How altruistic capital is driving shareholder value

Altruistic capital: what it is and why it works

At its core, we define altruistic capital as taking a strategic approach to employees' financial wellbeing to give organisations a compelling competitive edge. Its effectiveness has been borne out empirically by research from the World Economic Forum.

Altruistic capital is the 'investment in altruistic acts that subsequently have returns for us.'[1] It is doing good to improve performance and create powerful economic benefits.

Employers who harness altruistic capital in the workplace understand that their employees are best incentivised by engaging with their prime motivators: their emotions. The winners will be those who treat their employees as real people rather than units of production or anonymised human resources.

Altruistic capital, in this context, focuses primarily on employees' financial wellbeing with kindness and compassion seen as equally powerful metrics to profits. Paraphrasing John F Kennedy's famous maxim, its practitioners are those who ask, not what their employees can do for them, but what they can do for their employees.

Taking a strategic and empathetic approach to employees' financial wellbeing is giving organisations a compelling edge in the intensifying competition for talent

The current state of play

There is a famous curse, widely attributed to the ancient Chinese, that states: 'May you live in interesting times.'

The world of work is currently undergoing an accelerated and intensified period of turmoil and upheaval, aggravated by the Covid-19 pandemic and Brexit. A seismic shift is taking place in the structure of the economy and in working habits and career expectations. Employers and individuals are doing their best to adapt to this disruption.

It is in precisely these difficult circumstances that the principles of altruistic capital – the idea that delivering for employees is integral to maximising shareholder and stakeholder value – are gaining widespread traction.

In this paper, we examine the current state of play with regards to financial wellbeing and assess its role as a key factor in attracting and retaining talent. We also explore how a focus on effective and innovative workplace solutions – comprising flexible benefits and member-centric pension provision – addresses the systemic recruitment and retention problems facing major employers and contributes to maximising shareholder value.

In particular, we consider how the opportunities provided by the current wave of consolidation from individual company pension schemes to master trusts can act as a catalyst for positive change.

This period of stress has clearly had a major impact on the financial wellbeing of the workforce. Almost half of the UK workforce believes their current pension provision will not be enough to provide them with a comfortable retirement[2], with almost the same number (45%) believing financial worries cause them to feel anxious[3]. This trend has culminated in what has been dubbed the Great Resignation which will be explored further in this paper.

For employers, the effects have been two-fold: First, it has caused an escalation in the so-called 'war for talent', first identified in a seminal paper by the consultancy firm McKinsey in 1997, but now entering a particularly acute phase. As of December 2021, live vacancies in the UK had reached a record-breaking 1.25 million, an astonishing 35% higher than pre-pandemic levels.[4]

Secondly, the impaired financial wellbeing of their workforces is undermining competitiveness through a toxic combination of absenteeism and presenteeism, the latter defined as declining engagement and productivity as a result of financial anxiety.

Together, the current record labour shortages and growing employee alienation are having serious adverse effects on performance, productivity, and profitability.

It is clear, against this background, that improving employer competitiveness depends on improving the financial wellbeing of employees. Understanding and addressing workers' financial needs in a holistic way will prove vital to attract and retain the best talent, and to boost productivity.

Altruistic capital in action: compelling lessons from history

Like most radical and transformative ideas, the concept of altruistic capital is not entirely new. However, historic precedents from previous periods of economic and social upheaval show that it works.

Robert Owen at New Lanark

Two centuries ago, at the dawn of the first industrial revolution, the social reformer and industrialist, Robert Owen was applying revolutionary ideas in workplace wellbeing at his New Lanark Mills on the River Clyde.

At a time when a 15-hour day and six-day week were standard, Owen pushed his radical agenda of 'eight hours labour, eight hours recreation, eight hours rest'.

He even introduced an early version of furlough payments by continuing to pay workers throughout the 1807 American cotton embargo when the mills were closed. He was rewarded with a loyal and highly productive workforce that delivered spectacular profits. His returns on investment were well over 50%, far above any competitors.[5]

Henry Ford at the Ford Motor Company

A century later, Henry Ford was struggling to retain his workforce. His employees turnover was 400% annually as men simply walked off his automobile production lines to seek jobs elsewhere. The impact on productivity and profit was devastating.

