketplace for savings products.

At the heart of the findings is something of a paradox. Respondents seem confident, perhaps overly so, of their ability to find and process information, to stand up for themselves, and to see through spin and gimmicks. However, despite such confidence, even self-reported levels of long-term savings provision are some way below the ideal level. Notwithstanding the overall levels of confidence observed, there appears to be a significant 'confidence pinch point', occurring when savers are faced with the decision-making moment of truth. Here, pensions paralysis appears to set in. Too much choice and complexity, significant worries about risk, a general lack of trust, and a tendency to doubt and agonise over decisions combine to inhibit decision-making significantly. In some consumer segments, as many as 90% of people doubt and agonise over their decisions.

Behavioural economists have long known that individuals will look for any excuse to put off making decisions, especially when there is no apparent urgency or trigger point. Likewise, individuals are also likely to stick with the status quo, even if, in this sample, it means continuing with inadequate levels of savings. The solution in these instances is to *nudge* people to engage in more suitable behaviour, using approaches that make the choice process user-friendly and likely to encourage behaviours that are largely considered desirable.

In theory, the proposal to introduce a 'Pensions Dashboard' prototype by 2017 offers an ideal opportunity. With the Dashboard designed to showcase the value of different pension pots in one place, employers can create an information and choice architecture that encourages savers to take decisions that are beneficial to their long-term interests. From there, they can work with the pensions industry to raise engagement levels around pensions and promote positive savings behaviours, with the ultimate aim of improving the financial well-being of the workforce.

Of course, there will still be many challenges, not least how to get people to engage with the Dashboard in the first place and how to ensure that dashboards move beyond the 'one size fits all' mindset that is clearly inappropriate for a UK workforce with disparate needs, values and aspirations. However, after reading *The savings psyche of the UK*, most would probably agree that it is worth a try.

James Devlin
Professor of Financial Decision Making
Centre for Risk, Banking and Financial Services
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How the people of Britain save money

A new investigation into pensions, ISAs and workplace savings schemes

The savings psyche of the UK is a new report, commissioned to investigate how those in employment in the UK think about savings, the decisions that they make (or, in many cases, do not make), the challenges associated with employee pension contribution schemes and what might be done to solve them. It reveals that the amount of choice around savings initiatives has led to millions becoming overwhelmed and therefore making no decisions whatsoever, giving rise to a 'decision-making paralysis'. This, in turn, has caused a serious savings shortfall, based on a disparity between the amount people should be saving and the amount they are saving.

This report describes how saving affects different social groups in vastly different ways, introducing a set of personas that will enable the conversation about savings to take a more focused, consumer-centric tone. Moreover, it reveals that a new way of thinking about workplace saving is required in order to end the decision-making paralysis, address the shortfall and ensure that employers are able to take a responsible and active role in the financial well-being of their workforce.

The savings psyche of the UK is based on in-depth new research on a cross-section of the UK workforce. However, unlike previous reports into savings and pensions, it takes the investigation further through detailed analysis, undertaken by the University of Nottingham, which incorporates insights offered by behavioural economics and other theoretical perspectives on consumer behaviour and decision-making. By doing so, *The savings psyche of the UK* is able to delve further into issues affecting savings, closely examining why a choice paradox is causing a decision-making paralysis, how loss aversion is negatively affecting savings choices and how employers can leverage their employees' trust to engender a step change in savings mentality.

Key findings
Understanding the savings psyche of the UK

Pensions paradox

A comfortable majority of respondents to *The savings psyche of the UK,* namely 67%, state that they trust their own judgement on financial decisions, and 63% think they know the right questions to ask. Given such confidence, it is paradoxical that general levels of saving for retirement remain stubbornly low, with many making inappropriate choices or no choices at all. Overconfidence is a commonly observed trait in behavioural economics and may help explain the divergence between respondents' evaluations of their abilities and the choices that they actually make. The data contained in the report also shows that confidence evaporates to a considerable extent at the point of decision-making, suggesting that a *confidence pinch point* is at play.

Knowledge gaps

Despite many respondents claiming to be confident, very few have high knowledge levels. More than a third of all respondents claim to have little or no knowledge and understanding of savings, or a level that has significant room for improvement (35%).

Choice and shopping around

On average, most people plan to look at three financial products for short-term savings and four for long-term savings, before making a decision. Given previous research highlighting the lack of 'shopping around' in financial services, such figures represent a healthy level of aspiration. However, the desire to shop around should not be confused with a preference for a vast amount of choice. Too much choice and complexity tend to lead to decision-making paralysis, with more than a third (35%) of respondents of the opinion that there is too much choice when it comes to retirement savings and cash ISAs.

The available choice being too complex and confusing is also one of the most frequently cited barriers to making financial decisions. Given the tendency of people to procrastinate and to take the path of least resistance, doing nothing in the face of an intimidating number of options is easily understood. Simplified and guided choice, what behavioural economists would call an effective 'choice architecture' clearly has an important role to play in countering decision-making paralysis.

The power in our hands

Almost two-thirds (65%) of respondents to *The savings psyche of the UK* stated that they want a level of flexibility in their pension options. In general, younger people see greater benefits in having the flexibility to use pension contributions for matters other than purely funding retirement. Conversely, almost 25% prefer no flexibility, clearly attaching value to a more prescriptive approach. Seeing this in context with the quoted statistics around choice and education, a path begins to emerge, with a clear win available for companies that are able to provide the information people crave, the options they want and the guidance that leads them to the right decision.

Blazing the trail

The research shows that 74% of employees think that the Lifetime ISA (LISA) holds either an equivalent level of appeal to the traditional pension or a higher level. However, only 37% are totally sure how they work. Given the positive sentiment from those who are up to speed with the LISA, smart employers can offer it to their staff as a more flexible contribution-based savings choice that addresses more needs than a pension does (and there will almost certainly be reputational advantages to being the first to offer it).

Risk aversion

Respondents to the survey are extremely risk-averse, perhaps even more so than would be predicted by insights from behavioural economics. Most (60%) agree with the statement that 'a safe and secure, risk-free environment is important to me, even if it means a lower return', compared to only 8% who disagree. This represents a huge preference for risk-free savings.

The pinch point

Where saving is stalling, and the decision-making paralysis

Making a decision requires time, motivation, information, understanding and confidence. Unfortunately, in the sphere of workplace saving, not many, if any, consumer segments have a sufficient supply of these attributes. This is leading to failures in decision-making and many workers either saving far too little, according to their means, or nothing at all.

Analysis indicates that just over a quarter (27%) of those surveyed are particularly apathetic and are unlikely to have the motivation to make a choice, leading to a decision-making paralysis in workplace saving.

The following sections explore in detail what drives decision-making paralysis, and how to overcome it.

What's on offer?

The savings psyche of the UK shows that people save through one of five methods (beyond a traditional pension scheme to which 83% belong). Broadly speaking, the financial products or services people use to save directly correspond with their reasons for saving in the first place.

As *Figure 1* and *Figure 2* show, people are primarily using savings accounts (for holidays and short-term emergencies) and cash ISAs (for large-scale purchases), with riskier investments (for stocks, shares and buy-to-let properties) some way behind.

