



What limits workplace pension participation amongst threshold adults (aged 25-39 years)?

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A Research Report by Hayley James

Published by the Pensions Policy Institute

© July 2018

ISBN 978-1-906284-52-22

www.pensionspolicyinstitute.org.uk

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Executive Summary

This report considers how workplace pension participation amongst threshold adults (aged 25 to 39 years) is limited by a defensive focus on establishing themselves as adults

More threshold adults have been saving for their later lives through workplace pension schemes thanks to the introduction of automatic enrolment. However, many threshold adults are saving at minimum contributions levels which may not be enough to provide an adequate income in later life. There is a risk that more threshold adults may decide not to save through workplace pensions as minimum contribution levels rise.

The qualitative research that has led to this report has found that threshold adults limit their participation in workplace pension saving because they feel the need to establish themselves before they feel ready to engage with it. This process of establishment is subjective although it often includes various financial and social factors such as income, home ownership and major life events, which are discussed in this report:

- Considerations of income are highly subjective and mediated in relation to how threshold adults perceive their establishment as an adult. This relates to current income and expected incomes throughout their career. Income may not be a driver of engagement with workplace pension saving, but rather facilitates participation once an individual feels established enough to engage with it.
- Home ownership is an important priority amongst threshold adults, not just in financial terms but also because it contributes to a feeling of social stability, which may support participation in pension saving.
- Major life events such as marriage and having children are markers of establishment, and these act as a foundation for participation in pension saving by providing a platform for thinking about and saving for the future.

These findings highlight the subjective nature of establishment amongst threshold adults and how this relates to their participation in pension saving. This raises important policy considerations:

- There is a need to recognise the complex situations faced by threshold adults. Threshold adults may need specific support to help them prepare for later life.
- One method may be to deliver targeted communications and interventions which reflect the experiences of threshold adults.
- This could be driven by existing touchpoints, with employers such as income rises or having children.
- Schemes such as Save More Tomorrow may help encourage commitment to pension saving. Similar schemes could also be developed to encourage pension participation following major life events.

Introduction

This report considers workplace pension saving amongst people in the early stages of adulthood. These are referred to as threshold adults, who are aged between 25 and 39 years old

Since the introduction of automatic enrolment in 2012, more threshold adults are saving for their retirement. By the end of 2016, participation in workplace pension schemes amongst 20 to 29 year-olds and 30 to 39 year-olds rose 36 percentage points to 72% and 23.4 percentage-points to 77% respectively.¹ It is estimated that automatic enrolment has decreased the proportion of young people who are under-saving from 48% to 36%.²

However, there are still concerns about the level of retirement saving amongst threshold adults, since a substantial number are still not saving, and even those threshold adults who are saving might not be saving enough to provide for their later lives. While minimum contributions under automatic enrolment are set to rise to the total amount of 8% of band earnings by 2019, there is a risk that more threshold adults may decide to opt out when faced with this increase.³ Other changes to the automatic enrolment policy that have been proposed to increase workplace pension savings, such as removing the lower band earnings threshold and lowering the age limit, may still not be enough to provide

for their later life, especially for lower-middle income workers who are most reliant on the workplace pension to achieve adequacy.

There are many challenges regarding threshold adults' participation in workplace pension schemes

Research has highlighted the role of heuristics and biases, such as myopia, present bias and overconfidence, in negatively impacting engagement with pension saving amongst threshold adults.⁴ Threshold adults also tend to have lower levels of financial capability and tend to seek advice from family and friends or the internet. Engagement with pension saving may lead to decisions which might not offer the best financial outcome due to the challenges faced by threshold adults.⁵

Understanding how threshold adults think about their pension saving (or lack of it) may be important to determine the best approach for them

This report draws on qualitative research interviews with employees who had been through automatic enrolment with large companies which sought to understand pension decision-making amongst threshold adults, and how this may relate to their limited participation in workplace pensions.

1. DWP (2017)
2. DWP (2017)
3. PPI (2017a)
4. PPI (2017a, 2017b, 2017c)
5. PPI (2017c)

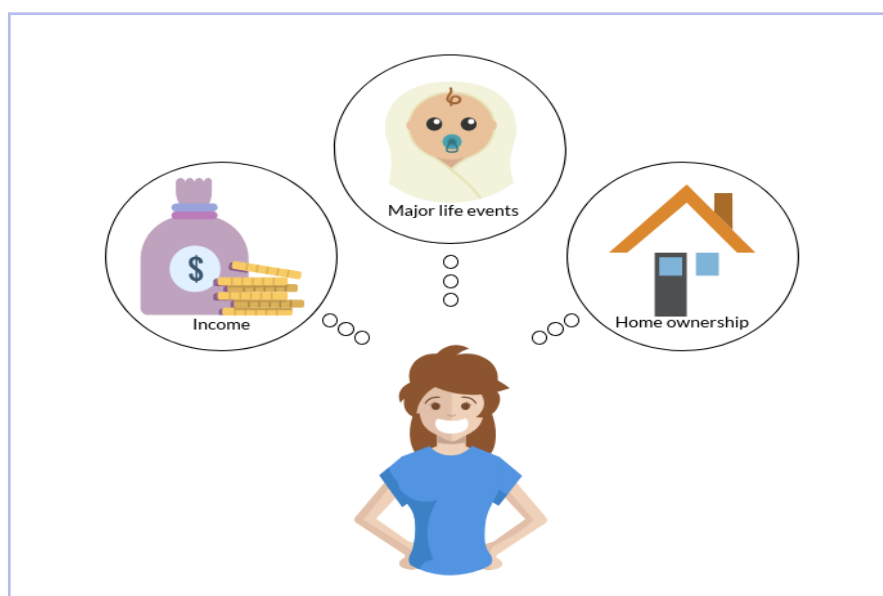


Figure 1: Three aspects in the process of financial and social establishment that is experienced by threshold adults, who are aged between 25 and 39 years old.

