Benefit gig:
New relationships, new benefits, new model UK financial services

In the United Kingdom, there is an increasing need for individuals to take greater responsibility for their own financial future.

Financial wellbeing and inclusion

However, due to the perceived ‘advice gap’ the majority of UK citizens find themselves having to make many important financial decisions with no or limited guidance. They need help. Can it be given by businesses they work for without an undue cost?

In evidence to a parliamentary committee ahead of the UK’s much anticipated gig economy reform programme, both Uber and Deliveroo said they would be interested to provide benefits for committed colleagues. But they are fearful that doing so could convert freelancers to workers – or workers to employees.

The UK government-backed Money Advice Service (MAS) found that whilst most people in the UK are managing their financial affairs well on a day to day basis, far fewer are preparing well for significant life events.

Composite measures by household income

![Composite measures by household income chart]

**Source:** Money Advice Service, UK Adult Financial Capability Survey, 2015.
In response to this, the UK government is promoting the important role that businesses can have in providing their staff with help. This policy objective is outlined in the Final Report on the Financial Advice Market Review (FAMR) that was published in 2016 by HM Treasury and the Financial Conduct Authority (FCA). At this time, the initiative is focussed on conventional employment models. Given the high number of marginalised (older, younger, female) workers in the gig economy, we think the FAMR initiative should also look beyond the traditional workplace and engage with gig platforms to develop opportunities for their workers to access financial wellbeing solutions.

What is the advice gap?

FAMR defines the ‘advice gap’ as “situations in which consumers are unable to get advice and guidance on a need they have at a price they are willing to pay”.

FAMR was launched to address the perceived ‘advice gap’ resulting from the UK Retail Distribution Review that was launched in 2006. This aimed to fundamentally change the way retail investment products were distributed to UK retail consumers by eliminating ‘commission bias’, i.e. moving away from advice via commission to paying adviser fees. However, this change has in part led to the majority of the UK adult population being unable to afford financial advice. As conventional employment models erode, this tendency is likely to strengthen.

What is financial capability?

In its 2015 survey, MAS defined financial capability as:

“... a person’s ability to manage money well, both day to day and through significant life events, and to handle periods of financial difficulty.

It is driven by personal skills, knowledge, attitudes and motivations, and made possible by an inclusive financial system and supportive social environment. Financial capability helps people achieve the best possible financial wellbeing.”

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Proportion of employees who expect that employers should offer access to web-based tools or calculators, according to age

- 23% of those aged 18-21
- 31% of those aged 22-29
- 28% of those aged 30-39
- 25% of those aged 40-49
- 22% of those aged 50-59
- 21% of those aged 60-64
- 13% of those aged 64-69
- 8% of those aged 70-74

Source: Workplace pensions report 2016, Scottish Widows Limited
The importance of financial wellbeing in earnest

A range of factors, such as the most depressed wages since the global financial crisis, rising housing and education costs, and the challenges in building up satisfactory pensions pots are affecting the financial wellbeing of millions of workers. Poor financial wellbeing can have negative consequences for health in terms of poor psychological wellbeing and higher anxiety and stress levels.

Research from the Institute of Employment Studies (IES) indicates that this in turn impacts economic productivity through poor job performance, reduced concentration, and absenteeism. A recent survey of 10,000 UK workers by alternative finance provider, Neyber identified that:

- 70% of the UK workforce admit to wasting a fifth of their time at work worrying about their finances, costing the UK economy £120.7billion a year; and
- at least 17.5million hours are lost per year as a result of workers taking time off work due to financial stress.

The Taylor Review is considering ways of promoting better (healthier, happier, more autonomous) forms of work. The FCA is also alive to this issue, and in March 2017 as part of its Project Innovate RegTech initiative held a TechSprint competition to challenge participating teams to develop technology tools and concepts to help break the link between financial difficulty and mental health problems, see the role of technology.

Financial wellbeing – a role for the business?

FAMR recognised that automatic pension enrolment, together with widespread workplace pensions, mean that employers are becoming an obvious point of contact for employees seeking help as they approach retirement. This applies to those who engage workers as much as conventional employees, as the auto-enrolment rules apply to them. FAMR believes that the workplace presents an opportunity to address the ‘advice gap’ and its findings are that consumer demand for access to advice through the workplace is strong.

This position is supported by research published in January 2017 by the IES and the Chartered Institute of Personnel and Development (CIPD) which shows the need for employers to take action to support their employees’ financial wellbeing and offer staff access and information on sources of advice to make good financial choices.

