

Protecting your retirement plans

Don't let coronavirus derail your financial future

The COVID-19 pandemic has touched virtually every aspect of our lives, not least of which is how we save for retirement. And while the number one priority is keeping our families and ourselves safe and healthy, the next topic on most people's worry list is the financial impact, especially if the situation doesn't improve quickly.

As global markets have been highly volatile, the planning towards achieving our retirement goals may now require readjustments. The current situation has led to one in ten people reducing or stopping saving into a pension because of the pandemic.

MOST FINANCIALLY AFFECTED

Those who already struggle to put away for retirement are most financially affected by COVID-19, including self-employed, part-time and younger workers. More than three million people have reduced or stopped completely their pension payments as a result of the COVID-19 crisis, new research has revealed^[1].

10% of UK adults who have a pension and are not yet retired will need to work for longer or significantly increase how much they save later on in order to make up the shortfall, the findings of the research highlight. Those who don't could potentially face pensioner poverty in later life.

SHORT AND LONG-TERM PERSONAL FINANCES

Conducted in the midst of the lockdown, the research looks at how the crisis is impacting the short and long-term personal finances of the nation. It revealed that almost a quarter of workers (24%) are worried about paying for essentials like food and energy.

Another 20% are concerned about paying the rent or affording their mortgage. In total, almost one in five (19%) say they have seen their income fall because of coronavirus. These short-term financial concerns are impacting long-term saving, with 10% reducing pension contributions or stopping saving completely.

PAINFUL LACK OF FINANCIAL RESILIENCE

The COVID-19 crisis has revealed a painful lack of financial resilience in the UK, leaving millions of people exposed with little or no safety net to fall back on. As the full impact of this crisis becomes clearer, more people may feel forced to pay for today's essentials with tomorrow's savings.

However, this will only prolong the economic pain of coronavirus and could result in more people facing poverty in retirement.

Those who have traditionally struggled to save adequately for retirement before now are also being disproportionately affected by COVID-19. Two in five self-employed workers (43%) have seen a drop in their income, almost three times the proportion of employees (16%).

NOT SAVING ANYTHING TOWARDS RETIREMENT

While the Government's Self-employment Income Support Scheme will help cover some of these lost earnings, those who have been self-employed for fewer than two years will receive even less support.

As a result, one in five (19%) self-employed workers have felt the need to pause or reduce pension contributions. This is on top of the 41% of self-employed people who in 2019 said they were not saving anything towards retirement.

REDUCED OR STOPPED PENSION CONTRIBUTIONS

Part-time workers also tend to be less well prepared for retirement, and now three in 10 (28%) have lost their job or been furloughed due to coronavirus, compared with 18% of full-time workers. Because of this, part-time workers are two-and-a-half times more likely to change their long-term savings habits than full-time workers (15% as opposed to 6%).

The nation's youngest workers are also sacrificing their long-term financial plans. Almost one in five (18%) 18-24-year-olds have reduced or stopped pension contributions. Of this age group, 7% have actively moved their pension to a lower risk investment fund, despite being many years away from retiring.

Women who are not yet retired are more worried about paying for essentials than men (27% as opposed to 22%), and are more concerned about paying the rent or mortgage (22% as opposed to 18%). ■

WANT TO TALK TO US ABOUT ANY ASPECTS OF YOUR FINANCIAL WELL-BEING?

With COVID-19 making headlines around the world, it's normal to feel uncertain about many aspects of life right now, including our finances. If you would like to talk to us about any aspects of your financial well-being, please contact us.

Source data:

[1] Research was carried out for Scottish Widows online by YouGov Plc across a total of 2,251 adults aged 18+. Data is weighted to be representative of the GB population. Fieldwork was carried out 11-12 May 2020. More than 3.1 million (3,135,601), calculated as 5.9% of the adult population (52,673,433), have reduced or stopped paying into a pension (equal to 10% of workers who have a pension).

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