

Grey matter: educating pension consumers in the credit crunch

Tim Evershed

With one in three Britons planning a "complete overhaul" of their finances in the credit crunch, the pensions sector arguably has an opportunity to make the best of a torrid economic climate. But leading pension marketers acknowledge the challenge of educating consumers as to how best to protect their money in turbulent markets.

Even in previous eras of tough trading, successful marketing campaigns - some of which you can read about on WARC Online - have been developed by pensions brands such as Standard Life, Scottish Widows, Norwich Union and others (see the [Further Reading](#) section below for links to detailed case studies). But the current UK climate with its combination of the credit crunch, rising inflation, the spectre of recession, falling house prices and decreasing stock markets is certainly not making the job of pension marketers any easier.

The value of the FTSE 100 Index on the London Stock Exchange has fallen from a high of 6752 points last year to a low of 5071 earlier this year, a drop of 25%. "Marketing pensions has been a struggle for a while now," admits Ian Naismith Head of Pension Market Development at Scottish Widows.

Naismith wearily lists issues going back to the early nineties including Robert Maxwell's misappropriation of millions of pounds of his employees' pensions funds at Mirror Group Newspapers and the industry's own admissions of widespread mis-selling that caused many to face retirement with substantially less funds than anticipated.

The industry was further shaken in 2000 when Equitable Life, regarded by many as the gold standard of UK pension providers, almost collapsed and had to cut the pensions and retirement savings of its policyholders to remain afloat, causing a large public outcry. This followed Gordon Brown's infamous tax raid on UK pension funds in 1998, which removed tax credits from share dividends that wiped billions of pounds from the value of pension funds.

This action, combined with the booming housing market, caused many savers to view alternative investments, such as buy-to-let properties, as a far better means of saving for their retirements. Despite the plethora of bad news in 2006, the total amount held in all life and pension funds increased in real terms by 5% year-on-year, to £2,310bn, according to the Association of British Insurers.

However, the decline of the stock market caused many pension schemes to fall into deficit, a situation that continues today. Actuarial group Lane Clark & Peacock (LCP) found that the pension funds of FTSE 100-listed firms had a net deficit of £41bn in July 2008. This compared with a £12bn surplus in mid-July 2007, which had been the first surplus for five years, adding that the position could have been far worse given the problems facing financial markets.

The report said that the credit crunch, equity market volatility and rises in expected inflation had all played their part in severe swings in funding levels. Bob Scott, partner at LCP, stated that the brief period of surplus until early 2008 had allowed some companies to take the opportunity to cut down on these risks. He said: "No sooner have companies breathed a sigh of relief about returning to surplus but they are back to multi-billion pound deficits. With a possible recession looming and the threat of further regulatory intervention, the outlook for continuing defined benefit provision seems rather bleak."

It is against this challenging backdrop that the marketing departments of UK pension providers seek to assuage consumer anxiety about pension investments and the need to plan for retirement.

"It is difficult to market pensions to individuals because you have to convince the individual that they want to save, and more importantly that they want that saving to be in the form of a pension," says Martin Palmer, Pensions Development and Strategy Manager, Friends Provident.

The major UK pension providers all say that education is key to the marketing of pensions and to this end fund a wide range of annual surveys that attract media coverage on television, radio and the national newspapers. The aim of the surveys is to highlight the growing disparity between what people are saving and how much their retirement is going to cost them, particularly as life expectancy continues to rise.

As pensions in the UK are predominantly sold through IFAs and banks direct marketing spend is often placed on trade magazines and websites. However, advertising is generally cautious in dealing directly with the economic climate: "You can give reassuring messages when the market is low, but their impact is questionable," says Naismith.

According to the latest research carried out for Prudential, UK pensioners are failing to budget for life in retirement despite the economic slowdown, with many spending considerably more in year one than in subsequent years. The study found that 29% of pensioners admit to spending more in their first year of retirement, on average splashing out £8,000 more than in subsequent years.

The research also found that 19% of those who had spent more in the first year of retirement regretted doing so and only 32% of retired

UK adults said they set a retirement budget. Despite this, the study, conducted among retired UK adults, found that 63% said they felt they had planned their finances adequately before retiring.

Gary Shaughnessy, Prudential's Managing Director Retail Life & Pensions, said: "It is quite worrying to see the lack of planning people undertake as they approach retirement and it's particularly surprising to see how few of today's pensioners sought financial advice."

One of the key concerns is that people don't have any idea how long they will live in retirement and therefore don't think about the longer-term implications of over-spending when they first retire, Shaughnessy added.

Palmer says: "We do need to educate people. The difficulty is that the stock market is down. However, it is actually a good time to invest as you can buy in at a low level and long-term you will gain more. However, people always prefer to invest when markets are on the up."

And Friends Provident's research suggests that people tightening their belt financially this year because of the credit crunch can be turned into an opportunity for pension providers. It found that 33% of UK adults are planning a total overhaul of their finances as a result of the global credit crunch to see how they might be able to secure better deals on their finances. Three quarters of these people believe they will be able to save money via a financial makeover.

Palmer continues: "The credit crunch is already impacting on consumers, both financially and psychologically. Our research found that 40% of people are worrying more about their finances because of the credit crunch. The trick is to harness this heightened awareness and to do something positive, like overhauling your finances, budgeting effectively, and investing your money in a way that makes it work smarter for your needs."

Part of the message that pension providers are attempting to get across through the indirect means of the media is the value of an independent financial adviser (IFA) in planning for retirement.

"We recognise that advisers are having difficult conversations with customers. But, these conversations are a big part of making the right plans for retirement," says Alistair Hardie marketing manager at Standard Life. He adds: "It is important that at times like that the advisers review all the options with the customers and that the adviser has a number of options for saving, among them a pension."

And Hardie believes that the tax advantages of investing in a pension are still a crucial selling point as tax relief of 25% is available on contributions of up to 100% of your salary, or £225,000, a year. Hardie continues: "Tax relief is the most important aspect of a pension to promote. We also need to promote the benefits of regular monthly payments and pound cost averaging while the market is suffering a downturn."

The ability to offer a diversified portfolio is key at a time of economic downturn as consumers will not want to see their savings eroded, with cash funds an important part of a retirement plan. Hardie says: "There is a huge onus on advisers to encourage customers to feel that their cash will be safe until they are ready to start investing it into the stock markets."

Another crucial area is those pensions offered by employers to their employees. Palmer says: "To deal with employers you have to show what benefits the pension scheme will provide, not just for their employees, but also for the company as a whole. And despite tougher trading conditions for many companies employers still appear to see the value in what they are doing by providing a scheme."

He adds: "We have people who go into the workplace to provide advice and information. The advisers need to show people our full range of funds that mean people can switch from equity to cash funds and ensure they feel safe with where they are investing. When they are ready they will have the option of switching back."

About the author

Tim Evershed covers the UK financial services sector and has previously written for WARC Online on the [impact of comparison websites on insurance branding](#).

Further Reading

Read WARC Online case studies on how pensions and retirement savings brands have been successfully marketed:

1. [Standard Life - It's not easy to be liked](#)
 2. [Norwich Union Stakeholder Pensions - A pension for every man](#)
 3. [M&G - How advertising paid when it told the whole truth...](#)
 4. [Scottish Widows Pension](#)
 5. [Perpetual Investments: Would a Return of 19.4% pa Change The Way You Look At Advertising?](#)
 6. [Taking the Commonwealth Bank into the forefront of retirement planning](#)
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