The Coronavirus (Covid-19) crisis and financial resilience

An opportunity for employers to introduce a holistic approach to pensions and workplace savings

Cushon | 2020

Executive summary

The proverbial 'rainy day' that we have long been told to prepare for has arrived. The coronavirus crisis has engulfed the UK economy in ways no one could have foreseen – and the need for that 'nest egg' has become clear. People's financial resilience is being put to the test – and, unfortunately, many are failing.

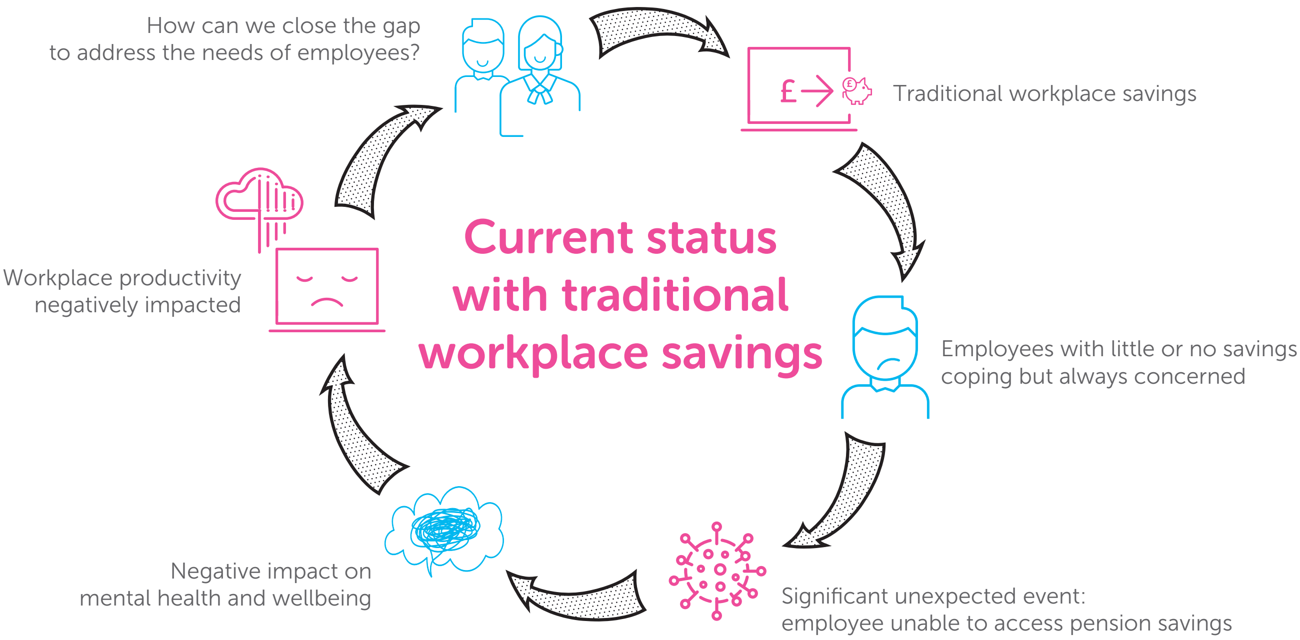
For employees who have agreed to take a temporary pay cut at this time, we are seeing the reality of the situation hitting home – they are experiencing at first hand the importance of having readily accessible cash reserves to draw on during a time of crisis. However, we suspect that employees who have been placed on furlough have perhaps been rather shielded from this reality – and have not faced up to the very real prospect that they could lose their job in the near future. Viewed in this light, the Government's job retention scheme could be seen as delaying the inevitable – and employees should be using this time to ensure they are fully prepared. Unfortunately, our research suggests that many will reach this 'cliff edge' woefully unprepared. Come November, we fear many employees will be asking themselves "Why didn't I save more?" or "Why didn't I cut down on my expenditure?"

And, despite their best intentions, it is fair to say employers have had a hand in this. For years, workplace savings have mainly focused on pensions, with employers drumming home the message that employees should 'save for their retirement' – and government actions reinforced this, through auto enrolment and tax relief on pension contributions. But as we are seeing now, this did not address the need for employees to be saving money in addition to pensions so they would have some set aside for emergencies. It was left to individuals to look after themselves in this regard – it was not seen as their employer's responsibility.