Figure 1. **Most popular ways to save money**

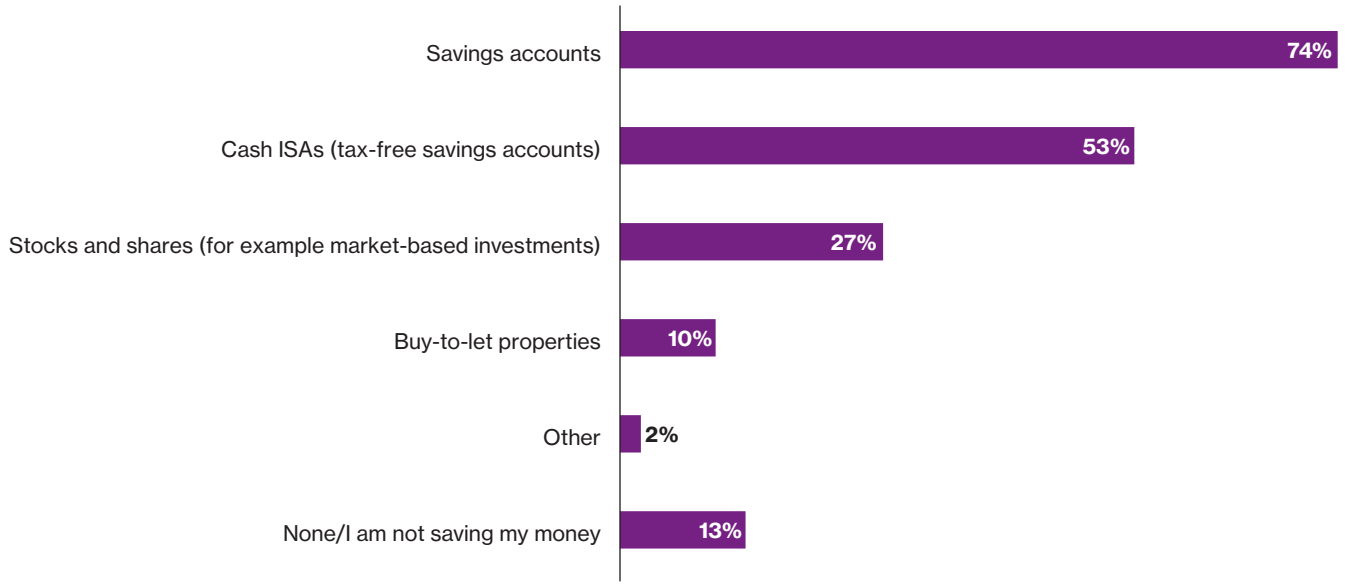
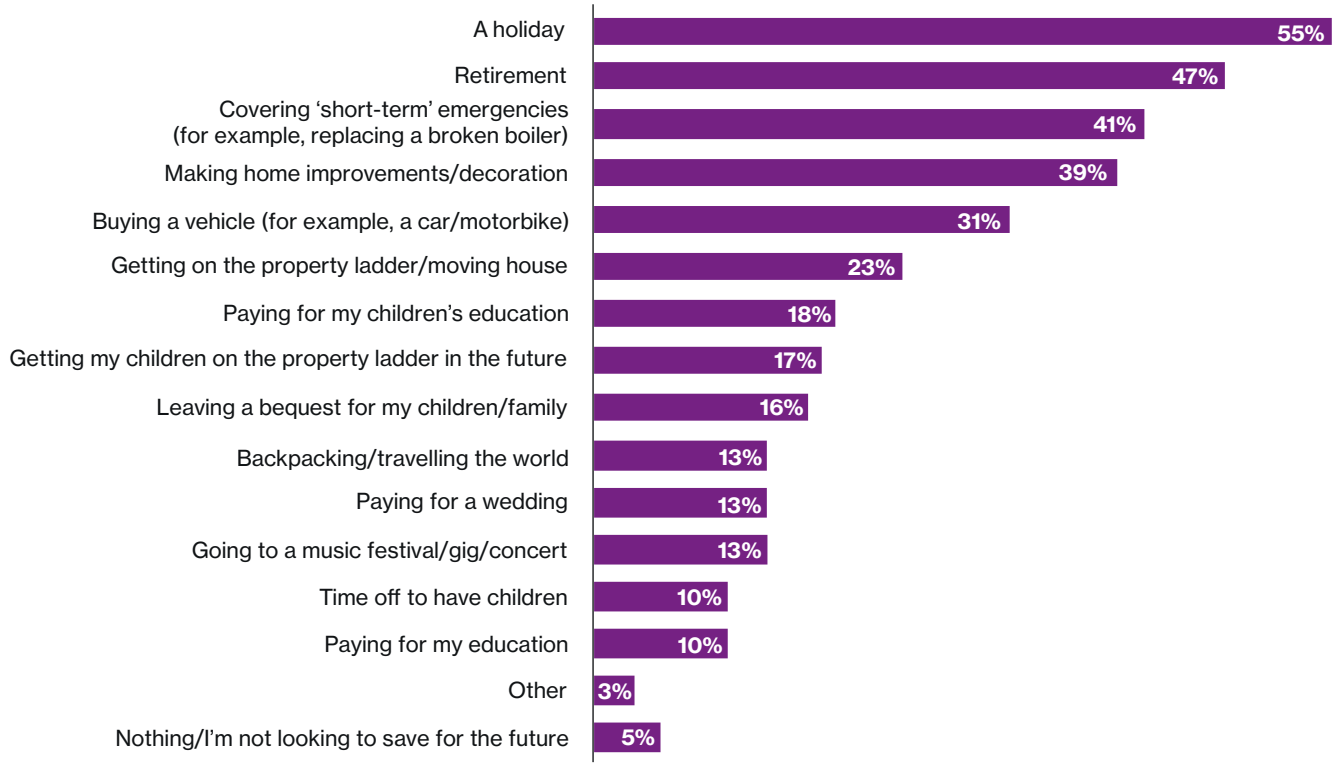


