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PPI Round Table

The Future Life: How can younger people be supported to achieve adequate retirement outcomes?

The Pensions Policy Institute (PPI) held a policy round table on 28 October 2021 to launch the **PPI Briefing Note 128 - The Future Life: How can younger people be supported to achieve adequate retirement outcomes?** This Briefing Note, sponsored by Capita Pension Solutions, Gold Supporting Members of the PPI, explores the way in which people currently aged between 18 and 35 are preparing for later life and retirement, the way their expectations for retirement differ from previous generations of savers, and the specific challenges they face in preparing for adequate retirement outcomes.

The Briefing Note is informed by data and insights collected through the **PPI Young People and Pensions Survey 2021,** which was designed to glean a better understanding of young people's attitudes towards pensions and the challenges they face in preparing for later life.

The event was run as an online seminar with the key findings presented by lead researcher Lauren Wilkinson (PPI) and responses from the sponsor Anish Rav (Capita Pension Solutions). Around 20 people attended this event, representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector. Sarah Luheshi (PPI) chaired the event.

Presentation of key findings and response to the Briefing Note

Sarah Luheshi welcomed everyone to the event, she thanked Capita Pension Solutions for sponsoring the research and introduced the Briefing Note 128: The Future Life: How can younger people be supported to achieve adequate retirement outcomes? She then introduced Lauren Wilkinson (PPI) to share the findings of the Briefing Note.

Lauren Wilkinson, Senior Policy Researcher, PPI, presented the key findings of the research. She thanked the sponsor and set out the scope of the Briefing Note and the PPI Young People and Pensions Survey 2021. She noted that while the survey highlights important issues regarding younger people's thoughts about and engagement with pensions, the respondents may tend to be more engaged than the general population of younger people because the survey was promoted via social media and word of mouth through people who work in the pensions industry so those who answered may be likely to have some contact with people from the pensions industry.

Lauren presented a word cloud that took generational expectations of young people regarding saving for pensions and what they expect from that saving. She highlighted the differences of attitudes based on how positive people felt with regards to their pension; some felt, hopeful or even confident with their retirement planning, but that many more people felt negatively.

She defined three groups, ranging from the first as the most optimistic and the latter being more pessimistic.

Engaged but want more guidance – these are people who may be optimistic but want more information. They recognised the importance of saving for the future but could benefit from support.

Worried and unsure – these are people who recognise the importance of pension schemes but may have limited ability to save in their current circumstances and may also have low levels of understanding about pensions.

Pessimistic and disinterested - these people have a particularly negative view of pensions. They may recognise the importance of pensions but consider saving an adequate level to be unachievable and therefore pointless or may even be downright hostile to the notion of saving into a pension.

Lauren noted that more than half of the respondents fell into the pessimistic groups. She considered some of the reasons that may cause or add to this pessimism. These included the shift from Defined Benefit pension provision to Defined Contribution making it more difficult for today's younger people to achieve a good pension outcome than for previous generations. Lauren also highlighted the gender pension gap, arising from pay differences and family care decisions an issue hindering saving. There were also comments relating to cultural expectations within different ethnic groups and social class.

She then discussed how some of the young people recognised the importance of pension saving, but have other, more pressing concerns on their money, such as paying off student debt, paying rent or saving for a deposit for a house while working jobs with variable hours. These are reasonable concerns and actions such as paying off debt or buying a home may have a positive impact on retirement outcomes.

Lauren then highlighted the confusion that the respondents had regarding contribution levels into the pension scheme. She said that many substantially underestimate the contribution level required to provide an adequate income in retirement. She noted that while median earners need to have a contribution of around 20% of salary for an adequate income in retirement, more than a quarter of the respondents thought that a 10% contribution rate as one that is likely to provide an adequate retirement income. She highlighted that some respondents thought that a contribution of 3% was enough.

She then went on to consider what could be done to improve engagement and understanding for younger people. She noted that more than a quarter of the survey respondents thought that a better understanding would encourage engagement with pensions. She also revealed that 93% of respondents said that they thought financial and retirement planning should be taught in school mandatorily. But the problem is how to put this into practice and who can help do so.

Sarah then handed over to **Anish Rav, Director of Pensions Policy and UK Market Lead, Capita Pension Solutions** to respond to the findings.

Anish thanked Lauren and PPI for the Briefing Note. He noted that most young people in the private sector join DC schemes and therefore, risk is transferred to the savers, so for young people we have to understand how to help them to navigate the risks and to achieve better outcomes.

He discussed the word cloud that Lauren had presented and highlighted some of the large pessimistic words (such as complicated, unsure etc) but also noted that the word "important" was predominant as well, showing that younger people do recognise how important pension savings are. He noted that the transfer of power to individuals is the trend in pensions and therefore we have to support those people in learning, at their own pace, so that they can take control of their future.

Anish also recognised that to be exposed to the survey and fill it in, the people are likely to have some connection to the pensions industry. But noted that even with a connection to the industry there is uncertainty and fear over their retirement, so the problem is very real, and possibly even larger in the wider population.

He then went on to discuss how to meet the needs, or expectations, of younger people. He highlighted that any thinking about a solution should reflect the wide range of priorities that young people are likely to have for their money, and the diverse career paths they will experience, which may be very different from those that may have been expected in the past.

Anish also mentioned the role of other stakeholders beyond the individual including the pensions industry, regulators, and the government through legislation.

He then went on to discuss the important aspect of education, recalling Lauren's figure that 93% of the respondents wished that they had been given mandatory education. He suggested that perhaps the financial industry can create a curriculum that can be rolled out to help, one that would look at real life and not just say save in pensions at any cost. Such a curriculum would cover topics such as general financial management and preparedness for adult life and teaching young people how to avoid scams.

Anish then handed back to Sarah, who announced that the rest of the meeting would be held under the Chatham House Rule and invited the attendees to discuss the points raised in the presentations.

Discussion

Topics discussed in the discussion portion of the Roundtable included amongst others:

- The hierarchy of priorities for young people and their money. It was noted that there are incentives to pension saving such as employer contributions and tax relief, but that younger people also had pressing issues such as paying off student debt, saving for a house deposit, or just generally managing the day to day living expenses.
- The words in the word-cloud shows that pensions can be an emotive issue, how to use that to drive engagement and give individual control. There was discussion on whether knowing where the money was invested may from an ethical standpoint may engage younger people.
- How much young people understand about how and where their money is invested. It was discussed whether having a better understanding of the types of investments used could affect the engagement levels.
- Whether this cohort of younger people differs in particular from previous cohorts. Discussion involved the extent of individual risk that this cohort face, while their expectations may be based on parents or grandparents with Defined Benefit schemes.
- How we can ensure a joined-up approach around people’s financial wellbeing, not just pensions but all other financial considerations too, and considered the risk of people believing that the legal minimum contribution is the recommended contribution.

Closing Remarks

Sarah Luheshi then invited Lauren Wilkinson and Anish Rav to make closing remarks.

Following these remarks, Sarah summarised parts of the discussion, thanked the attendees and closed the Roundtable.

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