The current crisis presents an opportunity for employers to reconsider how they support the financial wellbeing of their employees. Simply helping them to save for retirement is clearly no longer enough – instead, they need to take a more holistic approach: one that takes into account employees' short-, medium- and long-term savings needs in an integrated, easy-to-understand fashion. One option would be to implement a 'pension redirect' arrangement – where individuals are free to choose whether contributions over and above the auto enrolment minimums are put into their pension pot or into an alternative savings account, such as an ISA. This sort of scheme would allow employers to ensure their employees' long-term finances are in good shape, while giving them access to a well-managed savings vehicle to help fund big-ticket items and make sure they have cash available to deal with unexpected emergencies.

Money worries, mental health and productivity

There is now little doubt that money worries can have a major impact both on employees' mental health and their work performance. Employers, in particular, recognise this link – more than nine in ten (90.5%) of our respondents agree that financial concerns have a negative impact on employees' mental health and a similar percentage (87.3%) believe they have a negative effect on their performance at work.



For decades, employers have sought to alleviate employees' financial concerns by providing workplace pension schemes – first, in the form of generous defined benefit schemes and then, as these have been gradually closed down and phased out, through defined contribution schemes. And the Government's auto enrolment legislation has ensured that all employers must now make a minimum contribution towards their employees' retirement savings.

However, the advent of the current coronavirus pandemic has thrown into sharp focus the inadequacy of such long-term, inflexible arrangements for giving employees the financial resilience they need in the short- to medium-term. While some employees have enough savings set aside to manage their way through the current crisis, others find themselves facing serious economic hardship. This is particularly true for employees who have agreed to take a temporary pay cut to help their employers get through the worst of the present situation.

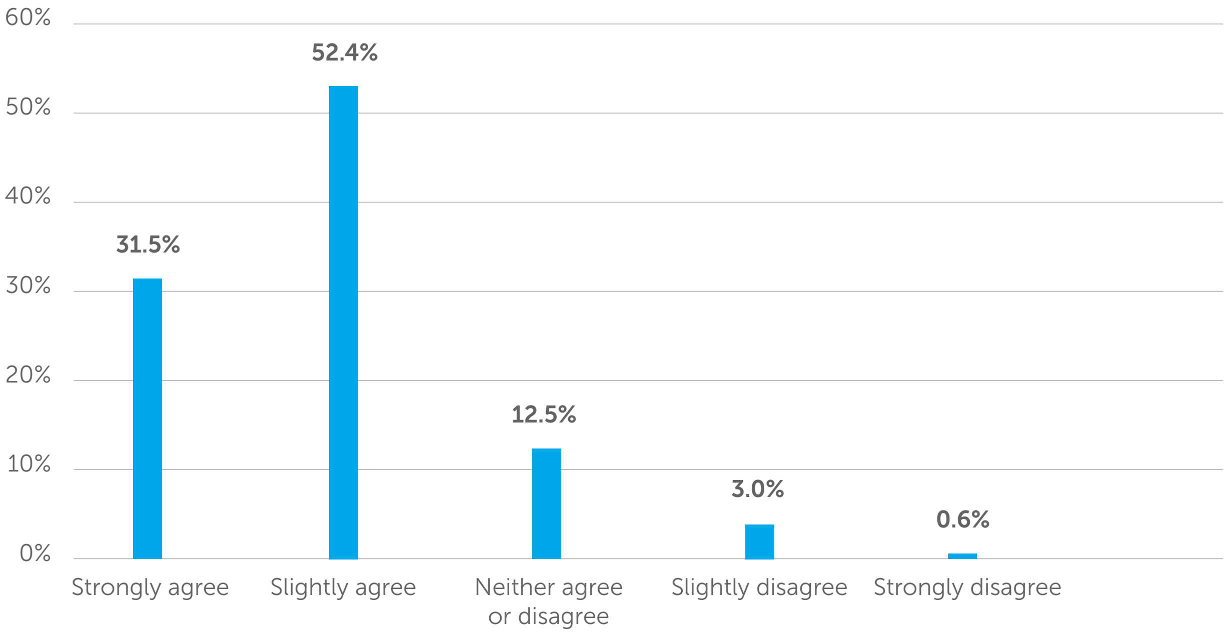
In many ways, the coronavirus pandemic represents the 'rainy day' that people should have been saving for – yet most employers have done little up till now to encourage their employees to set aside some of their salary for such an event.