1 in 4 workers say they have lost sleep over money worries
SMF, 2016

89% of employees agreed that financial concerns have an impact on employees’ workplace performance
FCA, 2017

8% of employees have spent time during the working day dealing with money problems
CIPD, 2017

46% say financial pressure affects relationships with manager
Neyber, 2016

59% of employees with ‘current’ financial worries state money concerns prevent them from performing their best at work
Willis Towers Watson, 2016

4% to payroll costs for UK firms
Barclays, 2014

Each year, financial stress costs the UK economy
£121 billion
Neyber, 2016

IES/CIPD has published practical guidance for employers that maps out key steps along the journey for businesses to help their employees make better financial decisions, and outlines the benefits for organisations and employees alike. In April 2017, FAMR’s Financial Advice Working Group also published (after consultation with employees, employers, MAS, FCA representatives and consumer-facing groups) its final report for consideration by HM Treasury and the FCA. The proposals include a web-based portal offering employers useful information to help employees manage their money, and a simple guide to give to employees containing valuable tips and tools.

The UK regulatory position

FAMR identified that concerns about regulation and potential liability often deter some employers from offering financial support to their staff. That applies to financial advice regulations and to employee or worker status. Only FCA regulated and authorised firms and individuals are permitted to offer advice on financial services products. Employers can provide access to financial advice for their employees without needing to be authorised by the FCA provided that the employer is not in the business of providing investment advice and does not receive any commercial benefit for helping its employees. It is not clear how far this can extend to workers (or the self-employed) and many businesses that wish to be more collaborative are, anecdotally, fearful of being so least it change their status and impose more obligations – a “vicious virtuous circle”.

In April 2017, the FCA published a draft employer factsheet that sets out what help employers can provide on financial matters to their employees without being subject to regulation. The FCA expects this guidance, following consultation, to take effect from January 2018. We would be excited if this is expanded to include new work models and the people who work with them.

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The role of technology

FAMR recommends taking steps to ensure new financial technologies (FinTech) can be exploited to drive down the costs of supplying advice, making it affordable for more consumers.

There is a growth in FinTech service providers offering financial planning tools to organisations to incorporate into their benefits packages. Examples of such FinTech firms operational in the UK market include:

- **Squirrel Financial Wellbeing**: which enables employees to opt to have a percentage of their pay paid into a ‘Squirrel account’ to help them meet their personal budgets and financial goals.

- **Care.com**: a ‘peer to peer’ platform so that families and pet owners who engage care-givers can ‘tip’ them with funding for benefits via pre-paid debit cards humanising the tech process with systemic gathering of activities.

- **Neyber**: a financial wellbeing company, works directly with employers to offer affordable borrowing to employees, directly from their salaries.

- **MoneyFarm**: a robo-adviser, has recently partnered with taxi-app Uber, to enable its partner-drivers access to pension and ISA products (partly with a view to avoid Uber being treated as an ‘employer’).

Taylor Wessing anticipates a steady increase in financial wellbeing solutions like this becoming available over the next five years. In particular, the UK Open Banking Working Group (a collective of banking, open data and FinTech professionals) is in the process of developing an Open Banking Standard, which intends to make it possible to share data that banks have historically held, by means of open application programming interface. This could in time revolutionise the way we manage our money, widening access for consumers to existing products, like credit, debt advice and financial advice through personal financial management platforms. The scope to extend this to employers and gig platforms (which do not employ) is large.

Given the clear UK policy drive towards enhancing employee or worker financial wellbeing, and the policy momentum towards a cashless economy, there will likely be role for such FinTech providers in filling the advice gap and, in doing so, helping model a new way of providing benefits without changing the legal status of staff.

Workers and saving for retirement

As life expectancy continues to rise, people are faced with having to work for longer and save more for their retirement. This is at a time when many employers in the UK are reducing the provision they make for employees (having historically rarely made any for workers) on retirement. The golden age of defined benefit pension schemes is over, with the risk of ensuring proper saving for retirement having transferred to the worker.
In an effort to address the risk of people reaching their old age without adequate retirement savings and then falling back on the state, the UK government has recently made changes in four broad areas:

- getting people into a retirement savings arrangement;
- incentivising them to stay there;
- guidance and advice to those in schemes about how to save for retirement and what to do with their savings; and
- increasing flexibility as to how benefits may be taken in retirement.

**Getting people into retirement savings arrangements**

Over the past five years, obligations have been phased in for employers to automatically enrol workers into a pension scheme, subject to certain minimum earnings requirements. Whilst workers can then opt out, the UK government has used the indifference that many people show towards retirement savings to its advantage, meaning that once in a scheme, people are likely to stay in. This has been successful, with the Pensions Regulator reporting (April 2017) that more than 7.6 million people had been automatically enrolled into a pension scheme. This law applies to workers and not just conventional employees – but mainstream employment has provided the greatest take up.