The findings of this research suggest that threshold adults may limit their pension participation due to a defensive focus on establishing themselves, financially and socially, before they feel ready to prepare for their long-term future. This focus on financial and social establishment restricts their participation in workplace pension saving, leading them to either opt out or stay at minimum contributions. Three aspects of financial and social establishment were highlighted by the research, which are income, home ownership and major life events. These aspects will be considered in this report along with policy considerations arising from these findings.

The report is structured as follows.

Chapter one will discuss workplace pension saving amongst threshold adults, drawing on academic literature as well as governmental and other social research.

Chapter two will introduce the research project that has considered the workplace pension saving decisions of threshold adults.

Chapter three will discuss the role of income as a factor in threshold adults' decisions, along with policy implications of these findings.

Chapter four will address the importance of home ownership, another factor in threshold adults' decisions, and related policy implications.

Finally, chapter five will consider how major life events affect threshold adults' decisions and the implications for policy.

Threshold adults may limit their pension participation due to a defensive focus on establishing themselves, financially and socially, before they feel ready to prepare for their long-term future

Chapter one: workplace pension saving amongst threshold adults (aged 25-39)

More threshold adults are saving for their retirement thanks to automatic enrolment, which has been successful in getting threshold adults into workplace pension schemes

Automatic enrolment obliges employers to enrol eligible workers automatically into a qualifying workplace pension scheme. Eligibility for the policy covers all employees aged between 22 and the State Pension age (SPa) and earning over £10,000 per year. Employees are able to opt out from the scheme at any point, but they will be re-enrolled at least every three years.⁶ Automatic enrolment in the UK was phased in from October 2012. The total minimum contributions set by the automatic enrolment policy is 8% of band earnings. This is comprised of 4% employee contribution, 3% employer contribution and 1% Government tax relief on the contributions, which is being phased in by 2019. Until April 2018, total contributions were set at 2% of band earnings, increasing to 5% until April 2019, before rising to the full 8%.⁷

Automatic enrolment has been successful in

encouraging threshold adults to save through workplace pension schemes. By the end of 2016, the number of eligible employees who participate in a workplace pension had risen to 16.2 million, a proportion of 78% of total eligible employees, from 55% before the automatic enrolment policy was introduced.⁸

While participation rates have remained highest amongst older employees, the younger age groups have seen the largest increases in participation, for example, participation amongst 20 to 29 year-olds rose 36 percentage points to 72% and amongst 30 to 39 year-olds there was a 23.4 percentage-point rise to 77%.⁹ Amongst 40 to 49 year-olds, there was a 19 percentage-point rise, taking participation

Participation in workplace pensions amongst threshold adults has risen substantially since the introduction of auto-enrolment

6. DWP (2017a), PPI (2017a)

7. DWP (2017a), PPI (2017a)

8. DWP (2017a)

9. DWP (2017b)

Changes in the pension landscape mean that current and future cohorts may need to save more, and earlier, than previous cohorts to achieve similar levels of adequacy in later life

in this group up to 81%.¹⁰ It is estimated that automatic enrolment has decreased the proportion of young people who are under-saving from 48% to 36%.¹¹

However, there remain concerns about threshold adults' retirement saving

It has been recognised that changes in the pension landscape mean that current and future cohorts may need to save more, and earlier, than previous cohorts to achieve similar levels of adequacy in later life.¹² Despite the success of automatic enrolment in increasing participation, there are still 23% to 28% of eligible threshold adults who are not saving through a workplace pension.¹³ Research has shown that eligible non-savers tend to be younger, with an average age of 37.6 years, compared to 42.6 years for workplace pension savers.¹⁴ There may also be concerns regarding opt outs and cessation rates. The number of opt outs have been found to be around 10% but vary by the size of the employer. While there is some evidence to suggest that those who have opted

out are likely to be older people who anticipate alternative provision for their later life, it is not clear to what extent threshold adults are opting out.¹⁵ Cessation rates, which refers to people who stopped saving after the one month opt out period, are reported as 14% and 23% amongst medium and large employers.¹⁶ It is suggested that a large proportion of cessation is caused by job leavers, but again it is not known what proportion of these people may be threshold adults.