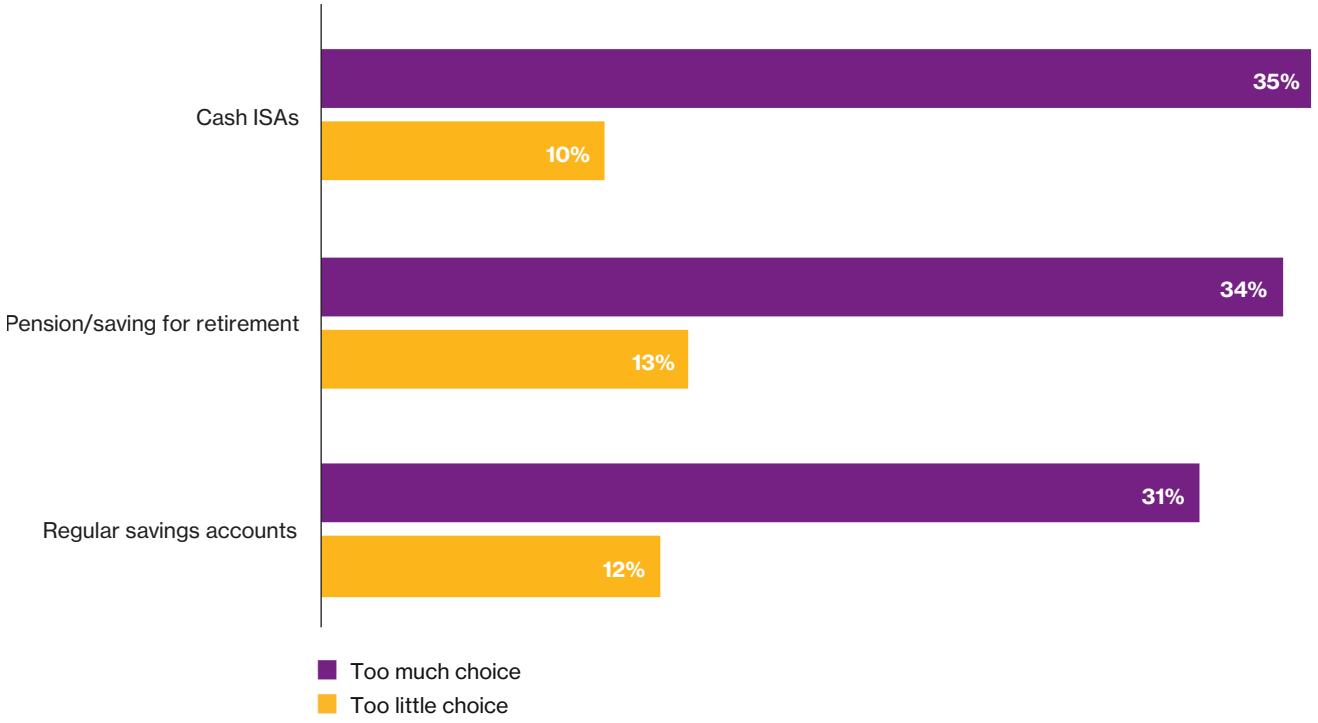
Figure 2. **Biggest motivations for saving money**



With savings methods tallying with savings purpose, on the face of it things look good. And from a behavioural economics perspective, it is no surprise to see holidays as the most popular savings purpose, and longer-term savings priorities further down the list. Firstly, people are most prepared to forego current expenditure when they can see an obvious reward for doing so in the short term. Lower levels of motivation to save tend to arise when the payoff is less certain and a long time into the future, primarily due to a phenomenon known as 'hyperbolic discounting', which leads people to undervalue rewards that occur in the long term.

Given such a preference for instant gratification, some encouragement can be taken from the fact that 47% of respondents gave retirement as a motivation for saving. However, problems arise when people are required to make a product decision when taking out an ISA, pension or savings account to fit that purpose. As *Figure 3* illustrates, around a third of people think that there is too much choice on offer, and it is limiting their ability to make a decision.

Figure 3. **Choice overload**



When too much choice is available, a potential solution is to provide information and, where possible, augment it with authoritative, detailed and personally relevant advice. The key to this is recognising that every employee is different, and structuring communications accordingly.

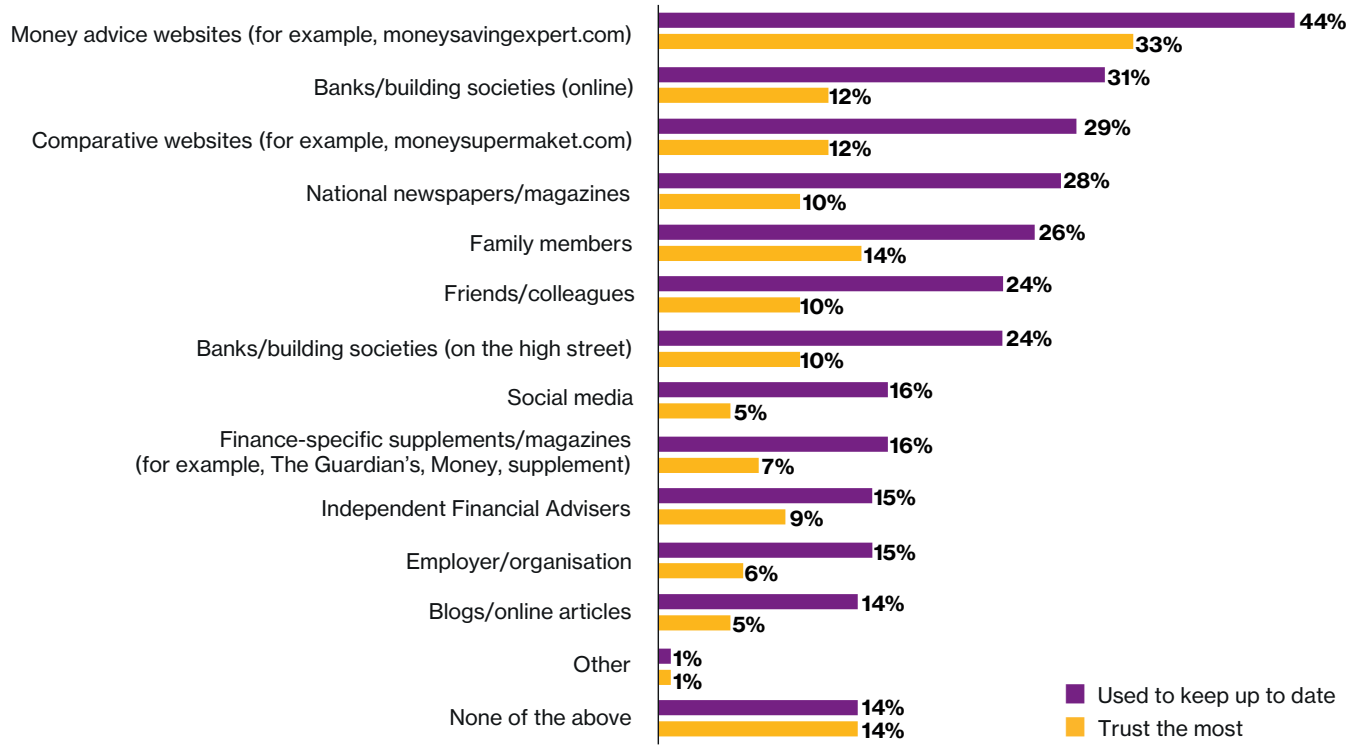
However, such an approach is expensive and dependent on savers trusting the source of advice, engaging with the information and having the confidence to make a decision. As such, the information/advice approach will not work in a significant number of cases.

For quite some time, the now disbanded Financial Services Authority tried to improve levels of engagement and usage by mandating greater provision of information and by working on levels of consumer education and capability, but that approach met with limited success. When the government resorted to the 'nudge' of enrolling individuals into a pension scheme by default, they gained far more traction. Well-crafted approaches rooted in behavioural economics often trump more traditional information- and knowledge-based approaches.

Knowledge and information

As detailed earlier in the report, there are significant savings knowledge gaps at play. Although it may be seen as a positive that 44% use money advice websites to keep up to date *(Figure 4)*, not one financial information source can boast decent trust levels *(Figure 5)*.

Figure 4. **Sources used to keep up to date with financial information**



The problems caused by a lack of information join the burden of choice overload as a contributor to the decision-making paralysis that is having a severely detrimental effect on how people save money *(Figure 5)*.