Indeed, many employers argued against providing workplace savings vehicles in addition to pensions because they offered the very accessibility that employees are now crying out for. They feared that people would dip into their savings and run them dry, so they would have nothing left when it was really needed. But the present circumstances have made it abundantly clear that having thousands of pounds tucked away in a pension pot to fund a comfortable retirement is all well and good, but not if it means having zero cash to draw upon in times of crisis.

If there is a 'silver lining' to any of this, it is that employers have now recognised they need to do more to help their employees make regular savings in addition to their pension contributions. Almost a third (31.5%) 'strongly agree' and more than half (52.4%) 'slightly agree' that they, as employers, should help employees build up accessible savings in addition to a pension so they are better prepared for any future crisis. More than half (52.6%) believe their employees would like them to provide help to save or invest so they are better prepared for a future crisis similar to Covid-19. And more than nine in ten (92.4%) say they would now consider setting up a workplace savings vehicle in addition to their pension scheme.

Figure 1: How far do you agree or disagree with the following statement?

"Covid-19 has shown that financial resilience is important, we as the employer should help employees build up accessible savings in addition to a pension so that they are better prepared for any future crisis."

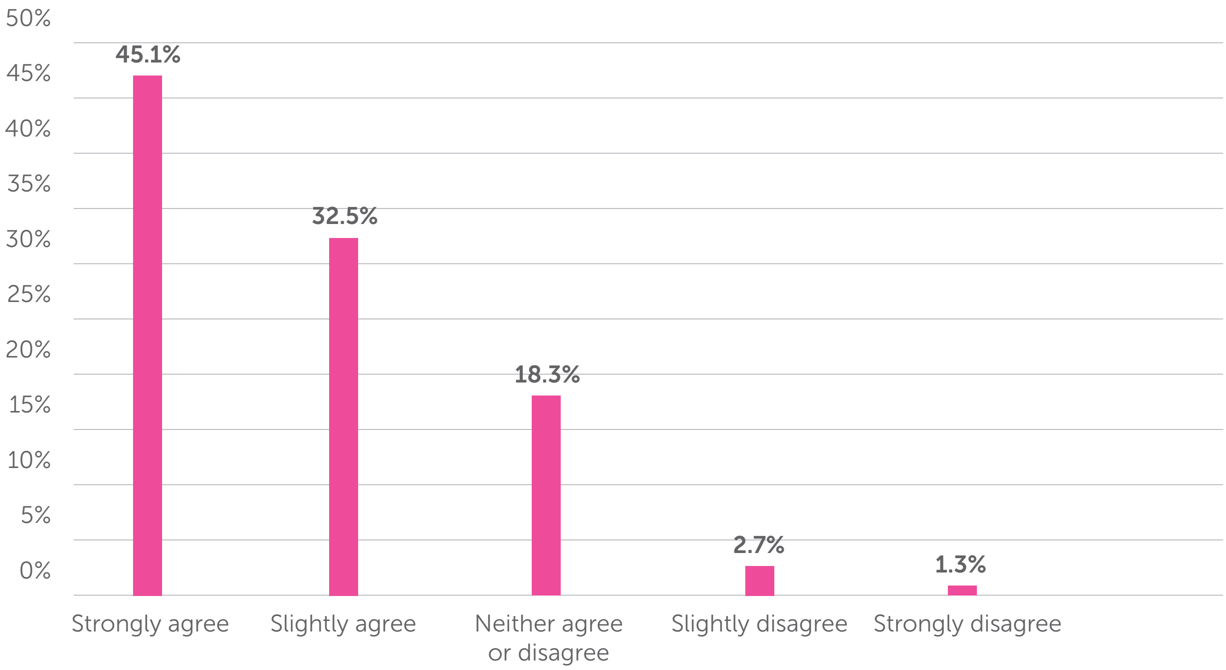


Source: Cushon

Employees too have seen at first hand the importance of having access to cash savings when their jobs and incomes are threatened by circumstances outside their control. Almost 78% agreed that the Covid-19 crisis has made them realise that having savings to fall back on is important. And almost three quarters (72.9%) agree that the Covid-19 crisis has made them realise that while pensions are important, having savings they can access if needed is equally important.

