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Isio insights

Home sweet home

Maximising value from employee benefits

Isio surveyed[1] over 7,500 private sector employees and this series of papers puts the spotlight on our key insights.

[1] Isio's June 2023 survey in conjunction with YouGov of 7,674 UK private sector employees. Responses for don't know or prefer not to say answers have been removed, unless explicitly shown.

This paper in our series explores what tends to be the most generous (and expensive) part of the employee benefits package in the UK – pension. Setting aside our love for pensions, **we're asking the question no one else does: when it comes to long-term saving and retirement planning, is pension too narrow a focus?**

Our research looks beyond the conventional path to retirement - are there other ways of saving for the long-term future and might they be more popular than pensions?

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born to be better.

Building foundations.

In 2012 auto-enrolment was introduced to the UK, heralding a new era for pension saving. Pension scheme memberships and workplace pension contributions skyrocketed, and, by and large, this foothold has been maintained 12 years later. For employers, it has meant that pension continues to be one of the biggest, and most expensive parts, of the reward package. But is this suitably reflected in employee appreciation?

One could assume that after a decade of public agenda targeting education around retirement planning, all employees would rate pension at the top of their priorities. Although this is the case for many, our data[1] shows that for some parts of the population, priorities differ.

In general, lacklustre pensions engagement can be boosted with the right employer support and communications, however differing priorities presents a more complex challenge.

With pension making up such a major element in most reward packages, it's important that employers understand the consequences for individuals with these different priorities. For someone who doesn't appreciate pension, their reward package might feel less valuable compared to someone who does.

Before moving on to how we can address this inequality, let's first understand why pension may not be everyone's number one priority. This paper does that by looking specifically at one form of alternative long-term saving 'product' – home ownership.

Pension v Property; two sides of the same coin.

For those who are able to, buying a home is typically the biggest financial contract an individual will undertake in their lifetime. But it's not just an investment or personal milestone – it is also a significant asset and plays a key part in retirement planning.

When you retire, the aspiration (and often necessity!) for many is to be mortgage free. Those who continue to rent or pay a mortgage need to be able to fund that housing cost from their pension. Further, mortgages have an end point, but rent doesn't, meaning that renters either need to save more than their home owning peers or at some point get on the housing ladder.

Equally, anyone not planning to rent in retirement probably wants to get on the housing ladder as soon as possible, because unlike pension contributions, home deposit saving or mortgage repayments, not one penny of a rent payment helps the renter towards saving for their future.

Therefore, when it comes to retirement planning, these two forms of long-term saving should be viewed hand in hand. But do attitudes reflect this logic?

We put this choice to our survey respondents:
'Please imagine your employer offered you the option of contributing towards saving for a home deposit instead of pension contributions and that you were able to take this option for a period of your choosing. The amount put towards a home deposit would be equal to the pension contributions reduced for tax and National Insurance. Which one of the following would you prefer - A pension contribution, savings for a home deposit or a combination of both?'

What we are implicitly asking here is whether employees might like access to a Lifetime ISA through their employer, with both employer and employee contributions paid into this through payroll.

What is a Lifetime ISA ('LISA')?

A LISA is an innovation from the Government to enable saving. It is a type of ISA where individuals receive a top up from the Government up to a maximum of £1,000 per year.

This can only be used to purchase a house as a first time buyer or accessed at retirement as part of your pension.