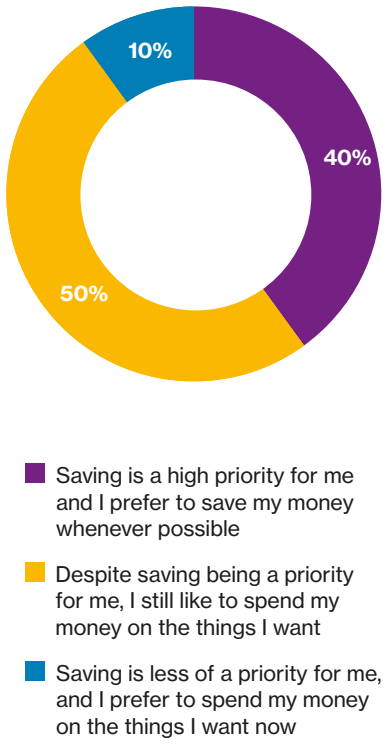
Figure 5. **Barriers against making choices around financial decisions**

Decision-making paralysis

One of the most startling statistics revealed by *The savings psyche of the UK* is that almost half of all respondents (47%) say that they frequently agonise when making financial decisions. This is in spite of relatively high levels of confidence about their instincts for offers (64%) and evaluating opportunities (67%). It is a pinch point in the process from initial research to eventual product use. But, more importantly, it is where we find the decision-making paralysis.

Instead of making a difficult, time-consuming and potentially confusing decision, people are making no decision whatsoever. They are pushing the savings choice they need to make further and further back. As a consequence, 52% are concerned about saving for the long term and 40% expect the long term will look after itself. Also, as *Figure 6* shows, most people (60%) readily admit that saving is often a secondary financial concern.

Figure 6. **Approach to saving money**



Removing the road blocks

Unfortunately for those with an interest in workplace saving initiatives, decision-making paralysis is not easily overcome, not least because it is reinforced by behavioural economic traits, such as the tendency to stick with the status quo or procrastinate. Indeed, auto-enrolment currently has relatively low opt-out rates because it sidesteps these traits.

The challenge, therefore, becomes finding ways to enable decision-making and mollify the fears and concerns that are driving the paralysis simultaneously.

One of the first things to consider should be whether choice has a positive or negative influence on decision-making. It is generally true that people want choice, and so many areas of modern consumer culture seek to provide it. However, while it is good to have a choice of restaurants, food brands and household appliances, there is a strong argument that choice is not always a good thing for saving or financial decisions.

Choice tends to add to confusion and procrastination. So, although delaying a relatively low-stakes decision around what new car to buy can have consequences, they are nothing compared to the impact decision-making paralysis can have on a future financial position.

People may say they *want* choice, but what they really *need* is direction, or, as behavioural economists would put it, they would benefit from being nudged in the right direction by having the choice presented to them in a certain way.

My money, my future

Alongside the abundance of choice, fear of loss is another key factor behind the decision-making paralysis affecting savers and would-be savers. The research reveals that 60% of people consider a risk-free savings environment to be more important than financial return, and 56% would not consider investing in anything that seems risky.

Considering recent media narratives about Brexit-related financial uncertainty, and a fluctuating (yet often still prohibitively expensive) housing market, the sentiment around risk makes sense. And because risk aversion will more than likely increase in the coming years rather than fall, employers should be aware that fewer workers will be inclined to sign up for pension programmes that they do not fully understand and which do not bear fruit for decades, while workers not yet on the housing ladder may well prioritise saving for a deposit externally.

The loss aversion, so well known to behavioural economists, acts as a significant impediment in the pensions and long-term savings arena.

Trust implications

Employers seeking to get more of their staff into workplace saving programmes are able to make a difference.

Trust has been shown to be an important decision heuristic in behavioural research. People often forego more detailed evaluations and make a decision based primarily on whom they trust. When trust is absent, decision-making may well not happen, especially if there is a confidence pinch point to overcome.

Those seeking evidence for this need look no further than the research. A lack of trust is the second biggest driver of delayed decision-making, and although most people trust their employer to a reasonable extent, only 6% chose their employer as the most trusted source of financial information.

Employers have a significant opportunity to play a positive role in workplace saving take-up and contributions, but the task would be easier if they were more trusted by employees to give good information and guidance. By providing more personalised, detailed and timely advice and information about pensions and savings options, they can overcome this barrier, eventually getting their workforce to make better choices and save the correct amount in the correct way.

Falling short

The financial impact of regional, age and lifestyle variances

Routes to a better way of saving are emerging through *The savings psyche of the UK* research. However, the reality today is that issues around trust, risk, financial priorities and decision-making paralysis are causing a sizeable gap between the amount that people should be saving and the amount they are saving.

This is highly significant for employers. The government's basic State Pension is simply not enough for most to live on, and there is a very real risk of the incentive to retire disappearing for many, leading to a contingent of the workforce hanging on purely for financial reasons.

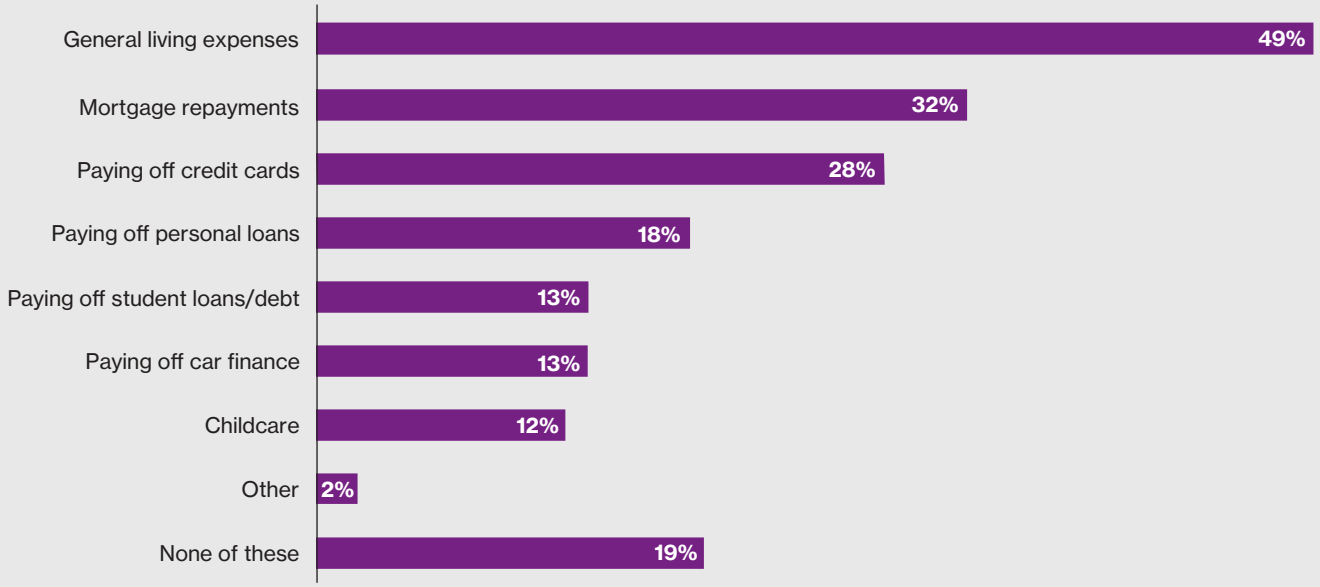
As may be expected, the picture is not uniform across the country. House prices and levels of income have led to varying levels of savings shortfalls across age groups, regions and personality types.