The threshold adults who are saving may not be saving enough to provide for their later lives

There is evidence to suggest that many of those newly enrolled into a workplace pension have stuck to the minimum default contribution rates.¹⁷ Since the largest increase in participation are amongst the younger groups, this suggest that many threshold adults may be saving at minimum levels. Recent data suggests that around 12 million people are currently under-saving for their retirement even with automatic enrolment, it is estimated that this may include up to 36% of the youngest cohorts.¹⁸

The number of people under-saving may change as the minimum contributions of automatic enrolment are set to rise to the total amount of 8% of band earnings by 2019. Furthermore, changes to the automatic enrolment policy, namely the reduction of the lower earnings band to £0 and the age threshold to 18 years, are planned by mid 2020s which will benefits many savers. However, these changes still may not be enough to provide for their later lives, especially amongst lower-

Workplace pension participation	20-29 years (%)	30-39 years (%)	40-49 years(%)	Overall (%)
2012	36	53.6	62	55
2016	72	77	81	78
Increase (% points)	36	23.4	19	23

Table 1: Workplace pension participation since the introduction of automatic enrolment by age group. Source: DWP (2017a, 2017b)

10. DWP (2017b)
11. DWP (2017b)
12. PPI (2016a)
13. DWP (2017a)
14. Brian and Lloyd (2014)
15. DWP (2014)
16. DWP (2017b)
17. DWP (2017a)
18. DWP (2017b)

middle income workers who are most reliant on the workplace pension to provide adequacy.¹⁹ Research from the Pensions Policy Institute suggests that a median earner needs to save at a total contribution rate of 11% under the baseline of starting to save at age 22 and retiring at State Pension age to have a two-thirds chance of reaching the target replacement income, which rises to 14% with a career break.²⁰

There also remains a risk that more threshold adults decide to stop contributing when faced with increasing minimum contributions

There is little research which might help anticipate responses. Existing research has suggested that threshold adults are doing very little in the way of long-term saving through other channels, as less than one in ten adults aged between 30 and 49 years-old had saved any money for retirement outside of the workplace pensions between 2012 and 2014.²¹

There are further challenges regarding threshold adults' participation in workplace pension schemes, for example, much existing research has highlighted the role of present bias or myopia in limiting threshold adults' engagement with long-term saving.²² Present bias refers to the tendency to prefer immediate benefits over future benefits, which can lead to an aversion to long-term saving.²³ Myopia refers to a short-term view of needs, which may lead to a preference for leisure or enjoyment in the short-term at the expense of long-term saving.²⁴

Threshold adults face competing financial priorities at a time when they may have lower financial capability

This reluctance to save for the future amongst threshold adults may be coupled with optimism bias, which may refer to overestimating future financial resources, such as income or inheritance, and therefore underestimating the need to save.²⁵ Threshold adults tend to have lower levels of financial capability, meaning they may find it difficult to manage their money and finances.²⁶ They tend to seek advice from family and friends, or through the internet rather than formal channels.²⁷ This means that engagement with pension saving amongst threshold adults may lead to decisions which might not offer the best financial outcome due to the complex and competing financial priorities they face.

This chapter has highlighted the complexities regarding pension-saving amongst threshold adults and that understanding how they think about their pension saving (or lack of it) may be important to determine the best approach for this group. The next chapter introduces the research project which offers findings on this topic.

19. PPI (2013, 2016a), The Pensions Commission (2006)

20. PPI (2013)

21. Suh, E. (2018)

22. PPI (2017a, 2017b, 2017c)

23. PPI (2017a), Institute for Government (2010)

24. Institute for Government (2010), Foster (2017)

25. PPI (2017a), Sunstein (2014), Institute for Government (2010)

26. PPI (2017a, 2017c)

27. PPI (2017a, 2017b, 2017c)

Chapter two: research on the pension decisions of threshold adults (aged 25-39)

The findings presented in this report are drawn from the PhD research project, Connecting Policy with the Personal: UK Pension Reform and Individual Financial Decision Making, which is being conducted by Hayley James, a PhD student at The University of Manchester Institute for Collaborative Research on Ageing (MICRA)

The project is sponsored by the Economic and Social Research Council and the Pensions Policy Institute. The research aims to inform the understanding of real-life financial decision-making in an increasingly individualised system where people are expected to take high levels of responsibility for their own financial welfare in later life. This Thesis looks at the impact of automatic enrolment into workplace pensions on individual decision making, based on qualitative research methodology using interviews with employees aged 25 to 45 years old who have experienced automatic enrolment. The qualitative data has been analysed using an open thematic coding process, which means that themes came from the data, to put emphasis on the participants' own understanding of their pension decision.

This report focusses on participants in the threshold adult stage, which in this report is considered to fall between 25 and 39 years old. It can be understood as the first stage of adulthood, where individuals have passed the adolescent phase and have some of the markers of adulthood, yet do not consider themselves to be fully-fledged adults. The threshold adult stage connects to the concept of extended adolescence, which has been defined in academic research on life stages and transitions.²⁸ Extended adolescence describes how the period of adolescence has become much longer, usually considered as lasting up to 24 years old,²⁹ with traditional markers of adulthood, such as marriage and parenthood, occurring later in individual's

Threshold adulthood is where individuals have passed adolescence and have some markers of adulthood, yet do not consider themselves fully-fledged adults

28. Arnett, J. J. (2000, 2004, 2007)

29. Sawyer, S., Azzopardi, P., Wickremarathne, D., Patton, G (2018)

lives.³⁰ The phases of extended adolescence and threshold adulthood may be connected, because individuals in late adolescence move into the threshold adult phase as they begin to take on some, but not all, of the responsibilities of adulthood. The threshold adults may be involved in a process of evaluating and prioritising the various opportunities and demands they face as they seek to establish themselves as an adult.