The next step is getting the gig economy workers into a pension scheme. The recent rulings in various cases about these workers – see the Introduction – effectively give them pensions auto enrolment rights too, although there are significant payroll and other challenges in actually delivering those rights.

Also, the government has been seeking to broaden the ways of saving for retirement. There have always been alternatives to a pension scheme. Some people treat their home as their pension, expecting it to grow in value, which can be released when ‘down-sizing’ on retirement. This remains an option, but for many the cost of joining the housing market is prohibitive. The government has combined the need for encouraging people to save for their retirement with the need for help in getting on the property ladder through its new Lifetime ISA or ‘LISA’ arrangements. LISAs will be available as from the tax year 2017-18 and enable tax efficient savings to be built up that can be used either for retirement purposes or for buying a first home. LISAs will be available only to those under 40.

A major challenge remains the treatment of lower earners and their access to any benefits, and the self-employed. Unfortunately, the issue is heavily intertwined with tax policy and controversy over electoral pledges.
Witness the March 2017 U-turn of the UK’s Chancellor over the proposed reform to the social security contributions of the self-employed. Stymied by a previous administration’s ‘promise’, and unable to flex in the light of a challenging post-Brexit tax-base, the experience shows how complex the delivery of technocratic solutions is. Human reactions get in the way, but a new UK government might not feel bound by a previous policy commitment.

As the Association of Consulting Actuaries identify in their recent government submission, the payment function of online platforms is easily adapted to permit – or require – that contributions can come directly from them. Using technology, administration can be cheaper, and quid pro quos must be available in the form of regulatory dispensation or tax allowances. But again, this would require political will, and skill.

Incentivising people to stay in

Traditionally, people have been incentivised to save in a pension scheme through provision of generous tax relief.

There have been numerous mutterings about the UK government removing the ability for pension scheme members to take a lump sum equal to 25% of their savings tax-free on retirement, or for the tax relief granted on contributions paid in to be reduced. But the government has not (yet) taken either step. What it has done instead is to target higher earners. It has reduced the amount of retirement savings that can be built up tax free, both over the lifetime of an employee and year-on-year.

Guidance and advice

Over recent years, the UK government has increased the availability of retirement savings guidance and the occasions on which advice must be taken. Educating people about the importance of pension savings and how best to use them in retirement is fundamental to ensuring more engagement with this issue.

In 2015, the government introduced ‘Pension Wise’. This is a guidance service – currently being delivered through The Pensions Advisory Service and Citizens Advice – available to those approaching retirement, to provide guidance about how people use their retirement savings.

In addition, there are increased obligations on providers of personal pension arrangements to give clear information and appropriate risk warnings about options for how benefits are taken on retirement. Similar requirements have been imposed on trustees of occupational pension schemes.

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Guidance is not a substitute for tailored individual advice and is only a starting point. In recognition of this, regulations introduced in April 2017 allow individuals to use £500 of their pension savings to seek retirement financial advice. They may do so once a year for three years.

Individuals with pension savings worth £30,000 or more in a defined benefit scheme must take financial advice before transferring their benefits to a defined contribution scheme, which more and more employees have been looking to do, to take advantage of the benefit flexibilities described below.

Similarly, employers must now pay for their employees to receive independent financial advice, if they are encouraging them to transfer the defined benefit pension savings to a defined contribution scheme. But this does not, by definition, apply to the self-employed or workers.

**Benefit flexibility**

For those who have savings, the UK government has increased flexibility in how members of a defined contribution pension scheme may use them to take benefits in retirement.

April 2015 saw the introduction of the so-called ‘pension freedoms’. The laws allow members of defined contribution pension schemes to take their retirement savings much more flexibly, including by taking all of them as one lump sum, or in a series of lump sums over time, albeit still with only 25% payable tax free. This prompted the now infamous comment from the Pensions Minister at the time, Steve Webb, about a generation of retirees cashing-in their pension to buy Lamborghinis. How times change: perhaps in 2018 the investment would be in driverless cars?

The freedoms were seen as a challenge to the insurance market and the cost of buying annuities, which were previously the main way of delivering an income in retirement.

There has been flexibility in the annuity market, too, with increasingly tailored solutions becoming available, particularly for those who have health issues. The rise of medically underwritten annuities has been one of the features of the market over the past few years. The FCA has recently reviewed providers to see whether they are making members of pension schemes sufficiently aware of this option, so that those who want to take an annuity can get the best value for it.

Not all the proposals have been implemented. A planned secondary annuity market, that would have seen those who had already bought annuities be able to sell them back, has been abandoned. There is a lot of scope for further reform, if the intersections of tax, social security, financial regulatory and employment law policies can be negotiated. If ...

Peter Wilson and Mark Smith, London

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