Howden Employee Benefits

The corporate pensions paradox

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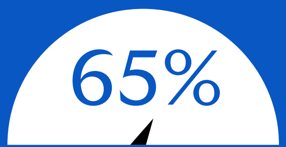
Confidence is high. Engagement is not.

Employees with workplace pensions at medium-sized employers, defined in this research as organisations with between 250 and 1,000 employees, report high levels of confidence in their expected retirement income.



Nearly two-thirds (65%)

feel certain they will retire with a comfortable income, suggesting that their post-working life plans should be in good shape and that employees feel well prepared for retirement.

However, research highlights a clear paradox. While workers at medium-sized companies are confident about their predicted levels of income, there is a concerning gap in engagement, planning, and awareness of certain pension-related benefits, such as salary sacrifice, that could materially improve their outcomes.

For employees, this could lead to poorer retirement outcomes than expected. For employers, it creates a growing governance and value-for-money challenge. Workplace pensions represent a significant investment, so employers need confidence that their spend is helping people work towards the retirement they want, while also supporting financial wellbeing, productivity, and retention today.

The disconnect - confidence vs reality

Although employees at medium-sized firms are largely positive about their expected retirement income, our data paints a different picture.

> It suggests that confidence may not be supported by detailed planning, creating concerns that those in early or mid-career are not on track for the retirement outcomes they expect.

65%
employees upbeat about their post-working pension pot

25%
have no financial goals at all

For instance, while 65% of these employees are upbeat about their post-working life pension pot, only 24% have set clear financial goals. More concerningly, a quarter (25%) have no financial goals at all, while the same number have a rough idea but no concrete plans in place. This also suggests that employees' perception of a pension pot they need may differ from what is actually required to enjoy what they consider to be a comfortable retirement.

This goes hand in hand with a passive approach to retirement planning.

Six in 10 (60%) do not know where their pension is or what it holds, another clear contrast with stated confidence. General engagement with pensions is low, with only 45% logging in to an online account to view their pension.

For employers, this raises an important governance question:

> Are pension arrangements being communicated, monitored and reviewed in a way that supports better member decisions?
>
> It also raises a value question: if employees do not understand or engage with their pension, is the business getting the full benefit from one of its most significant employee investments?
>
> Employers want good outcomes for their people, but they also need to help them understand where to find information, how to access support, and what actions they can take to improve their retirement planning.

60% do not know where their pension is or what it holds.

45% log in to an online account to view their pension.

While employers play an important role in communicating the support available, employees also need to seek advice and use the services, tools and help on offer, a benefit of being part of a scheme at a medium-sized business.

> Members typically receive at least a basic level of support through workplace pension schemes, but this is often generic and not always made clear to them, or they may not know where to find it.

Employers can improve this by choosing providers with stronger support features that are easier for employees to access, supplemented by clear information and timely prompts. In many cases, employees may be willing to engage; they just need clear signposting. Employers can also provide extra value through features such as:

- Increased contributions
- Better engagement
- Wider support

Ultimately, improving outcomes requires a collaborative approach from all parties.

Making support visible is key to improving outcomes.

“Employers want good outcomes for employees because they want their people to be able to retire how and when they want. More broadly, good financial wellbeing supports productivity and retention, helping employers get more value from one of their most significant benefit investments.

But confidence without understanding can quickly become a risk, and even a well-funded pension pot does not guarantee a secure retirement. While workers may feel comfortable now, they could be in for a shock later down the line. Employers are incredibly well placed to address this early and swiftly with good financial education and support.

Mark Futcher
Head of DC Pensions

Inertia in strategy and tools

The passive attitude and lack of financial planning are symptomatic of a wider sense of pensions inertia and underuse of available tools.

Despite widespread employee concerns about where pensions are held, a general "set and forget" mindset is common at medium-sized companies. This can leave members at risk of making poorly informed decisions.

Only 7% of employees have changed their investment strategy in the past year, a statistic that should prompt attention given recent volatility and the impact of global events over the last 12 months. In addition, just 11% are increasing their pension contributions annually, while 45% have never done this at all.

More than a quarter (27%) have opted out of their workplace pension altogether, raising the question of whether any alternative arrangements are better suited to meet their financial goals. The same number (27%) have also never used a pensions calculator, meaning a significant proportion of employees are missing out on a simple tool to visualise their future income, although 55% are increasingly turning to AI.

While employees have a role to play in engaging more with their retirement plans, a significant responsibility also sits with employers. Some inertia may stem from an expectation that the employer is already setting employees up for success through strong contributions, good value and effective investment performance.