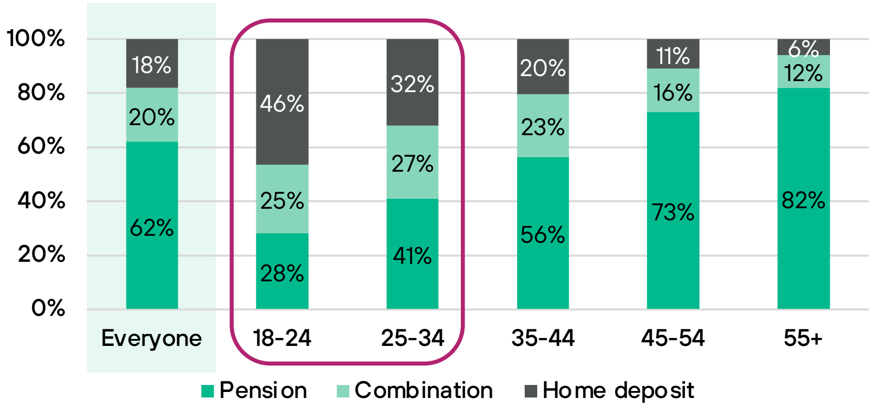
Individuals aged 40 and under are eligible to open a LISA.

Climbing the ladder.

The overall results show that 62% of people would prefer a pension contribution from their employer, compared to a contribution toward saving for a home deposit, or a combination of both – this is great for pension saving, but it leaves 38% favouring some degree of the alternative. Among some groups answers are extremely polarised. Let's look in more detail at four different demographic groups with conflicting preferences for long-term saving.

1. Age

Young, free and renting



The first prism to look at answers through is age, where answers to our pension v home saving question correlate beautifully. Of course the vast majority of over 55s have no interest in a home deposit option – many will already be homeowners. But under 35s show far greater appetite for saving for a home than saving for a pension. And who can blame them, given that home ownership levels among under 35s have been in decline in recent years?

One reason driving this is how expensive it currently is to get on the housing ladder – Resolution Foundation research[2] reveals the average deposit paid by first-time buyers in the UK is 4.7 times the typical income for 25-34 year olds. This ratio has doubled in magnitude since the late 1990s and as a result, the average first time buyer is now aged 33[3].Therefore, there may be a lot of younger employees who would welcome help in saving for that home deposit.

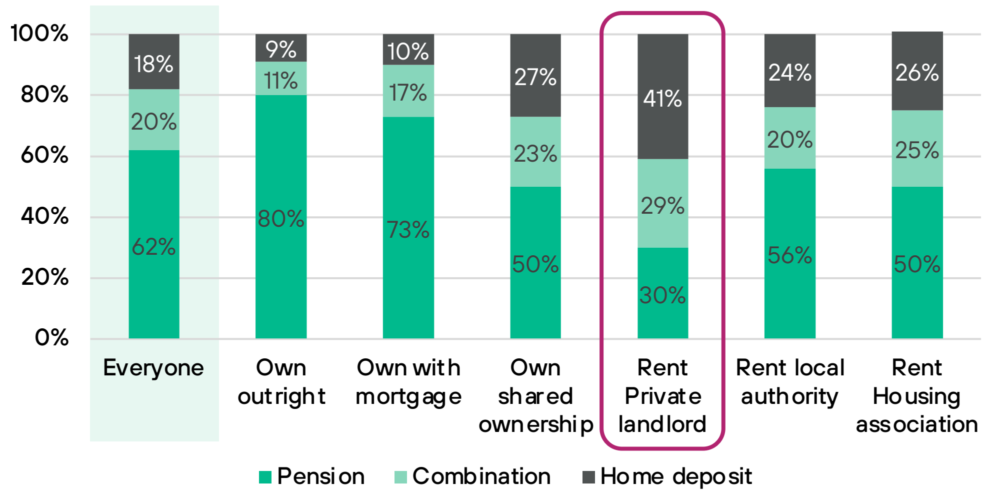
2. Home ownership

Making a house a home

To state the obvious, renters reported a strong preference for help towards home ownership.

Demand was strongest from renters with private landlords, with 70% choosing home deposit contributions or a combination of both home deposit and pension, over pension.

Our data here suggests that private renters see home ownership as more of an achievable aspiration than other renters.