Mind the gap

Aside from pensions, people are saving on average 3% less per year than they think they should (6% versus an ideal of 9%). These are relatively low percentage figures, but in cash terms they become much more significant. For example, someone saving £2,200 per year should be saving £3,300. Cumulatively over several decades, that number will grow to the point that it will have a detrimental impact on one or more aspects of that individual's life, from the ability to move up the housing ladder to the ability to get through rainy days or enjoy a good post-retirement lifestyle.

Perhaps unsurprisingly, it is living expenses (49%), mortgage repayments (32%) and paying off credit cards (28%) that are limiting people's ability to save money the most (*Figure 7*) and contributing to the shortfall.

Figure 7. **Biggest financial commitments limiting ability to save**



Why save anyway?

Earlier in this report, it was shown that the primary motivations for saving broadly correspond with the methods through which people save. Two particular statistics from that element of the research are highly relevant to workplace savings schemes[1], but the research reveals that regional and age variances are skewing the numbers.

Rising property prices and the fear of affordability being overtaken by the cost of a deposit are causing some to put property savings above retirement, particularly in London and the South East.

Saving to get on the property ladder is a priority for 26% of people in London and the South East (against 21% for the remainder of the UK), while retirement is a focus for 43% in London and the South East (against 48% for the remainder of the UK).

Although those margins are fine, the message they portray gains value when the London and the South East numbers are compared with areas where house prices are far cheaper, such as the East of England (14% property, 49% retirement) and Wales (12% property, 49% retirement). Also noteworthy are the findings that 40% of people in London and the South East would use their pension contributions to fund the purchase of their first house, versus 33% for the rest of the country, and that London and the South East respondents report slightly lower numbers for holidays – the overall most popular motivation for saving (UK without L&SE 57%, L&SE 50%).

Meanwhile, the age statistics are less surprising, but no less important.

Perhaps due to the lower cost of housing when they were joining the property ladder, just 18% of Generation X respondents are motivated to save for property. That doubles for Generation Y (36%), then climbs a little further to 44% for Generation Z. For pensions, the numbers go the other way, with 16% for Generation Z, 35% for Generation Y and 46% for Generation X. (In the baby boomers demographic, 7% save for property and 70% for pensions, though as this generation is closer to retirement and more likely to own a home, these statistics relate more to stage of life priorities.)

Importantly for employee savings stakeholders, these motivations driven by age and region are now affecting how people feel about their future financial state. Only 14% of people outside London and the South East say they strongly agree that they worry about their future financial state, compared to 21% of those in or near the capital. Similarly, only 7% of baby boomers say the same.

Regional and age disparities, and their attendant concerns, demonstrate the urgent need for a change of plan. Put simply, a 'one size fits all' workplace savings plan is unfit for a nation so diverse in its savings priorities.

The employer impact

Employers, of course, can only do so much to encourage workplace savings. Yet while many offer a plan and encourage take-up, *The savings psyche of the UK* suggests that the current approach is not working.

The choice architecture available to employees is not leading to the right savings behaviour, is not ending decision-making paralysis, and is making the path of least resistance (essentially to do nothing) too easy to take. This is why over one-quarter of all workers have 'little or no interest about where to save their money', either in the short term (29%) or the long term (27%).

It would be easy to pass this behaviour off as lazy, or negligent. Yet in reality, it is merely a reflection of human nature and these behavioural traits are compounded by the fact that the limited range of savings opportunities on offer is not right for the workforce, especially those who see housing as a priority, and so are not inclined to pay into a workplace savings scheme that secretes their money away for four or five decades.

Employers can now affect how their employees save by broadening the range of savings options to cover why and how people want to invest their money, though in doing so they must take into account the characteristics and diverse economic and social circumstances of their workforce.

1. 47% of UK workers cite retirement as their primary reason for saving money. For 23%, it is getting on the property ladder or moving house.

The new age of saving
How employers can change the future of saving

In 'The pinch point' and 'Falling short', this report examined the decision-making paralysis that is deeply affecting saving, and how worker attitudes and motivations falling out of sync with workplace savings packages is contributing to it. Now it is time to explore how employers can be a positive influence on the financial lives of their employees and help to address the situation.

Acknowledging the behavioural traits that drive and stall saving, employers can begin to think about how to use personalised communication and direction to break the decision-making paralysis and reinvigorate saving. Then, using what research has revealed about socioeconomic and lifestyle situations, as well as the sentiment about the purpose of savings, they can consider what kinds of savings options are fit for their workforce.

A changing savings world

If nothing had ever changed about the British working life, people would work for a period of time before fully retiring, usually for a handful of companies, though in many cases just one. In this context, workplace savings are considered to be solely for retirement, which, in turn, suits the way many use mental accounting to consider their financial position.

In reality, our working lives have changed. Dramatically.

Instead of working for a small number of companies, we may work for upwards of seven, with news reports in early 2015 stating that it is considered normal to work for one organisation for no more than 3-5 years. Similarly, retirement is often phased, with a gradual move away from working instead of a 'hard stop'.

At the same time, many face the hardship of finding a way on to the property ladder, and those with families often need to think about funding their children's education, or purchasing a house in the future.

Because of this profound change in how Brits work and live, flexibility must be a natural part of the savings future. It taps into that core desire for choice, but, crucially, it does not delay it. Savings flexibility comes *after* a choice is made. So instead of not making a decision, it is about how best to utilise the results of the decision that has been made.

Reward, not risk

Despite the overall need for flexibility, workers will still be looking for savings plans that provide an element of certainty.

As was detailed earlier in this report, there are fairly high levels of risk aversion amongst survey respondents, even if lower risk means lower return (*Figure 8* and *Figure 9*).

Figure 8. **A safe and secure, risk-free environment is important to me, even if it means a lower return**

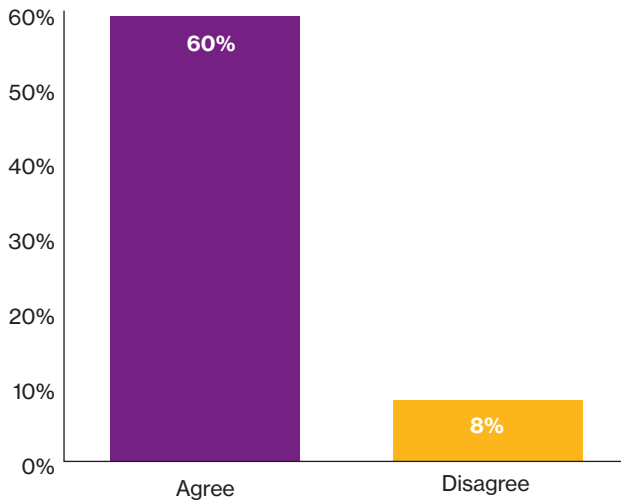
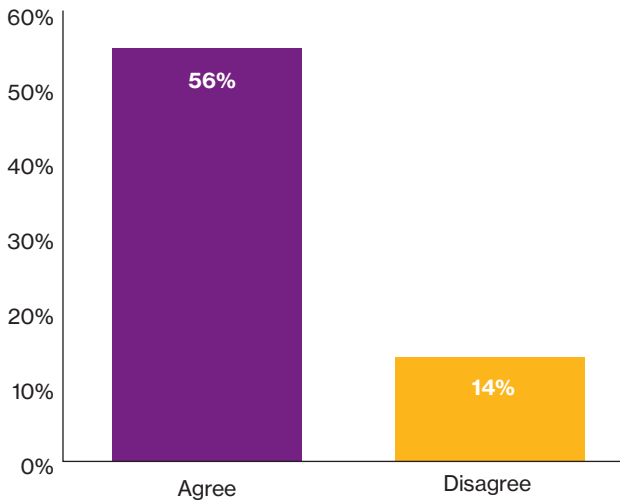