This report considers how the process of financial and social establishment impacts on the pension saving decisions of threshold adults. Amongst the participants in this research, threshold adults aged 25 to 39 years old were more likely to pay low or no pension contributions than those aged 40 to 49 years old.

Out of 42 participants in total, there were 20 participants who paid minimum contributions or had opted out, and 16 of those were aged between 20 and 39 years old. People in the older age group may have been more likely to have already been in a workplace pension scheme prior to automatic enrolment, so not been affected by the introduction of the minimum level, yet this does suggest that newly auto-enrolled threshold adults are not choosing to increase their pension participation. While paying minimum contributions is better than opting out, it may not provide for adequacy in later life and threshold adults may opt-out as the minimum contributions rise.

The research found that the threshold adults limited their pension participation because they felt that they needed to establish themselves, in financial and social terms, before engaging with pension saving

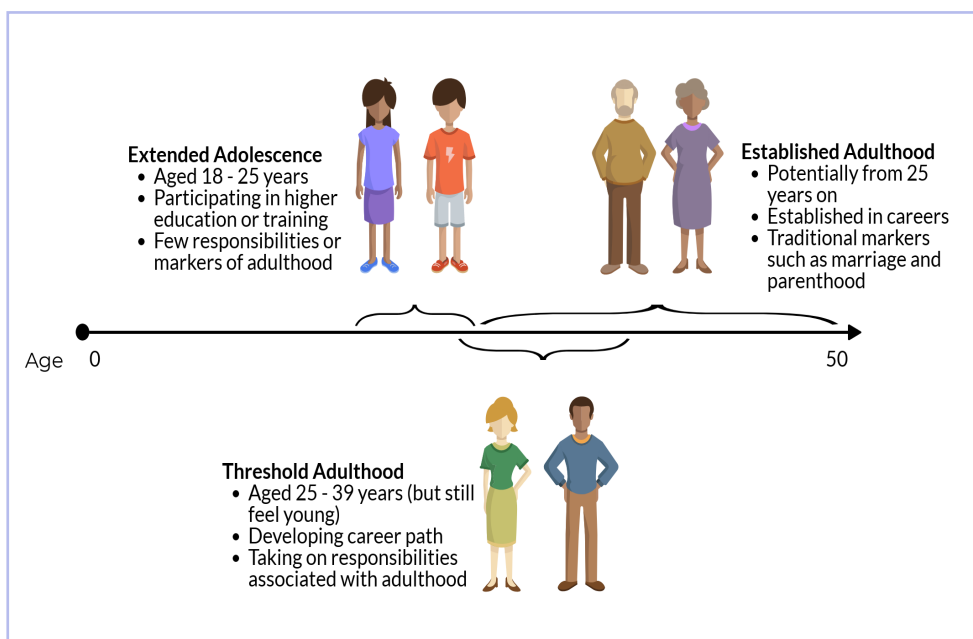
They often drew on a subjective understanding of age to explain their limited participation, as they referred to themselves as still young or not yet adults despite in many cases having passed adolescence. The threshold adult participants felt that pensions were something to consider once established in adulthood. They suggested that they were not ready to think about pension saving to any great extent and/or felt that they had plenty of time to do so in the future.

When asked whether he talked to his wife about his pension decisions, James, who was in his early 30s, said:

“It’s not even something that we’ve really discussed. I know she’s enrolled in her pension scheme at work, and that’s about it. I still think we’re in the mind-set of, we’re still young, we don’t need to think about it.”

James, who was in his 30s at the time of the interview, is drawing on a subjective idea of youth and his status as a threshold adult. He explains that because he and his wife feel

Figure 2: Threshold adulthood refers to the period where young people become established as adults.



30. Arnett, J. J. (2000, 2004, 2007)

young, they do not yet need to think about pension saving. This implies that James feels they have plenty of time to think about saving for their later lives. He is not yet ready to commit to engaging with pension saving any further than the minimum level he has been auto-enrolled at.

This was also illustrated by Kristina, who was in her 20s and paid minimum contributions, and described pension saving as follows:

“Probably one of, like, the things you do as an adult, isn’t it. When I started here and I realised I was paying into a pension, I did actually post on social media saying, ‘officially paying into a pension, does that mean I’m a real adult?’, and everyone was like, ‘yes!!!’ ”

Kristina suggests that she considers pension saving to be a marker of being a ‘real adult’. She posted her opinion on social media, and found agreement from lots of other people. However, at the time, Kristina only paid minimum contributions into her pension. While she accepts she has made some first steps into adulthood by enrolling in a pension scheme, she appears to not yet be ready to commit to really engaging with pension saving above the minimum level.

It could be questioned whether these threshold adults really will engage with pension saving once they are established, as it may be an intention that is not necessarily fulfilled

However, more established participants in this research referenced ideas of establishment to describe how and why they had come to engage with pension saving.