[2] An intergenerational audit for the UK:2019, Resolution Foundation
[3] England: average age first time home buyers 2022 | Statista

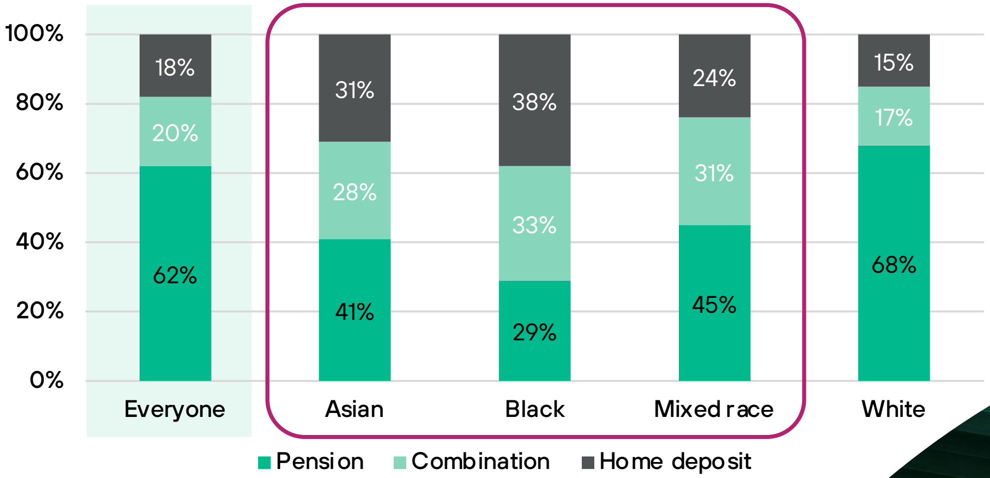
3. Ethnicity

Where the heart is

This unmet appetite for home ownership is not just confined to young people and renters. When we look at the survey results by ethnicity, we uncover an uncomfortable fact. While White people have a clear preference for pension saving over saving for a home deposit, the complete reverse is true for all other ethnicities. Only 29% of Black individuals favoured pension contributions over saving for a home deposit.

This is part of a wider picture. Our research suggested that more White individuals thought that their benefits package met their needs – specifically, White individuals were 66% more likely to state that the benefits package met their needs than Black individuals. Value attributed to pension seems to be one aspect causing this. In a **previous paper** we also discussed how value on different aspects of the wider employment package differed by ethnicity.

Employers with diverse ethnic populations should therefore consider how they capture this employee voice and support a wider range of long-term saving goals.

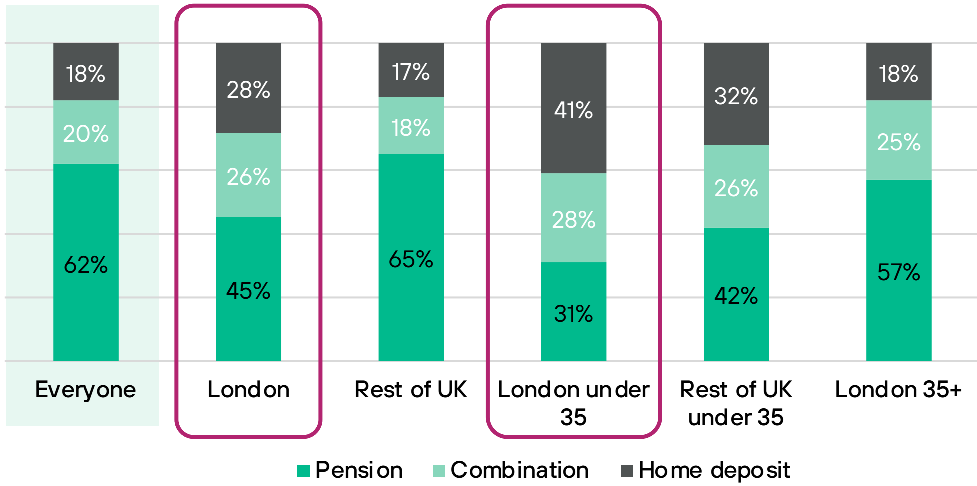


4. Location

London calling

A further fracture in the story occurs when we look at where people live, and in particular whether they live inside or outside of London. The effects of London's somewhat unique property market can be seen very clearly.