Figure 9. **I wouldn't consider investing my money in anything risky, even if the alternative means a lower return**



Savings solutions

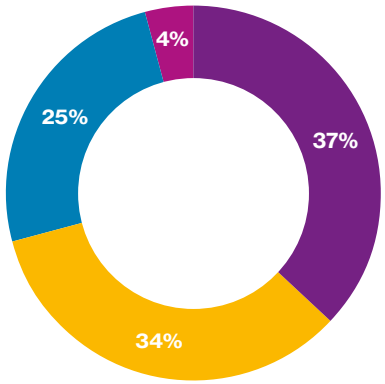
With research and behavioural insights revealing so many varying savings priorities according to region, age and lifestyle, the need to offer alternative workplace savings models beyond just a pension is clear. However, with the balance between flexibility and certainty being so crucial, employers must carefully consider those alternatives.

The introduction of the LISA and Corporate ISA (CISA) as a workplace savings options to sit alongside the traditional pension would answer many of the questions and requirements that employees have. The LISA offers the level of certainty that appeals to an increasingly risk-averse workforce, as well as providing flexibility, with employees able to put money in as they would with a pension, then take it out again when they have a sufficient sum to use for the house purchase for which the schemes are designed. In that way, the LISA provides a viable, relevant choice for those who are not saving because there is no workplace savings product that meets their needs. Meanwhile, for those who want to focus their savings solely on retirement, traditional pension plans will remain available.

Awareness ending paralysis

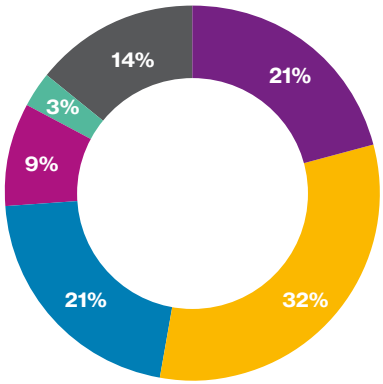
Despite the benefits of the LISA to all employee groups, awareness of how it works is relatively low; however, this is not surprising as it has not formally launched. As *Figure 10* shows, just over a third of people are aware of the LISA and its function. However, as *Figure 11* shows, the idea of an alternative method of saving to the pension model holds either the same or a higher level of appeal to most people.

Figure 10. **Level of awareness and knowledge of Lifetime ISA**



- I am fully aware of it and know how I could use it
- I had heard of it, but I'm not really sure how it works or what advantages it offers
- I hadn't heard of it before
- Don't know

Figure 11. **Attractiveness of LISA compared to 'traditional' pension schemes**



- It's far more appealing
- It's slightly more appealing
- It offers the same appeal
- It's slightly less appealing
- It's far less appealing
- Don't know enough to comment

This is where the employer can become an active player in how much people save.

We know from the research that huge numbers of people today either save in the wrong way, or not at all, because of overwhelming choice, perceived risk, a lack of information or the belief that the savings options their employer offers are inappropriate for their priorities. By providing a workforce with accurate, relevant and detailed information about the LISA as a savings option that can be shaped around individual priorities and lifestyles, employers can give people the choice they crave, the direction they need, and, most importantly, the savings their future depends on.

The employer gains

It stands to reason that a good employer will have its staff's best interests at heart, which is why workplace savings programmes exist. However, there are also benefits to employers themselves when employees are able to save money.

The savings psyche of the UK research shows that over a quarter of people (27%) feel that money concerns keep them from doing their best work. And, on a behavioural level, having a good pension pot and housing situation means that people feel comfortable about retiring when the time is right, rather than hanging on in work purely because leaving or retiring would be severely detrimental to their lifestyle.

First movers

In 2019, the Pensions Dashboard is due to become available to employees. It is a legislative step to give UK workers an extra level of insight into their overall savings situation and thus financial future.

Before that happens, British businesses have the opportunity to position their organisation as one that really takes saving seriously.

Benefits matter to employees, particularly when they can have such a positive impact on their personal lives. Just look at the reputational boost Virgin Group had when they became one of the first movers on unlimited holiday, and the London-based businesses offering graduates a rental deposit as a benefit. Now, by offering the LISA and CISA alongside the traditional pension, the race is on for companies to become the preferred employers in their marketplace, with a programme that shows that they care about their staff at work and at home.

For employers, workplace saving is no longer a case of offering a pensions package and suggesting that employees sign up. Instead, it is becoming a way to attract and retain the best staff with savings options that work for modern lifestyles and financial priorities, supported by accurate, detailed and personalised information.

The savers

The personas that will shape workplace savings schemes

As part of *The savings psyche of the UK* research, a set of personas has been developed to understand more about the financial and savings situations of UK workers. Broadly speaking, every company will be made up of a mix of these personas, and possibly others, which demonstrates why the savings decision-making paralysis came into play, and why a well-communicated diversified savings offer can bring it to an end.

YOLO Owen

Demographics

Average Age:	**36**
Gender:	**Male (73%); Female (27%)**
Average annual salary:	**£70,800**
Children U18 living at home:	**78%**
Own and occupy own home:	**84%**

Who is YOLO Owen?

As this persona is more than likely to be both a homeowner and a member of a pension scheme, he is likely to focus on spending disposable income in the short term, and is comfortably set up for retirement. However, that does not mean Owen is fully financially responsible. The 'you only live once' mentality means that despite being a high earner, a taste for fast living means a poor attitude towards general purpose savings. Whatever is saved tends to be for children's education and future housing prospects.

What do employers need to know?

While traditional marketing, education and communication may work, these should be twinned with behavioural approaches such as nudging and specific financial guidance. This can be in the form of showcasing a 'typical saver' who puts away the right amount, giving Owen the chance to visualise the long-term benefit of saving, and demonstrating that he can have it all. It is worth remembering that Owen wants flexibility and the ability to make a choice, but is fairly risk-averse. Because of this, he may be willing to try out an ISA or LISA as an alternative to traditional workplace savings.

Four key traits:

83% prioritise a safe and secure financial environment, and **77%** would not invest in anything risky

86% would prefer some flexibility in how they save their pension

82% worry about their financial future

90% agonise when making financial decisions

Worried Wendy

Demographics

Average Age:	**39**
Gender:	**Male (44%); Female (56%)**
Average annual salary:	**£23,000**
Children U18 living at home:	**37%**
Own and occupy own home:	**42%**

Who is Worried Wendy?