In 1914, Ford made an announcement that shocked America. He would start paying his employees $5 a day, more than twice the average wage for an automobile worker. At the same time, he cut the working day by an hour to eight hours.

While many predicted that Ford would go bankrupt, the opposite happened – production and profits rocketed while employee turnover plunged. Workforce morale, loyalty and pride soared.

There are three key drivers of this strategic approach.

The economy, in terms of how it is impacting financial wellbeing.

The workforce, in terms of how they are rethinking their attitudes to work and the traditional mindset of the full-time, long-term, 9-5 job.

The workplace, with regards to how altruistic employers are reimagining behaviours and redesigning benefits to adjust to the new paradigm.

We explore these below along with actionable insights into how the **workplace pension**, still the most compelling and valuable benefit, can be deployed more effectively in the fierce competition for talent.

Driver one: the economy

Why financial wellbeing is diminishing and why that matters

Financial wellbeing can be defined as having security around money, both at present and in the future, and having the money to afford goals and dreams. A positive mindset is also a crucial part of financial wellbeing. It is fair to say that, on all these counts, the UK population is currently experiencing a crisis.

Recent economic shockwaves

The UK economy, in line with global trends, is reeling from a series of economic shockwaves that have undermined collective financial wellbeing and which continues to reverberate. These include the social and economic disruption wrought by the Covid pandemic which caused the biggest GNP collapse in 300 years and led to severe dislocation in the economy: 11.6 million people on furlough[6] and more than 800,000 redundancies[7]. Recovery is now underway, with payroll numbers rebounding, but the psychological effects of such upheaval will last longer.

The growing cost-of-living crisis

This coincided with an emerging cost of living crisis resulting from soaring domestic energy and fuel cost, inflation surging to a 30-year high[8] and rising interest rates. It has exacerbated the existing problems of 12 years of declining or stagnant wages, and the subsequent rise of insecure employment in the shape of the gig economy and rise of zero hours contracts. These issues are being compounded by ongoing Brexit-related GDP contractions and supply chain disruption.

The tough UK housing market

Structural problems in the UK housing market are making it increasingly difficult to get on the property ladder. Members of 'generation rent' – largely comprising Millennials and Generation Z – now have to afford an average deposit of £54,000 (20% of property purchase price) for a house in the UK although the figure for Greater London is more than double that.[9]

The ability to save enough for retirement

One in four people are convinced that they will never be able to retire while 87% of the workforce are anticipating a shortfall in their retirement income.[10]

This impact on people and businesses

The cumulative effect of such pressures and stresses is taking a toll on the workforce. More than half reported having felt like their work is meaningless/lacked purpose, 59% felt underpaid compared to others with similar levels of experience and 66% felt like they had no clear idea where their life was headed.[11]

Unsurprisingly, these strains have led to an increase in both absenteeism and presenteeism at work which is costing UK employers an estimated £6.2 billion a year.[12] At individual company level, large firms, those with more than 250 employees, are predicted to lose more than £2 million a year as a result of employees' financial troubles and unhealthy financial mindset causing them to take time off or be distracted.[13]

Employees living with constant money worries are six times more likely to produce substandard quality work than their colleagues, and seven times more likely to have lower productivity than their colleagues.[14] Addressing financial wellbeing issues among the workforce is therefore in the best interests of the individuals themselves, better for stakeholders, and better from a shareholder value perspective.

Driver two: the workforce

The pandemic's impact on the competition for talent

The established norms of employment are being reshaped as organisations reimagine the world of work.

The tightening of the labour market is being driven by the Great Resignation, surging salary inflation and widening skills shortages. Job vacancies and employee shortages are at their highest level in decades. Businesses are under severe pressure with many now engaged in bidding contests to retain as well as recruit employees.