Londoners of all ages are more likely to be interested in saving for a home deposit than their peers. This data also suggests that talking to Londoners under 35 about pension is likely to be a fruitless exercise – they're more inclined to want their capital to be going towards property.



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The Money Tree.

The charts on the previous pages demonstrate there are **clear segments of the population who value help in getting on the property ladder, but who possibly don't have access to this help**. Today it's estimated that 54% of first-time buyers get help toward their home deposit from their parents[4]. This proportion has doubled in the last 15 years. But not everyone has access to 'Bank of Mum and Dad'. These employees seem likely to value an employer who is willing to play that role.

What's in it for the employer?

Help to buy a home was rated as the 4th top stickiest benefit in our second research paper (in terms of which benefits an employee would stay in their role for). As well as fostering long-term loyalty, buying a first home carries an enormous positive emotional charge that other benefits such as ISAs, loans and discounts simply cannot compete with. Therefore, being an employer who supports employees with their personal life goals represents a rewarding opportunity.

With consideration to both the present and future make-up of the workforce, employers may want to contemplate how represented and supported these identified pockets of the workforce are (the under 35's, renters, ethnic minorities and London-based employees) within their organisation, to start to address this disparity.

[4] How many people had help from their parents to buy their first home, YouGov

Bringing back the balance.

Now that we are aware that certain groups of employees may have diverging preferences for long-term savings, **what can employers do to rectify this imbalance within the reward package?**

Pension is often seen as a fixed, unmovable object within the design of a reward package, set aside in the mind's eye of decision makers with 'do not touch' barrier tape. But for those who want it, flexibility is an option that can be introduced.

Employers can permit flexing of pension contributions at a level they are comfortable with (a redirection of both employer and/or employee pension contributions in a cost-neutral manner) to a savings vehicle such as a Lifetime ISA or ISA that supports home deposits, mortgage repayments or other long-term savings goals. This must be implemented with the correct intentions, and appropriate safeguards in place, allowing employees to make an informed and educated choice. It must also have the guiderails necessary to bring employees back into pension as soon as possible.

Using a less direct approach, support with a home purchase could also be offered via access to mortgage brokers or conveyancing and survey discounts, alongside a wider communication and education strategy that prioritises saving for the future.

Hitting home.

- Reward packages tend to have a sole focus on one long-term priority: pensions.
- There are clear cut segments of the population who prioritise other long-term savings objectives, such as home ownership, over saving for a pension. This population looks set to continue to grow.
- There is an opportunity for employers to support these groups by taking on a Bank of Mum and Dad role.
- This would promote a more inclusive reward package, and a better 'return' on money spent on benefits for the employer, in addition to creating long-term loyalty.
- A fresh design perspective could incorporate offering a level of pensions flexibility to employees or providing support tools and education around retirement planning options.

The final step.

Our next, and final, paper in our series will focus in more detail on some of these minority groups; how their preferences vary and how employers can do more to ensure the value of the reward package to all employees is equitable.

In the meantime, reflect on what your organisation offers to support long-term savings goals other than pension.

How much of your workforce is represented by the key identified demographics (the under 35's, renters, ethnic minorities and London-based employees)? Do the long-term saving goals of these employees diverge from what is offered in your benefits package?

What role would you like to play in enabling employee home ownership?

For further insights on how to make the most of your reward and benefits, read the rest of the series here.

Contact.

Will Aitken
will.aitken@isio.com
020 8154 5024

Nic Lywood
nicola.lywood@isio.com
020 8154 5010

Sinead Heath
sinead.heath@isio.com
028 9692 2983

Claire O'Neill
claire.oneill@isio.com
028 9590 9700

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