Worried Wendy is characterised by financial concerns, both in the long and short term. Doubt is a common feature, as is the tendency to agonise over financial decisions. Because Wendy is statistically more likely to be a renter, she does want to get on to the property ladder. However, saving spare cash is limited by credit card payments and living expenditure. On a social level, Wendy is ethical, with a strong belief in gender equality, family over career and the benefits of being surrounded by people from different cultures and backgrounds.

What do employers need to know?

Wendy approaches saving with a 'mental accounting' approach, so a savings vehicle must have a clear and specific purpose. Remembering that will be the key to getting past the agonising that delays financial decisions. Shock tactics could work, using framing, modelling tools and referencing to highlight what a person in retirement needs and Wendy's position in relation to those needs. Basic financial education may also be necessary, perhaps to direct her towards a limited set of choices, including the LISA (particularly for those under 40 who still have home ownership aspirations). In the initial stages, default opt-in strategies would help to get saving started, followed by nudges to increase at key times, such as the anniversary of signing up.

Four key traits:

71% are motivated to save for a holiday (pension is a savings motivation for just **42%**)

Almost half (43%) feel they have a lack of knowledge and information about saving

39% save to buy their first home

61% are worried about their financial future

Suburban Steve

Demographics

Average Age:	**48**
Gender:	**Male (58%); Female (42%)**
Average annual salary:	**£32,200**
Children U18 living at home:	**28%**
Own and occupy own home:	**80%**

Who is Suburban Steve?

Of all the persona groups, those that fit into the Suburban Steve category are the most practical and responsible, as well as the least likely to act on the spur of the moment. Unsurprisingly, Steve is a saver and a planner, with financial management as a cornerstone of his lifestyle. As a consequence, he experiences few debt problems, has a solid knowledge of financial services, shops around for the best deal and does not worry about money.

What do employers need to know?

Because of the strong tendency towards financial security, an employee in the Suburban Steve mould will favour traditional savings programmes and will be responsive to active choices, which can be controlled. If there is a concern in this group, it may be complacency in a changing financial environment. Therefore, a broader workplace savings platform may appeal to Steve, which he will opt into through an architecture of tailored, streamlined choice rather than nudging.

Four key traits:

84% have money saved for a rainy day

Just 4% are worried about their financial future

79% save for their retirement

93% look for a competitive return on savings products

Apathetic Alfie

Demographics

Average Age:	**39**
Gender:	**Male (54%); Female (46%)**
Average annual salary:	**£30,600**
Children U18 living at home:	**41%**
Own and occupy own home:	**61%**

Who is Apathetic Alfie?

Respondents that fall into the Apathetic Alfie demographic are not interested in saving or the options available. Alfie has a far poorer knowledge of financial products and decisions than any of his peers. At the same time, he lacks the motivation to keep up to date with savings or financial news, and is the most likely to think that post-retirement security is someone else's responsibility. Socially, he is generally conservative and quite risk-averse.

What do employers need to know?

The question is not so much what employers need to know, but how much they can actually help. It is highly unlikely that Alfie will respond to traditional marketing, or to a choice of options that requires him to do some research, so basing the approach on more creative behavioural tactics will be far more effective. Default opt-in, a simple and narrow choice architecture, and visualising tactics (similar to those used for YOLO Owen) are most likely to work for Alfie.

Four key traits:

Only **26%** consider saving money to be a priority

34% are saving for retirement

Just **18%** find the savings options they are confronted with confusing or complex (the lowest of any persona)

25% are worried about their financial future

Risk-Taking Ricardo

Demographics

Average Age:	**40**
Gender:	**Male (50%); Female (50%)**
Average annual salary:	**£39,700**
Children U18 living at home:	**46%**
Own and occupy own home:	**70%**

Who is Risk-Taking Ricardo?

This persona shares many things in common with Suburban Steve, though is characterised by a confident and motivated mentality. As such, Ricardo is more likely to take risks – albeit informed ones – and wants to save more than he currently does. Because his outlook is both to live for the moment and take care of the future, Ricardo saves primarily for holidays and retirement.

What do employers need to know?

Since Ricardo self-identifies as a 'well-informed' saver, traditional marketing and communication could be very effective, especially when they focus on the outcomes of the products. In terms of actions, Ricardo should be pushed towards 'save more tomorrow' or auto-escalation schemes, which are commonly used in the US. He probably does not save quite enough, so encouraging extra saving after a pay rise is an effective way to increase the amount put aside for retirement.

Four key traits:

71% would prefer flexibility in their savings options

Less than half (47%) are risk-averse savers

Only **37%** agonise when making financial decisions

They want to save **10%** of their earnings, but currently only save **8%**

Short-Term Shona

Demographics

Average Age:	**42**
Gender:	**Male (38%); Female (62%)**
Average annual salary:	**£24,300**
Children U18 living at home:	**32%**
Own and occupy own home:	**61%**

Who is Short-Term Shona?

Similar to Wendy, Shona is a financial worrier, with a deep commitment to family and strong ethical values. However, unlike Wendy, Shona is able to spot a good deal and to take advantage of it, despite a generally risk-averse nature. Because of the tight financial margins that govern spending, Shona will review multiple products before making a decision and will be a pension saver (as well as a general saver for holidays and short-term needs).

What do employers need to know?

Because Shona can spot a deal, streamlined choice followed by nudging will be effective in encouraging decision-making when it matters. Likewise, loss aversion, education and framing will work in communications. As for products, many in this group belong to a pension plan (though do not save enough), and with a substantial number still renting, the LISA may appeal.

Four key traits:

Over a third **(39%)** find the savings choices they are confronted with confusing or complex

92% want a competitive return and **88%** guaranteed return savings

66% look for risk-free investments

76% are motivated to save for retirement

Speaking to everyone

These personas are drawn from *The savings psyche of the UK* research. As such, they naturally include some generalisation. However, in detailing the different saver groups that could potentially make up an organisation, they are a step towards acknowledging the flaws in one-size-fits-all messaging and pensions provision.

The personas demonstrate that people will respond in completely different ways when confronted with the same information about the LISA or a pension scheme, according to their lifestyle, income and situation. And while the outcome for persona A may be deciding to sign up to a scheme, for persona B it may be to do nothing, to take that path of least resistance.

It is why different tactics, such as nudging, loss aversion and framing, must be employed to ensure that each persona in a company is able to understand their options and start a savings plan that suits their life. This will come through employers understanding their workforce and creating a relevant communication strategy to incentivise saving for each persona within the company. From there, other measures (such as control and flexibility) can be promoted to ensure that the savings plan works in the way it was intended.

The way forward
Helping Britain to save again

The savings psyche of the UK demonstrates that the ways people want to save, and what they want to save for, are worryingly out of sync with what they are currently doing and limited employer offerings are exacerbating this problem. The result is a decision-making paralysis that means that potentially millions of British workers are saving too little, or nothing at all.

To bring savings back in line with the financial priorities of the UK workforce, employers need to rethink their workplace savings packages and how they are communicated, recognising that one size will never fit all.

The future of pensions and savings provision is flexibility and a tailored personal savings experience, offered by employers that actively provide simple information and relevant guidance on savings and pensions.

This approach will give early adopter employers a huge advantage in the employment market, with a new reputation for taking a genuine interest in their employees' financial well-being. At the same time, it will address the impact of decision-making paralysis on saving, close the savings shortfall and give employees a modern workplace savings offer that they can use according to where they are in life, whether that is preparing for retirement, preparing for a first home or building up accessible short-, medium- and long-term savings.