Figure 2: How far do you agree or disagree with the following statement?

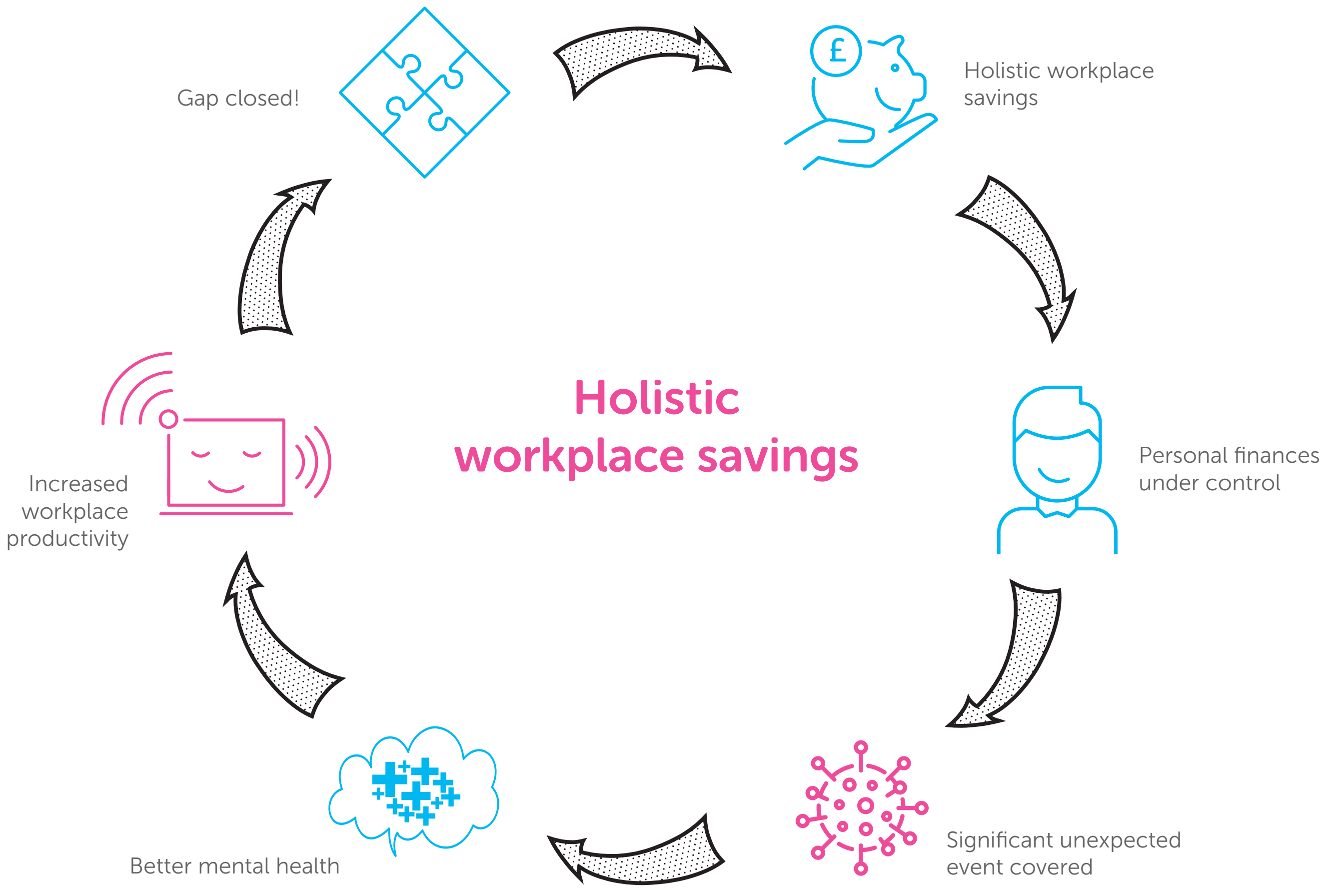
"The Covid-19 crisis has made me realise that having savings to fall back on is important."