Izzy (who was aged 20 to 29 years old and paid increased contributions) was similar age to many of the threshold adults, yet felt she had become more established as an adult which led to her increasing her contributions:

“I was paying minimum pension contributions at my old job and they did contact me to say do you want to increase it and I was like, no because I don’t earn enough, and I don’t want to stay here. My attitude was completely

different..... Whereas now, in the last few years I’ve had promotions at work, I’ve bought my own house. In terms of maturity, I’ve moved quite quickly. I thought I need to get stuck in, and it all fell into place quite naturally and my boyfriend was exactly the same. And now, we feel like fully-fledged adults.”

Izzy describes that she did not feel able to contribute any more than minimum contributions to the workplace pension scheme at her last job. This was not just because she could not afford it, but also because she did not want to stay in what she considered to be a short-term role, suggesting the role not just of income but of employment stability in her decision. Izzy suggests that her attitude towards pensions was different then compared to how she feels more recently, which she describes as a ‘fully-fledged adult’. This can be interpreted as an established adult, rather than a threshold adult. Izzy describes a number of changes that appear to have helped to make her feel more established, including promotions at work and buying a house. Izzy feels that these changes have happened to her quickly, but she seems comfortable with the changes as they ‘all fell into place’.

This was the period where Izzy decided to increase her regular pension contributions. This example is illustrative of many other participants who paid increased contributions to their pension, and suggests that once threshold adults feel established, they increase their participation in workplace pension schemes.

This report will focus on three common factors in this process of establishment, which were income, home ownership and major life events. Each chapter will also highlight policy considerations of these findings presented regarding threshold adults and their focus on establishment before engaging with pension saving.

Chapter three: income as a factor in threshold adults' decisions

Income has frequently been studied as a major driver of saving behaviours

Income is often considered as a measure of propensity to save, with people on higher incomes being more likely to save.³¹ There is much literature on affordability, which suggests that pension saving may be perceived as unaffordable for people on lower incomes.³² This implies there may be a lower limit of income, under which people would be unlikely to be able to participate in workplace pensions. This may be an important consideration for threshold adults, who are likely to earn lower incomes since they are early on in their careers.³³ This consideration is important in the current economic climate, where many young people face instability in employment markets, rises in insecure forms of labour such as self-employment and zero-hour contracts, and increasing costs of living. The Money Advice Service found that there are almost 10 million people aged 18 to 44 years old who have high levels of financial commitments and low provision for coping with unexpected income shocks.³⁴

The research behind this report has highlighted a more nuanced picture of the role of income in pension decisions

amongst threshold adults

Income often played a role in the decision to participate in a workplace pension scheme, yet there was no consistent or objective level of income where pension saving was considered affordable, and income did not appear to trigger engagement with pension saving.

Most threshold adults in the research did not relate their limited participation to their income and instead suggested they were not ready to engage with pension saving. This was specifically related to narratives of youth and establishment. Incentives did not appear to overcome this reluctance to engage, as most were aware of employer contributions but still felt they were too young to think about pension saving.

The research found that income may not drive engagement with pension saving but may facilitate participation once threshold adults feel ready to engage with it

31. Office for National Statistics (2012)

32. PPI (2014)

33. PPI (2014, 2017a), FCA (2017)

34. Money Advice Service (2016)

Income increases however did appear to play a facilitation role in the pension decision as many threshold adults felt that they would increase their workplace pension contributions after a pay rise. Income increases may make higher contributions seem more affordable once threshold adults feel they are ready to engage with pension saving.

James, who was in his early 30s, had been auto-enrolled two years before the interview took place. Since then he had continued to pay minimum contributions into his workplace pension. He suggested that pensions were not something he was ready to think about in detail as he felt he was still young. When asked whether he thought he would continue to pay minimum contributions in the future, he responded:

“Yes, I mean I’d like- we are slowly starting to properly think about the future now, both me and my wife. So I think, especially because I’m on a management scheme that in a couple of months... when the wages do

go up I think it might be more that I’ll be looking at paying a bit more in. I mean, that’s the thing, I think I’m stable now, but it’s just having that extra buffer I suppose of income, that I can throw an extra £20-£30 in there sort of, you know what I mean?”

While James had, until recently, felt he was not ready to engage with pension saving, he suggests that he is now starting to think about the future. He mentions that he has recently joined a management scheme at his work, which may offer him greater security and contribute to feeling more socially established, and therefore able to start engaging with pension saving. James did not relate this to the opportunity to obtain greater contributions from his employer by increasing his contributions, although this was something he was aware of. James states that when his income increases, he feels he will be able to pay more into his pension. He describes this as having an ‘extra buffer’, which refers to having

Policy considerations:

- Automatic enrolment may help threshold adults by encouraging many to save at least at minimum levels. However, threshold adults may still need to save more to provide for their later lives.
- James’ experience highlights the need to have an ongoing ‘buffer’, meaning disposable income available to counter any shocks, to make threshold adults feel more confident about committing to increased pension saving. Recent work from NEST has highlighted the potential role for sidecar savings, which is a more accessible pot of money, alongside pension saving.
- Charlotte’s experience suggests that threshold adults may opt-out of pension saving altogether if they think they will be better able to save in the future. This may be particularly relevant in the face of increasing minimum contributions which may cause more threshold adults to opt-out.
- Targeting support and communications for threshold adults to acknowledge the specific challenges threshold adults may be facing could be beneficial, potentially tied to income increases.
- It may be important to encourage threshold adults to continue making minimum payments until they feel ready to engage with pension saving. This might be helped by considering minimum payments as a form of insurance, especially since the incentive of increased employer contributions did not seem to overcome the limiting effect of establishment.
- Schemes such as Save More Tomorrow, which commit people to increases in contributions with future income rises, may also encourage saving amongst threshold adults if they allow individuals to set their own targets to allow for subjective understandings of income.
- Help may be needed to improve incomes and prospective incomes amongst low earners so they feel more able to participate in workplace pension saving.

disposable income available for unexpected things, enabling James to confidently commit to paying more into his pension. Income does not seem to drive James' engagement with pension saving, but an increase in income makes him feel more able to afford increased contributions now that he is ready to start engaging with it.

It was not just imminent income increases that played a role in pension decisions amongst threshold adults, but also their expected income over the course of their career. If participants felt confident that their income would rise later in their working lives, they thought they would be better able to afford contributions in the future and could make up for low or no contributions during the threshold phase of establishment. This conclusion was based on subjective understandings about their current income and future career prospects.

Charlotte, who was in her late 20s, had decided to opt out of pension saving even though she was already earning an above-average salary of over £30,000 per annum. This is discussed in the following extract:

Charlotte: "...I was only ever wanting to be a para-legal for four years max, hoping that I would qualify and be on a much bigger salary at that point. So I decided to opt-out because I wanted the extra cash in my pension each month [...]"

Interviewer: "Did you consider whether it was a good pension scheme or not, or did that not enter into it?"

Charlotte: "I think I may have discussed it briefly with my parents. With my dad, he was of the opinion of, don't bother, at some point in your life your salary will go, you know, four times that, you need that cash now."

Charlotte relates her decision to opt-out of workplace pension saving to her expectations about her future income, as she feels she will be more able to contribute to a pension in the future when her income should be higher. Charlotte's decision concerns income and affordability as indicators of her current level of establishment, which is low in relation to her future career plans. Since Charlotte was aiming to qualify as a lawyer, it is likely that her income would increase significantly later in her career. However, there is clearly a risk that she may not achieve her goal of becoming a lawyer, and even if she does, her expenses may also increase in the future alongside her income, making greater contributions difficult. It is not clear to what extent this has been considered by Charlotte in her decision-making. It is also important to note that Charlotte was aware that she was foregoing contributions from her employer in the short-term, yet still felt she would have time to make that up in the future.

This is not a straightforwardly myopic response since Charlotte is evaluating her short-term and long-term situation, albeit in a way that is optimistic about her future. There may be an element of loss aversion as Charlotte does not want to feel the impact of making contributions at the point in her life where she does not feel established as an adult.

The experiences described in this chapter highlight a more nuanced interpretation of the role of income and affordability in pension decision-making practices of individuals in the threshold adult phase. Income and affordability are understood in relation to an individual's feeling of establishment, which influences when they are ready to engage with pension saving.

Chapter four: home ownership as a factor in threshold adults' decisions

Owning a property is a major goal for young people, albeit one that has become increasingly difficult to achieve when faced with rising house prices and stagnating incomes

Recent research has shown how home ownership has drastically fallen amongst young adults aged 25 to 34 years old, due to increasing home prices and stagnating incomes.³⁵ Home ownership today is 25% amongst threshold adults, compared to up to 43% for the previous generation.³⁶ Despite this, the cultural norm of home ownership in the UK is still very strong.

In terms of providing for later life, prioritising home ownership while young may not be a bad decision, since owning a home would lead to lower expenses in retirement. This has been encouraged by initiatives such as the Help to Buy ISA (until 2020) and its replacement, the Lifetime ISA, which specifically support saving for home ownership.³⁷ However, there has been some concern as to what extent saving for home ownership replaces saving through pension schemes, especially in the face of increasing house prices.³⁸ While home ownership may

reduce expenses, it is less effective in providing an income for later life as older people may be reluctant to downsize or release equity from their properties (although these things are becoming more widely practised).³⁹

If threshold adults are struggling to get on the housing ladder, this may delay pension saving until much later in their lives which may not leave enough time to effectively save for retirement once they become home owners. This risk may be ameliorated to some extent if threshold adults pay minimum contributions alongside saving for a house, but threshold adults may need to save much more to ensure

Most threshold adults felt that home ownership was a priority because it would have an impact on their lives sooner than a pension would, in terms of financial and social stability

35. Institute for Fiscal Studies (2018), Resolution Foundation (2018)

36. Institute for Fiscal Studies (2018), Resolution Foundation (2018)

37. PPI (2016)

38. PPI (2016)

39. AIFA (2009)

adequacy in later life.

The research for this report showed that many threshold adult participants who paid low or no workplace pension contributions specifically related this to saving for a house deposit, which they considered to be a more immediate priority. This was often because they felt that housing was a better financial investment, which often led them to opt-out to dedicate all their resources to housing. However most participants felt that home ownership was a priority because it would offer a broader sense of stability in their lives. The threshold adults felt they had plenty of time to save for a pension after they were established as a home owner.

