



The pension
opt-out epidemic:
**Why now's the time
to take action**

The growing concern

An alarming number of **employees are opting out** of their workplace pension. **26% of large businesses in the UK** have reported an increase in the number of employees opting out of their workplace pension. (Cushon, 2023)

One pension provider reported over 7% of the employees they service have opted out of their workplace pension scheme. This percentage may sound low, but when applied to all workplace pensions across the UK, it represents millions of workers.

Opt-out rates within organisations will vary depending on factors such as the type of pension scheme, employer contribution levels, employee demographics, and wider economic conditions. But research has found three groups of employees in particular have stopped setting money aside for their retirement: women, young people and lower-income earners.

10% of women have opted out of their workplace pension.

(Scottish Widows, 2024)

1.43m 30-somethings are not contributing to a workplace pension

(Outra, 2024)

Why are employees opting out?

The vast majority of people want to save for their future, and having a pension well-established from a young age is a critical part of securing that financial future. Unfortunately, many cannot afford to contribute when rent, mortgage repayments, utility bills, and living costs have all gone up. Some may have experienced life events that have put them into debt. Others may be choosing to focus on short-term spending or other more pressing needs. A few may believe their workplace pension isn't right for them.

When money is tight, and it's a choice between heating and eating today, or saving for tomorrow, the pension opt-in is usually the first to go.

Why does it matter?

This trend is concerning because many employees are missing out on valuable retirement savings. Experts fear we are heading towards a retirement savings crisis, which could negatively impact both employers and society at large.

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Opting out of your employer's pension scheme is tantamount to taking a pay cut.

Jackie Leiper, Scottish Widows Managing Director

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If your organisation's pension opt-out level is more than 5%, it's likely you have an underlying problem that needs to be addressed.

Jason Butler, Head of Financial Education at Salary Finance

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The human impact

When opting out of their pension, an employee will see an immediate financial benefit in the form of an increase in their take-home pay. What they may not see, or fully understand, is the longer-term financial cost.

Not only will they forgo employer contributions and pension tax relief, but they also miss out on the wonder of compound returns over time.

For example, a 25 year old who misses just 3 years' minimum pension contributions, could potentially miss out on £227,310 pension fund value at the age of 65.

This may force some people to work beyond their desired retirement age, or risk financial hardship in later life.

Some of your workers may be eligible for state benefits that are based on net income, like Universal Credit. Opting out of a workplace pension may affect their eligibility, or reduce the amount they receive, as a result of increased gross pay.

Peter Jackson, formerly chief data officer at the Pensions Regulator and now in the same role at Outra 'If you flip out of your pension you are pushing a cost of living crisis into your retirement'.

The employer impact

A high pension opt-out rate may indicate issues in the workplace, such as:

- Financial hardship and financial stress
- Low morale
- Lack of understanding and uptake of other workplace benefits
- Reduced loyalty to the company

These issues can lead to lower productivity, higher levels of sickness absence and higher attrition.

Economical impact

An ageing population with inadequate retirement savings could lead to a reliance on state benefits, strain on the state pension system and other ripple effects like lower consumer spending and increased social welfare costs. We are already seeing this play out in other countries around the world, like [China](#). Future generations might bear the burden, with higher taxes or reduced state benefits.

Wealth inequality may also worsen, as many who opt out of workplace pensions tend to be lower-income workers who can least afford to forgo retirement savings.

What can employers do to keep their employees in the pension scheme?

Employers may want to consider these cost-effective strategies to encourage participation in the workplace pension scheme. If you're able to, speaking to employees who have opted out will help you identify which of these suggestions will have the biggest impact on your organisation's opt out rates.

Educate employees

Not only about the long-term benefits of saving for retirement, but also the financial cost of opting out. Provide informative, engaging communications at opportune times throughout the year. Speak to your workplace pension provider about how they can support you. Through our [Learn platform](#), Salary Finance offers pension and retirement related content to help people understand their options better, including a pension calculator tool.

A [recent government report](#) also found that some lower-income earners are concerned that contributing to a pension will reduce their current or future state benefits. Education to target these common misconceptions may encourage more employees to remain in the pension scheme.

Build awareness of the different investment options available

Ask your provider to share a summary of the investment choices available beyond the default fund, so you can share this with new joiners and those who have opted out. This may help to engage workers, for example those who want to invest in line with religious, ethical or environmental beliefs, and who may not know that these options exist within the scheme.