Source: Cushon

Taking a holistic approach to workplace saving

All of this is not to say that employers should stop helping employees to save for their retirement – this, of course, remains a crucial goal. But employers should not see this as their only objective – instead, they should be taking a holistic view of saving that encourages staff to set aside money in the short-, medium- and long-term. Employers seem to be coming around to this view – just one in 20 (6.3%) believe there is no need for them to offer a workplace savings vehicle in addition to a pension scheme.

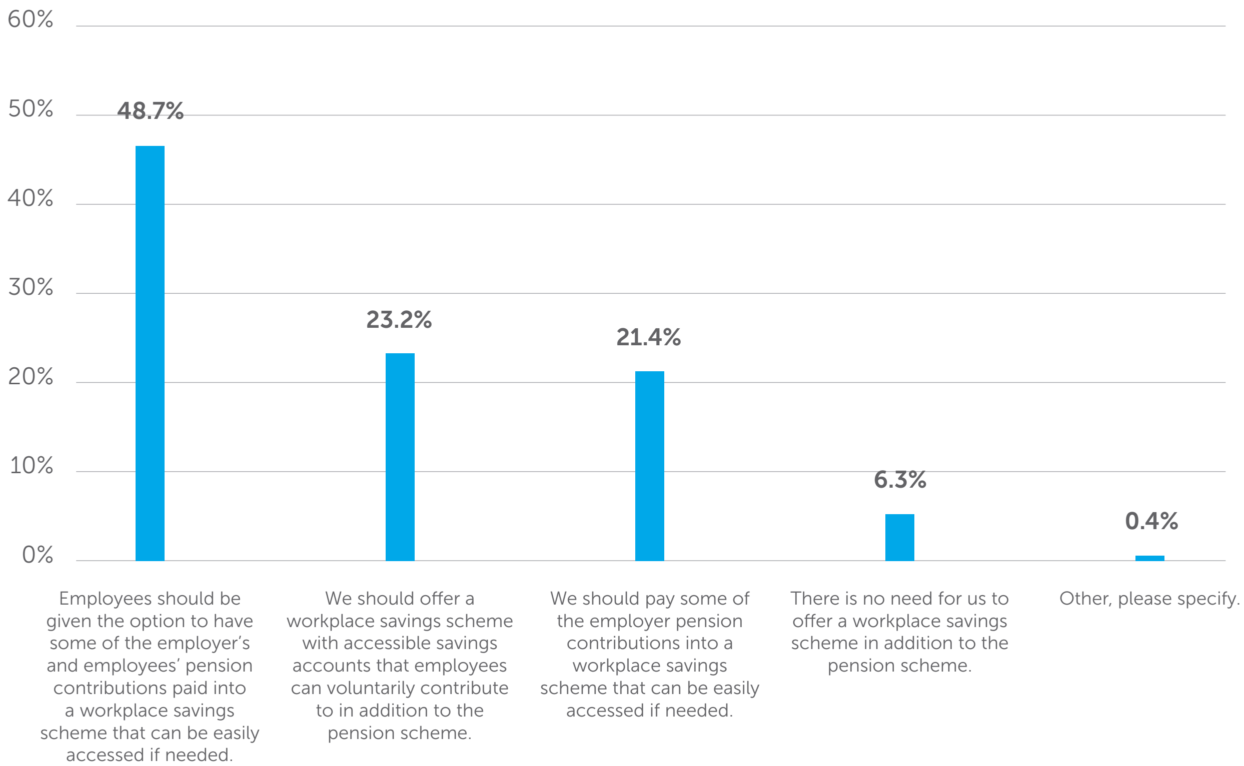


One way of providing a holistic workplace savings scheme would be to offer pension redirect. Once an employer and employee have made the required minimum contributions into their auto enrolment pension scheme, any further payments could be used to top up their pension fund or be redirected into a workplace savings vehicle, such as an ISA.

There is certainly an appetite for this kind of arrangement among employers – around half (48.7%) think they should give employees the option to have some of their own and their employer's pensions contributions paid into a workplace savings vehicle that can be easily accessed if needed. Furthermore, almost a quarter (23.0%) of employees would also welcome this kind of arrangement – and almost three-fifths (57.5%) agree they would take up the offer of a workplace savings scheme if their employer was to offer it.