Kristina was in her 20s at the time of the interview and paid minimum contributions, after being auto-enrolled into the workplace pension. She said:

“I recently opened a savings account for like help to buy, even though it’s going to take me forever, like five to eight years, I thought at least I’d start... I’m lucky enough that my rent is cheap and I can still save a few hundred every month. So I could probably make my pension more but I’d rather save it for other things. Because I figure once I’ve got that, then I can start saving for a pension. It comes first, in like, logical steps.”

Kristina suggests that while she could afford higher contributions, she felt that buying a house was a more important priority for her. Kristina describes how she saves a few hundred pounds each month into a Help to Buy ISA, with the intention of buying a property in the future. This is a rather large amount in comparison to her pension contributions, which were less than fifty pounds a month. This suggests that Kristina thinks that saving to buy a house is more important than a pension. Kristina explains that she considers saving for a property to be more important because it is something that will impact her life sooner, and then after that she can start paying more into a pension. This highlights the need to feel established as a home owner before engaging with pension saving.

The impact of home ownership was also about broader concerns of security in the lives of threshold adults. Not owning their home made some threshold adult participants feel insecure in their current living situation, which meant that they felt unable to really engage with thinking about the future.

This was very clearly articulated by Rae, who was in her early 30s and lived in rented accommodation with her partner and young daughter. Rae already paid higher pension contributions than many other young people, yet she felt that with more security she would be able to potentially contribute more and plan better for later life.

Policy considerations:

- Home ownership is healthy goal for threshold adults as it provides financial and social stability in their lives and may help them to prepare for their future. However, there is a risk that threshold adults become too reliant on housing as a provision for later life. Paying minimum contributions alongside saving for a home may be a reasonable expectation.
- Auto-enrolment may help threshold adults who are focussed on home ownership by encouraging them to save at least at minimum levels without having to think about it. This suggests that inertia is working as anticipated, although it is unclear what will happen as minimum contribution levels rise as this might force them to make a more active decision to prioritise housing.
- Targeting support and communications for threshold adults who are in this situation to recognise these competing demands and highlight the importance of saving (even at minimum levels) alongside other investments such as saving for property may be useful.
- However, home ownership is a cultural norm yet purchasing a home will not be possible for everyone, which might limit engagement with pension saving. It may be possible to develop more stability in the rental market which could help threshold adults feel able to commit to greater pension saving without becoming a home owner.

“If we knew we were going to be here for four years, this is how much we’re spending on housing for four years, done. Ok we know, so therefore we know how much extra we’ve got [to pay into a pension].

You live in an unknown entity when you live in rented accommodation, any day there could be a letter through the door going, oh ok, tenancy coming to an end.... How can you plan for your future when you have literally no option, there is no answer to the housing crisis?”

Rae directly connects insecurity regarding housing to her participation in a workplace pension scheme. She suggests that as housing costs are more essential than pension contributions, she can only commit to pension contributions if she knows she can meet these costs. Rae suggest that this is difficult to do when living in rented accommodation where tenants have very little security. However, Rae’s experiences suggest this connection is not just about the financial considerations, but also about her ability to plan for her future. She feels she cannot think about her future when

she does not have a solution to the insecurity she faces in housing. Home ownership may contribute to a sense of establishment, which acts as a platform for planning for the future, and this may promote engagement with pension saving. This is something that will be discussed in more detail in the next section that considers the role of major life events in the decision-making practices of threshold adults.

The experiences detailed in this chapter suggest that home ownership impacts pension decision-making amongst threshold adults because it is seen as a financial priority, which may provide reason fo threshold adults to limit their pension contributions. However, home-ownership also relates to a subjective feeling of being established as an adult which provides a platform for being able to plan for the future amongst threshold adults, which may encourage engagement with pension saving once they have reached this point.

This will be further discussed in the next chapter, which considers how major life events play a role in the decision-making practices of threshold adults.

Chapter five: major life events as a factor in threshold adults' decisions

Age has been identified as a factor in studies of pension saving, with many sources suggesting that age structures engagement with pension saving because people are more likely to engage with pension saving as they get older⁴⁰

The importance of age when it comes to pension saving is often explained by being closer to retirement age and therefore more able to think about and plan for it. However, more recent work has highlighted the importance of major life events throughout the life course in triggering engagement with pension saving, rather than it being a gradual process related to the passing of time.⁴¹

The role of major life events was supported by the findings of the research in this report on pension decision-making amongst threshold adults. Age did not appear to be directly related to pension scheme participation; instead threshold adults drew on a subjective view of their age and establishment to justify their limited participation in workplace pension schemes. This subjective view was connected to life events, such as getting married or having children. These events were influential because they seemed to contribute to a sense

of establishment which makes threshold adults feel ready to think about saving for their future.

Many participants suggested they did not feel like they could consider saving for their future until they had achieved certain goals such as getting married and having children. These life events were connected to notions such as 'settling down' and 'getting things sorted'. These notions refer to social establishment, which was a priority amongst threshold adults. Being established in their social lives appeared to provide a platform for threshold adults to think about the future. Home ownership may also be considered as a major life event, but due to the particular financial considerations involved, it has been considered separately in this report.