Remind employees of their option to opt back in

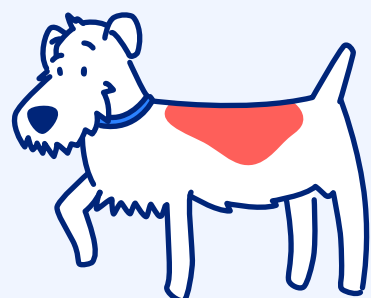
Particularly when they receive a pay rise and may feel they can afford to contribute. Consider how much you communicate about your pension scheme and (if you see regular opt-outs happening at certain times of year) if you need to proactively share 'opt back in' type communications to highlight the risks.

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People are mortgaging their future to cope with today

Jason Butler, Head of Financial Education at Salary Finance

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Introduce salary sacrifice

Or promote its benefits to employees who haven't already signed up. It reduces National Insurance contributions, maintains pension contributions, and boosts take-home pay. If you already offer this, but it's not widely taken-up, perhaps there's more education required.

Increase employer contribution levels

If this is an affordable option for your organisation, this could make a huge difference in terms of keeping employees in the scheme, but also improving retention and employee sentiment. Matching employee contributions may appeal to lower-income workers if they see it through the lens of a pay rise.

Offer flexible employee contributions

Again, if this is an affordable option, this will allow employees to increase or decrease their contributions in response to their personal financial situation, rather than opting out completely, so long as the current total minimum contribution of 8% is met.

Promote other employer benefits that you offer

Like discounts and rewards, or any other benefits that can make take-home pay go further. By helping employees identify where they can save money and boost their income, they may then choose to continue contributing to their workplace pension.

Signpost employees with short-term financial difficulties to the appropriate support

If you suspect that pension opt-outs in your organisation are due to deeper issues around financial hardship, you should consider signposting to unbiased third-party support. For example, a financial advisor, mortgage adviser, debt adviser, or the free and impartial guidance from [MoneyHelper](#) and [Citizens Advice](#). Addressing short-term difficulties will give employees the space to plan ahead for their future.



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If you flip out of your pension you are pushing a cost of living crisis into your retirement.

Peter Jackson, Chief Data Officer, Outra
(formerly CDO, The Pensions Regulator)

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Invest in the wider financial wellness of your employees

Salary Finance offers industry-leading, salary-linked financial wellbeing benefits, including instant salary advances, salary-deducted loans and simple saving solutions. These benefits give employees alternative options to consider before opting out of their workplace pension.

As illustrated in the example below, a debt consolidation loan through Salary Finance could help employees save money in interest, ultimately reducing the potential pressures on monthly cashflows.

In the example below, Maria, a healthcare support worker, increases her take-home pay by £110.32 when opting out of her pension. However, if Maria remained in her pension scheme but consolidated her £8,200 debt with a Salary Finance loan instead, she would save the equivalent of £90.95 per month, adding up to over £16,900 saved over a year. Having access to affordable options to consolidate her debt is not only offering her an alternative to opting out of her pension, it is essentially giving her a 4.48% net salary increase.

Maria 26
Band 3
Healthcare support worker
Pension contributions 6.5%
Debt £8,200
£287 monthly repayments
Term 37 years+

	£	Pension opt out impact
Salary	£2,028	
Tax	-£168.52	-£196.10
NI Contributions	-£117.66	-£117.66
Pension	-£137.90	0
Total deductions	£424.08	£313.76
Net pay	£1603.92	£1714.24
Difference		£110.32

	Existing debt	Salary Finance loan – debt consolidation
Amount	£8,200	£8,200
% of Debt	100%	100%
APR rate	34.9%	13.9%
Term	37 years 11 months	5 years
Monthly repayments	£287	£196.05
Total amount paid	£28,671	£11,763.29
Total saved p/m	–	£90.95
Total amount saved	–	£16,907.71

4.48%
net salary
increase

In addition to our suite of **practical solutions** and **products**, our **easily-digestible, interactive financial education content** provides employees with the **skills they need to manage their money** and make informed financial decisions, including why and how to save for retirement.

Take action now to support your employees' financial futures. Implement these strategies to reduce pension opt-out rates and ensure a secure retirement for your workforce.

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