We are also in a period of historically low interest rates – the Bank of England base rate was slashed to 0.1% on 19 March. And, while stock markets around the world have certainly been hit hard by the impact of Covid-19, it could be that in the longer term employees find a much better return on their savings by investing in stocks and shares than by letting their cash sit in a bank account. Our research shows that employees are becoming more interested in investments – almost one in ten (8.7%) respondents expressed concern about 'how best to invest', up from 6.8% in 2019. And almost one in ten (8.3%) employers also believe their employees are concerned about getting good returns on their investments.

Figure 3: For some employees having savings that are accessible is important especially during the Covid-19 crisis. What do you think you as the employer should do, if anything, about offering workplace savings e.g. workplace ISAs, in addition to a pension?



Source: Cushon

A note about the Government's furlough scheme

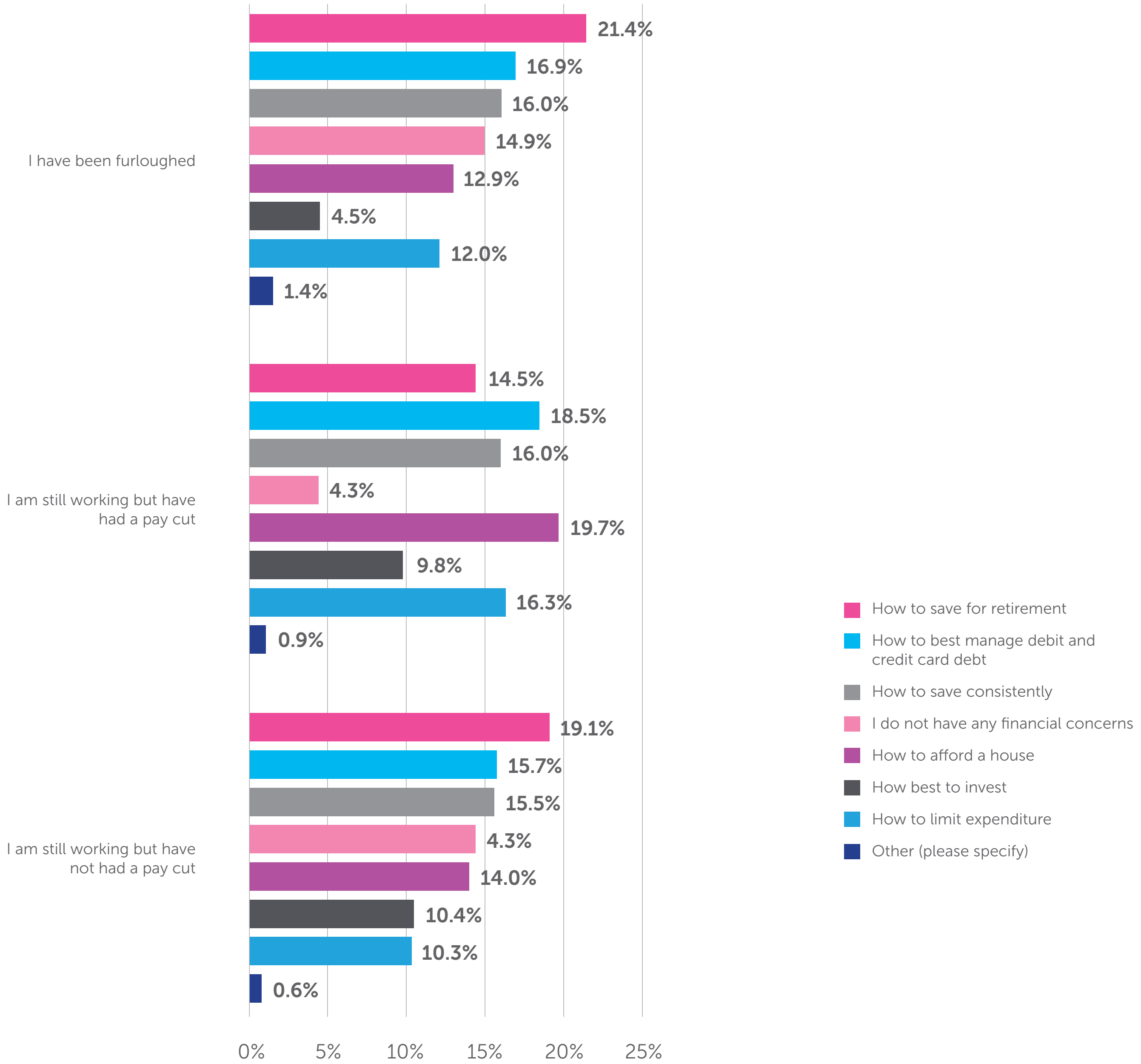
The Government's Coronavirus Job Retention Scheme (CJRS) has been widely welcomed by organisations across the UK.