The Great Resignation is a quantifiable reality, and it has led to intense competition for available talent. The pandemic has caused the biggest worker recalibration in modern history and in the process radically shifted the balance of power from capital to labour: 58% of workers acknowledge that the pandemic has compelled them to fundamentally rethink their work and life balance.[15]

People are leaving jobs at the highest rate since 2008[16]

In the US, the so-called Big Quit saw 4.5 million people leave their jobs in November alone.[17] In the UK, job-to-job moves reached a record high in the third quarter of 2021, with no sign that this will abate in 2022.[18]

This has been driven by a raft of related factors based on a lockdown-induced collective re-evaluation of what people want from their careers. People have become more reluctant to stay in jobs which they deem incompatible with their new life goals, ambitions and wellbeing.

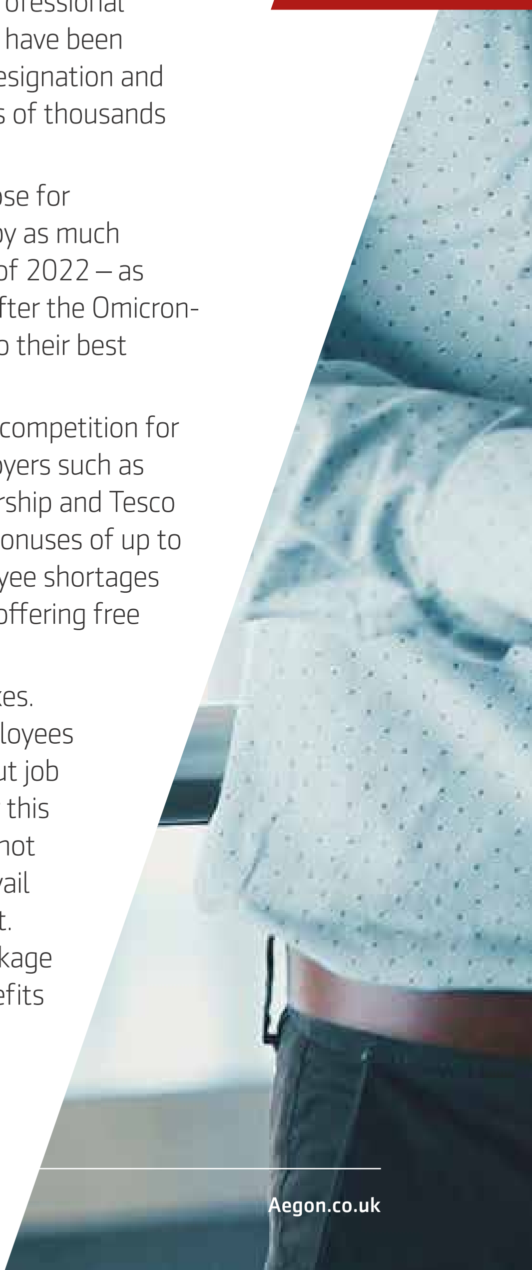
Competition for skilled employees intensifies

Simultaneously, the newly resurgent economy is facing a massive skills shortage and dearth of suitable candidates. While 80% of employers plan to recruit new employees in the next year[19], existing pre-pandemic skills shortages across all professional and technical environments have been exacerbated by the Great Resignation and the repatriation of hundreds of thousands of EU nationals.

Salaries are increasing – those for professionals will increase by as much as 25% in the first quarter of 2022 – as companies bouncing back after the Omicron-slowdown fight to hold onto their best employees.[20]

In a sign of the intensifying competition for employees, major UK employers such as Amazon, John Lewis Partnership and Tesco have been offering joining bonuses of up to £3,000 to overcome employee shortages while McDonalds has been offering free iPhones to new recruits.

But these are short-term fixes. With three-quarters of employees feeling 'very confident' about job opportunities in their sector this year[21] increasing salaries is not sufficient on its own to prevail in the competition for talent. Instead, a wider holistic package of employee wellbeing benefits is required.



25% salary increase for professionals in Q1 of 2022

Driver three: the workplace

How altruistic employers are getting the edge – their role, behaviours and competitive advantages

Despite the enormous transformation in workplace culture over the last two years, the majority of employee benefit packages have so far failed, perhaps understandably, to keep pace. Designed to reflect a workplace that no longer exists, many are creaky legacy systems, not fit for purpose in the emerging post-pandemic economy. This represents an opportunity.