Inertia is less of a concern where employers are confident their schemes are delivering value. However, not all employers will be in a position to increase contributions, particularly in the context of tighter margins, inflationary pressure and changes to National Insurance. There are, however, other ways to help members get more from what they are already saving, and to help employers demonstrate that their pension spend is being used effectively.

> Our flexible benefits platform, for example, provides reporting on investment strategy design and risk-adjusted performance, giving employers comparative insight against the market and bespoke benchmarks to ensure performance is assessed objectively.

Although tools like these can help employers improve outcomes for members, there's still a need for greater workforce engagement to tackle inertia. Securing better outcomes requires a coordinated approach, employers and employees working together to ensure financial goals are set, expectations are clear and available support is used effectively. However, our research suggests there are still major challenges to overcome.

Shared responsibility. Better outcomes.

> The persistence of 'set and forget' behaviours should be a clear warning sign for employers. When employees aren't reviewing contributions, investment strategies, or using available tools, there's a real risk that pension outcomes fall short of expectations.
>
> The reality is that there are two sets of decision-makers at play. Employers have a critical role in closing this gap, whether through better communication, clearer tools, or more proactive engagement strategies. Without this, inertia will continue to undermine long-term financial wellbeing and ultimately impact workforce confidence and productivity.
>
> This engagement should then inform employee decisions, helping to maximise outcomes.

Mark Futcher
Head of DC Pensions

Salary sacrifice - utilisation without understanding

Salary sacrifice can be a valuable benefit for employers and employees. It can reduce National Insurance costs and help more money go into pension pots before tax is applied. However, where understanding is low, it can also reinforce a passive approach to pension saving.

Currently, 62% of employees in medium-sized companies are using salary sacrifice. While widespread adoption has clear benefits, it can also reinforce the same passive mindset that is already creating retirement planning challenges. Although convenient for employers and employees alike, the hands-off nature of salary sacrifice means many workers remain confused about how it works or are influenced by common misconceptions.

For example, nearly a third (30%) of DC members in medium-sized firms are unaware that salary sacrifice can affect their mortgage borrowing power, and over one in five (22%) wrongly believe it can only be used for pensions, rather than other benefits such as childcare or company car schemes.

62% of employees are using salary sacrifice

42% don't understand the rules around this altogether

This is also contributing to a sense of "compliance confusion." Some 21% incorrectly believe salary sacrifice pushes earnings below minimum wage, while 42% don't understand the rules around this. Most notably, 59% are unaware of changes coming in 2029, which could further increase the need for clear employee communication and employer oversight.

“low understanding creates real risk”

High uptake of salary sacrifice is encouraging, but low understanding creates real risk for both employees and employers. Misconceptions around affordability, eligibility and wider benefits mean people could be making decisions that don’t align with their financial goals.

Salary sacrifice is a valuable tool for employers and their people, but it can be complex to run and understand. Getting it right means putting in place simple, robust policies that are easy to administer, supported by clear communications so employees can use it effectively.

Done well, it ensures employers get more for less, with more going into employees ‘retirement pots while employers make a saving. Even as changes come into force from 2029, it is still likely to remain a worthwhile and impactful benefit.

Mark Futcher
Head of DC Pensions

Conclusion

The findings highlight a clear disconnect in medium-sized firms: confidence is high, but engagement and understanding are low. This puts retirement outcomes at risk.

For employers, it also raises a wider business challenge. Workplace pensions are a significant investment, so schemes need to deliver value for the business as well as employees, supporting financial wellbeing, productivity and retention today, while helping people work towards the retirement they want in the future.

Businesses can address many of these issues through stronger governance frameworks focused on two key areas: increased engagement and better use of available tools.

In practice, this may start with a broader pension review, assessing whether scheme structure, contributions, provider and investment strategy remain fit for purpose. For some employers it may also involve a more formal audit to identify gaps between intended and actual member outcomes.

Other areas to focus on may include:

- Simplifying and personalising pension communications
- Creating regular prompts for engagement, such as pay rises or life events
- Promoting and improving use of planning tools
- Clearly explaining benefits such as salary sacrifice
- Using data to target support where it's needed most

These are not straightforward governance challenges to overcome. Getting the right approach in place requires ongoing oversight, clear insight and a willingness to review whether schemes are delivering for members.

Retirement planning should not be left to guesswork, and pension governance should not be viewed as discretionary. Employers that regularly review their arrangements, monitor member engagement and make effective use of available tools are likely to be better placed to support positive member outcomes and maximise the value of their pension investment.

Workplace pensions represent one of the most significant investments many employers make in their people. Improving engagement, understanding and outcomes requires commitment from both employers and employees.

For more information about the findings in this research, please speak to your usual Howden contact.

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