Conclusion

Key points for employers, fiduciaries and trustees to consider:

- **Knowledge and education –** Improving knowledge and building financial education are as important as delivering competitive benefits.
- **Personas –** Employees engage with information and savings products in different ways. Employers' savings products, communication and education need to be relevant and personalised to employees' individual personas.
- **Choice and flexibility –** Employees crave personal choice and flexibility when it comes to saving and addressing various financial priorities.
- **Risk aversion –** Adopting different designs and savings products will be necessary to help employees embrace savings and investment risks (and returns).
- **Financial decisions –** Employers need to provide a greater level of support to help employees make financial decisions.

How Willis Towers Watson can help

Analysing your workforce

Many employers, fiduciaries and trustees are now taking active steps to ensure their employees fully understand the required interventions to achieve retirement readiness (in other words, financial adequacy) at a reasonable age. An important aspect of this is to measure and monitor retirement readiness across the workforce, identifying different groups that may need particular attention. Willis Towers Watson's FiT Age and myFiTage software provide a thorough workforce readiness assessment that identify how many of your employees will not have the financial ability to retire at a reasonable age, as well as financial well-being indicators to understand behavioural drivers. Our analytics identify the key financial, demographic and social factors influencing employees' financial behaviour. FiT Age goes beyond monitoring and assessing retirement programme effectiveness. For the individual employee, linking the analysis to a personal illustration using the myFiTage online portal can help drive sound financial well-being behaviours using personal, tangible and motivational tactics. FiT Age begins with one simple number and a very personal question: "At what age will I have financial independence?" It is a personal projection of when all savings resources will meet their expected retirement lifestyle needs.

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Supporting your workforce

Members face a complex series of choices, some of which may be currently unknown to them. They need to be engaged and educated to build their knowledge and facilitate retirement and savings decisions. Our Financial Planning Group focuses on advising employees at all levels, helping them to maximise the benefit choices from their remuneration package, ranging from providing 'information' and 'guidance' to fully regulated financial advice. We also have a financial education portal, which is a fully integrated, self-service financial/retirement planning toolkit that provides a common experience for all members and is personalised to their unique situations and communication preferences. We also run seminars, workshops and surgery-style one-to-ones for larger groups of employees or where budget constraints mean full financial advice is not practical.

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Retirement plan strategy and design

At Willis Towers Watson, we recognise there is no one-size-fits-all solution, and we have vast experience of developing tailored solutions for employers. In many cases, we work with an employer to ensure that future pension design reflects both the long history and features of their organisation, but also the current and future challenges they will face. We can work with you at all stages of the process, from a strategic pension review to implementing the relevant components needed to deliver the right solutions to employees.

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Offering greater retirement choices and flexibility for defined benefit (DB) schemes

A retirement transfer option (RTO) is a solution that can help companies reduce their DB pension obligations and the associated risk, without any additional cash contributions being required from the sponsor. An RTO involves an improved retirement process for DB schemes where members are provided with support and advice to consider the pensions freedoms alternatives now available outside of the DB scheme, using the open market in a similar way to defined contribution (DC) members. Doing so will give DB members access to a much wider range of retirement options to shape their retirement income to suit their personal circumstances and preferences better, such as income drawdown. Willis Towers Watson can use its extensive experience of these options to implement an RTO fully or provide expert ad hoc support to in-house resource.

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Offering savings choice and flexibility

Willis Towers Watson's wealth services have been specifically developed with employers to help design and deliver a modern benefit programme where retirement savings are one component of a wider range of savings vehicles. A typical wealth programme would enable employer and employee funding to be personalised, flexible and able to accommodate individuals' short-, medium- and long-term financial priorities at no additional cost to the sponsor. Willis Towers Watson's wealth services can deliver savings and investment solutions that address the different financial needs of all employees, from graduates and millennials through to higher earners and those affected by the recent pension tax changes. Our 'best in class' and bespoke approach means we can help employers develop a wealth programme using existing budgets, systems and infrastructure without disturbing existing benefit arrangements or providers.

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Targeted communications

In order to engage and influence effectively, it is critical to understand the recipient and the information that is likely to be of greatest interest. This makes the 'what', the 'when' and the 'how' relevant. Through data analysis, research, and external and internal cultural insights, we help clients to understand their audiences better to make communications more effective. At an initial level, age, salary, location, tenure, function and career level, for example, can shape 'best practice' approaches to the tone, the structure, the channel and the frequency of communications – and these will be different for different microsegments. Coupled with past engagement intelligence, clients can start to go further in building a communications plan for their audience. Recognising where each individual is on their savings journey also builds greater relevance and context – playing back what we know about them individually, acknowledging any former actions or previous engagements and their communication preferences – which in turn creates impact and increases motivation in the same way as it does in the consumer marketing world. Our approach helps clients to develop and execute meaningful, informed and personalised experiences across a range of communications channels – from e-marketing, print and film to text, online engagement platforms and self-segmentation tools – achieving greater return on an investment from communication efforts.

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A master trust arrangement

Master trusts are now the scheme of choice for DC employer-sponsored pension provision. The popularity of master trusts across large and small employers has been driven by a number of factors. The key ones we see when helping our clients are cost savings for employers, low fees for employees, outsourcing of risk and a strong governance framework. LifeSight is Willis Towers Watson's DC multi-employer pension trust. Launched in 2015, LifeSight has over £2 billion of assets currently under transition and has achieved MAF accreditation, Pensions and Lifetime Savings Association's PQM READY status and the Retirement Quality Mark for the inbuilt drawdown offering. Combined with our independent trustee board, engaging member experience, innovative investment offering and administration services, LifeSight provides a compelling solution.

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Optimise your Total Reward investments

In today's highly competitive environment organisations are under pressure to simultaneously attract and retain talent and ensure costs are controlled. Whilst HR and reward teams may have a sense of which rewards employees value most, they rarely have robust, empirical evidence underpinning these views. Companies need a high return on the organisation's financial investment in rewards and a high return on the human capital (knowledge, skill and talent) investment made by employees. Willis Towers Watson's Total Rewards Optimisation (TRO) can help them achieve this. TRO enables a company to determine which rewards have the biggest impact on employee attitudes and behaviours and then specifies reward portfolios that deliver the highest return on investment to the organisation.

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Develop a healthy and engaged workforce

Healthcare and other group risk benefits are under intense scrutiny as employers face the challenge of keeping employees healthy and productive; a constant rise in healthcare cost, a shift in employee demographics; and a rethinking of how benefits fit in the broader total rewards context. The focus is on optimising both global and local benefit programme performance and gaining maximum value from the annual benefits spend. At Willis Towers Watson, we use our deep research and benchmarking tools to provide the strategic context to gauge overall programme efficiency, cost effectiveness and value, as well as competitive positioning. We work with you to design the path to achieve and sustain high programme performance – based on a framework that identifies key actions, costs, competitive context and change management activities. We provide the metrics to help you drive improved performance and better results. We stay involved to help you oversee your programme, leveraging our excellent relationships with providers, from placement of business, to claims handling, to general implementation and programme management.

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About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

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