Age did not appear to be directly related to pension participation, but threshold adults drew on a subjective view of their age to justify their limited participation

40. See, for example, Clark, G., Strauss, K. (2008)

41. PPI (2017a, 2017b, 2017c)

Jane had previously opted-out of pension saving because she was focussed on the short-term. After experiencing a number of life changes, she had begun to feel ready to engage with pension saving. Jane had recently bought a house, got married and turned 30, and she referred to these milestones when explaining her change of attitude regarding pensions.

Interviewer: *"Why did you opt out of those ones [workplace pension schemes] before?"*

Jane: *"Erm, mostly because I just wanted the money, and wasn't really thinking too much long-term, I guess."*

Interviewer: *"Is that because you were younger?"*

Jane: *"Yep, younger."*

Later in the interview, Jane revealed she had started to think differently:

Interviewer: *"What's driven you to start thinking more long-term?"*

Jane: *"Errmmmm.... I think, I don't know. Just getting a house, getting married...."*

Interviewer: *"Did those two things come together?"*

Jane: *"Coming up to thirty, I think it's all like, yeh, so I moved and I got married three*

weeks ago.... And then I've got my thirtieth in three weeks. I think it's all just like, ahhh I should probably start you know, getting things in place."

Jane initially relates her decision to opt out of workplace pension schemes to the idea of youth as a time when it is not necessary to think about the future. She suggests she was very focussed on the short-term, which prevented her from engaging with workplace pension saving and led to her decision to opt out. Later in the interview, she reveals that she had started to think more long-term and related this to the life events she has recently experienced. She mentions home ownership in this account, although not in the sense of the financial considerations of saving for a home, but as another marker of establishment along with getting married and turning thirty. She suggests that these things have made her feel more established and now she feels able to 'get things in place' for the next part of her adult life.

Some participants referred to having children as a life event that would encourage them to save more into a pension scheme. This was often because it was a life event that made them think more about the future. It was sometimes justified in a fatalistic manner, which meant that threshold adults were focussed on living for today while they were young. They felt having children would encourage them to be responsible about saving and preparing for the

Policy considerations:

- For threshold adults like Anna, auto-enrolment may be helpful in encouraging them to save at minimum levels without having to think about it. However, Jane's account highlights that some threshold adults may overcome inertia and decide not to contribute to a workplace pension.
- More targeted support and communications which recognise the demands faced by threshold adults in terms of major life events may be helpful to encourage threshold adults to participate in workplace pension schemes. The use of comparisons across peer groups may also help threshold adults to assess their participation.
- There may also be the opportunity to implement schemes that connect to major life events, in the same way that Save More Tomorrow connects to income increases. For example, sending reminders at certain points in time (which could be customised by the employee) or on existing touch points with HR, such as when employees get married or have a baby.
- However, much research has shown how major life events such as having children negatively affect womens' accrual of pension entitlements. In Anna's case, she may find herself less able to increase her contributions once she has children. This is an important consideration for policy design.

future.

Anna was in her early 30s and had started planning for a family. She paid minimum contributions into her workplace pension scheme:

“I could afford more contributions, that’s not the problem, it’s just having the opportunity to sit down and think about stuff.... I think I need to increase my contributions. It’s something I need to discuss with my husband, because we really need to do it, but I don’t know if it will happen this year or next year. I think as soon as we know we are expecting, we have a baby on the way that will push me to kind of think about it, whereas at the moment I kind of think there’s no responsibilities!”

Anna suggests that she could afford to increase her contributions above the minimum level that she currently pays. The reason that she has not done so already is that she hasn’t had the opportunity to think about what she wants to do, and she is not sure when she will think about it and discuss it with her husband. Anna suggests that once she knows she is expecting a baby, this would encourage her to think about saving more in her pension. She suggests that at the moment she feels like she has no responsibilities, and having a baby will force her to be more responsible. Later in the interview, Anna suggested that she would be able to save for her pension once she had become a mother, despite the costs of raising a child, because she would be spending less on going out and travelling.

Major life events such as getting married are very important for threshold adults. This is because they are markers of social establishment which provide a foundation for threshold adults to engage with saving for their later lives.

Acknowledgements and Contact Details

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Chris Curry

Jennifer Summers

Debora Price

Danielle Baker

Daniela Silcock

Sarah Luheshi

Tine Buffel

Ellie Suh

The structure of the report and key themes mentioned in this report are drawn from discussions with Ellie Suh, a PhD candidate at the Department of Social Policy at the London School of Economics and Political Science. The contents of the report were discussed at a roundtable event on Thursday 3rd May 2018. Thanks to all of the participants for the very useful comments.

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

The Pensions Policy Institute is an educational charity promoting the study of retirement income provision through research, analysis, discussion and publication. The PPI takes an independent view across the entire pensions system.

The PPI is funded by donations, grants and benefits-in-kind from a range of organisations, as well as being commissioned for research projects. To learn more about the PPI, see: www.pensionspolicyinstitute.org.uk

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With thanks to the Economic and Social Research Council (ESRC), the UK's leading research and training agency addressing economic and social concerns, for funding this 3 year PhD studentship

Grant number ES/J500094/1



Published by the Pensions Policy Institute

© July 2018

ISBN 978-1-906284-52-22

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