Changed expectations

Since the first lockdown in March 2020, the mental and physical wellbeing of employees has been prioritised. This precedent has created an expectation among a growing number of employees for their employers to address financial wellbeing as well.

Increasingly, employees want their employers to help them live their best lives rather than seeing benefits as primarily transactional. As people increasingly choose their employer based on its culture and how the business aligns to their values, progressive employers are turning their attention to developing a standout employee value proposition and experience which both existing and potential talent can't ignore.

These progressive employers are viewing the issue through a financial wellbeing lens to achieve better value from their investment in benefits, including their workplace pension, and to achieve better outcomes for their employees.

Kindness as a key performance indicator

They recognise that providing benefits that actively and effectively address financial wellbeing among employees will be crucial to attract and retain future talent. Kindness and compassion are emerging as equally powerful metrics to profits.

Benefit redesign is very much on the agenda with agile and flexible approaches, such as working from home and hybrid working becoming the norm as a result of employee demand and employers' greater confidence in remote working models.

Health, wellbeing and ensuring a family-friendly approach to benefits are increasingly viewed as central to the employee experience. So, too, are policies designed to foster genuine inclusion in the workplace with regards to gender, age, ethnicity, and other under-represented characteristics. Employees are more interested in private medical insurance while various forms of leave, beyond family leave, are growing in popularity including compassionate leave, study leave and carers' leave.[22]

57% expect Q2, 2022, to be the biggest period for DC transfers

Unleashing the power of the pension

How a focus on the value of DC schemes is re-invigorating the workplace pension as a key recruitment, retention and wellbeing gamechanger

It comes as no surprise that an attractive benefits package is the key differentiator in winning the contest to attract talent given that three quarters of employees are more likely to stay with, or join, an employer that offers one.[23]

But the same percentage considers the pension to be 'very important' when choosing a new employer. Wellbeing and flexible working have become more important to employees, but pensions remain the most in-demand employee benefit[24] – the single biggest benefit in the package and the greatest investment for employers other than salary.

It is also a decisive factor in financial wellbeing terms. With fewer than three in ten people expecting to retire at the state pension age[25], and one in four retirees not owning their property[26], pension concerns are a dominant aspect of financial wellbeing.

Pensions are also undergoing a period of transformation that parallels and complements the changes in working culture.

Just as the fierce competition for talent is the dominant theme for businesses, so a renewed focus on value for money and member outcomes is the current undisputed megatrend in the workplace pensions sector. It is a trend that has momentum and is leading to a dramatic increase in scheme consolidation, particularly into genuinely member-centric master trusts; 57% of workplace pensions professionals expect the second quarter of this year, 2022, to be the biggest period for DC transfers[27] as migration accelerates in response to regulatory pressures to demonstrate value for money (for members).

In this recovery phase, employers will be highly motivated to realise the efficiencies and cost savings that are key drivers for consolidation. However, just as importantly, altruistic employers are demonstrating that changes to pension arrangements, integrated with a strategic focus on employee wellbeing, is a powerful tool for:

- Retaining key employees and attracting the best candidates
- Strengthening employee motivation and commitment
- Helping employees to achieve work-life balance
- Adding value to the employer brand
- Driving shareholder value.

There are several ways in which such altruistic employers are going beyond statutory requirements to deliver pensions schemes that offer real value to employees:

- Paying above the minimum pension contributions
- Giving employees more flexibility to change contributions
- Providing tailored journeys to retirement
- Enhancing digital and real time communication and guidance.

Leading edge players are delivering this through innovative and accessible tools such as mobile apps, personalised videos, accessible data and interactive, intuitive financial wellbeing tools – all of it built on a foundation of behavioural economics and backed by extensive research.

With more than half of businesses feeling they are not currently reaping the substantial potential benefits, in terms of recruiting and retaining talent,[28] modernising workplace pension scheme arrangements provides the opportunity to maximise employee engagement. More than half (55%) of UK businesses believe that better employee engagement would permit them to unlock the potential of pensions as a key differentiator in their employee brands.