While the scheme has been very successful at preventing mass redundancies and giving employers the flexibility to bring employees back into work as and when needed, there is a danger that it has created a false sense of security for many of those who have been temporarily furloughed. Our research shows that a higher percentage of these employees say they have 'no financial worries' (14.9%) than staff who are continuing to work as usual (14.3%) and those who have been asked to take a pay cut (4.3%) – and yet, in reality, it is *their* jobs that are likely to be in most danger of being made redundant once the furlough scheme comes to an end. Moreover, one in five (21.4%) furloughed employees say their biggest financial concern is how to save for retirement. In contrast, employees who have taken a pay cut are most focused on more pressing concerns, such as how to afford a house (19.7%), how to manage debit and credit card debt (18.5%) and how to save consistently (16.0%).

The disparity between these groups is further highlighted by their different attitudes towards workplace savings. Employees who have taken a pay cut are far more receptive to this idea – almost nine in ten (84.6%) believe their employer should offer some kind of workplace savings vehicle. In contrast, less than two-thirds (64.1%) of employees who have been furloughed show any interest in this kind of arrangement.

Based on these responses, the CJRS could be seen as obscuring reality for many employees. In the circumstances, it could be tempting for this group to just continue with 'business as usual' – indeed, as their outgoings have likely dropped due to lockdown, they may even feel better off than normal. Employees on furlough should be using this time to get their finances in order and make sure they have enough cash put aside to cope should they be made redundant when the CJRS comes to an end. Unfortunately, our research suggests that instead, this group is not planning for such an eventuality.

Figure 4: What is your biggest financial concern? (Employees)



Source: Cushon analysis

What should employers do?

We recognise that many employers are wary of introducing workplace savings vehicles at a time when some of their employees are furloughed or have agreed to temporary pay cuts. But, if anything, the coronavirus crisis has made the need for such schemes more apparent and more urgent than ever. Employees have seen for themselves the importance of having access to short- to medium-term savings and they are keen for their employers to help them make these kinds of investments.

When the current crisis is over, we will not return to the old way of doing things. There will be a 'new normal' – and employers need to take this opportunity to shape a world where employees take greater responsibility for their personal finances. To do this, they need to encourage healthy savings habits and provide schemes that incentivise employees to set aside money from their salaries each month – not only for their retirement, but also to help fund other, more immediate, needs and to provide accessible funds in case of emergency.

In short, we recommend the following:

1. **Employers should look to introduce some form of workplace savings vehicle, such as an ISA, for their staff. Employees have demonstrated their interest in this kind of arrangement and employers need to recognise the important role they can play in encouraging their staff to set aside cash on a regular basis.**

2. **If possible, these savings vehicles should be positioned as an integral part an employer's financial wellbeing programme with some form of pension redirect arrangement. This would enable employees to choose where any contributions over and above the auto enrolment minimums are invested – with the possibility of redirecting their employer's contributions as well as their own.**

3. **At a minimum, however, employers should introduce a workplace savings vehicle alongside their existing pension provision – even if employees can only contribute to it themselves. Enabling employees to save directly from their salaries will help encourage good savings habits and ensure they have some money set aside should another 'rainy day' arrive.**

About the research

This report is based on responses to two separate online surveys conducted in May 2020 – one was distributed to HR managers, the other to employees. Useable responses were received from 1,000 HR managers and 2,002 employees.

About Cushon

Cushon is an online savings and investments platform provider, offering holistic workplace savings to help people save for all life events. Cushon aims to turn the UK into a nation of savers and investors by helping employees to feel comfortable about making financial decisions. Employers use Cushon workplace savings to enhance the financial wellbeing of their workforce by providing them with an accessible way to save and invest from as little as £10 per month, direct from pay.

Helping you transform your employee financial wellbeing programme

Payroll deductible savings

Easy integration with benefits platforms

Employee communication services

To find out more about workplace savings, get in touch or visit our website:

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