Most employers (86%) overwhelmingly continue to see a strong business case for providing competitive workplace pensions, with the same proportion believing that they have a moral obligation to help employees to save for retirement.[29]

If employees believe their pension is competitive, well run and provides the options and support they need, they are likely to feel more valued, more engaged with their employers and more productive. That translates into shareholder value.

Henry Ford recognised and proved that prioritising the financial wellbeing of employees transformed recruitment, retention and engagement with a commensurate impact on profitability. One of his successors as President of the Ford Motor Company, Robert McNamara, put it very powerfully and simply: 'Brains, like hearts, go where they are appreciated.'

86% of employers see a strong case for competitive workplace pensions

Capturing the consolidation opportunity: the challenges

Key considerations for organisations when selecting a master trust to maximise employee wellbeing and employer value

Capacity crunch: Will there be severe congestion on the road to transition? Will schemes get trampled in the stampede of hundreds of firms trying to transition at the same time?

Cost conundrum: Will the master trust continue to be financially secure? Is the spread cost and risk at transition (selling assets and buying new ones) manageable? Will the receiving provider pick up the tab or will they price it into the AMC?

Consultation challenge: Does the organisation understand how the employee consultation process can be affected by factors such as new remote working practices and unionisation?

Cohort considerations: Does the offering reflect the particular requirements of different employee demographics? For instance, Millennials are twice as likely as older generations to seek investment in funds that target beneficial ESG outcomes.

Complexity caution: Is the benefits package dynamic rather than static? Can it adapt to future restructuring of the business such as growth via acquisition or divestment?

Culture clash: For employers making structural changes to their workplace pensions, there are several important considerations. Is the new provider, such as a master trust, purpose-led? Does it match the values and ethos of the employer, or does it have a more commercial focus on issues such as price?

The great financial wellbeing equation

The figures that add up to wellbeing as the answer…

Employer impact: how poor financial wellbeing is undermining value

£6.2 billion annual cost of absenteeism and presenteeism for UK employers

£2 million+ annual cost to a large UK firm from poor employee financial wellbeing

700% increased likelihood of employees with money worries having lower productivity than colleagues

Employee attitudes to work, life and retirement:

58% of workers have fundamentally rethought their work and life balance during the pandemic

25% of people are convinced that they will never be able to retire

87% of workforce anticipate a shortfall in their retirement income

75% of employees are 'very confident' about job opportunities this year

75% of employees consider pension benefits to be a 'very important' factor when choosing a new employer

Employer outlook: positive on pensions and recruitment

80% of employers plan to recruit new employees in the next year

55% of UK businesses believe that better employee engagement with pensions will help them in the competition for talent

86% of employers overwhelmingly continue to see a strong business case for providing competitive workplace pensions

57% of workplace pensions professionals expect the second quarter of this year, 2022, to be the biggest period for DC transfers

58% of workers have fundamentally rethought their work and life balance during the pandemic

Altruism in action: key takeaways

The world of work has changed radically over the last two years. Ensuring that financial wellbeing considerations are front and centre in your benefits strategy will be a key differentiator in the competition to attract and retain talent.

Successful employers will be those who refine and improve their employee value proposition to meet today's demands.

Effective engagement is essential for employers to maximise their return on investment in benefits – but focus on employee motivation as well as education.

Look to offer benefit packages that are flexible for your workforce rather than prescriptive and which reflect your values as an employer.

Pensions remain the single most important and desirable employee benefit: workplace pension scheme consolidation offers a unique opportunity to realise the power of the pension to enhance employee wellbeing and optimise recruitment and retention.

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Contact: Andy Dickson
Master Trust Strategic Development Director
Aegon Workplace Investing
andy.dickson@aegon.co.uk
07919 948876

Andy is Aegon Master Trust's Strategic Development Director. He is a regular contributor to the pension trade press and a presenter at leading pension and investment conferences in the UK and overseas. Andy is the former Chairman of the DC Investment Forum and a current member of the Advisory Committee. Prior to joining Aegon UK, he was Head of Market Strategy at Atlas Master Trust and Investment Director at Aberdeen Standard Investments.

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