

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

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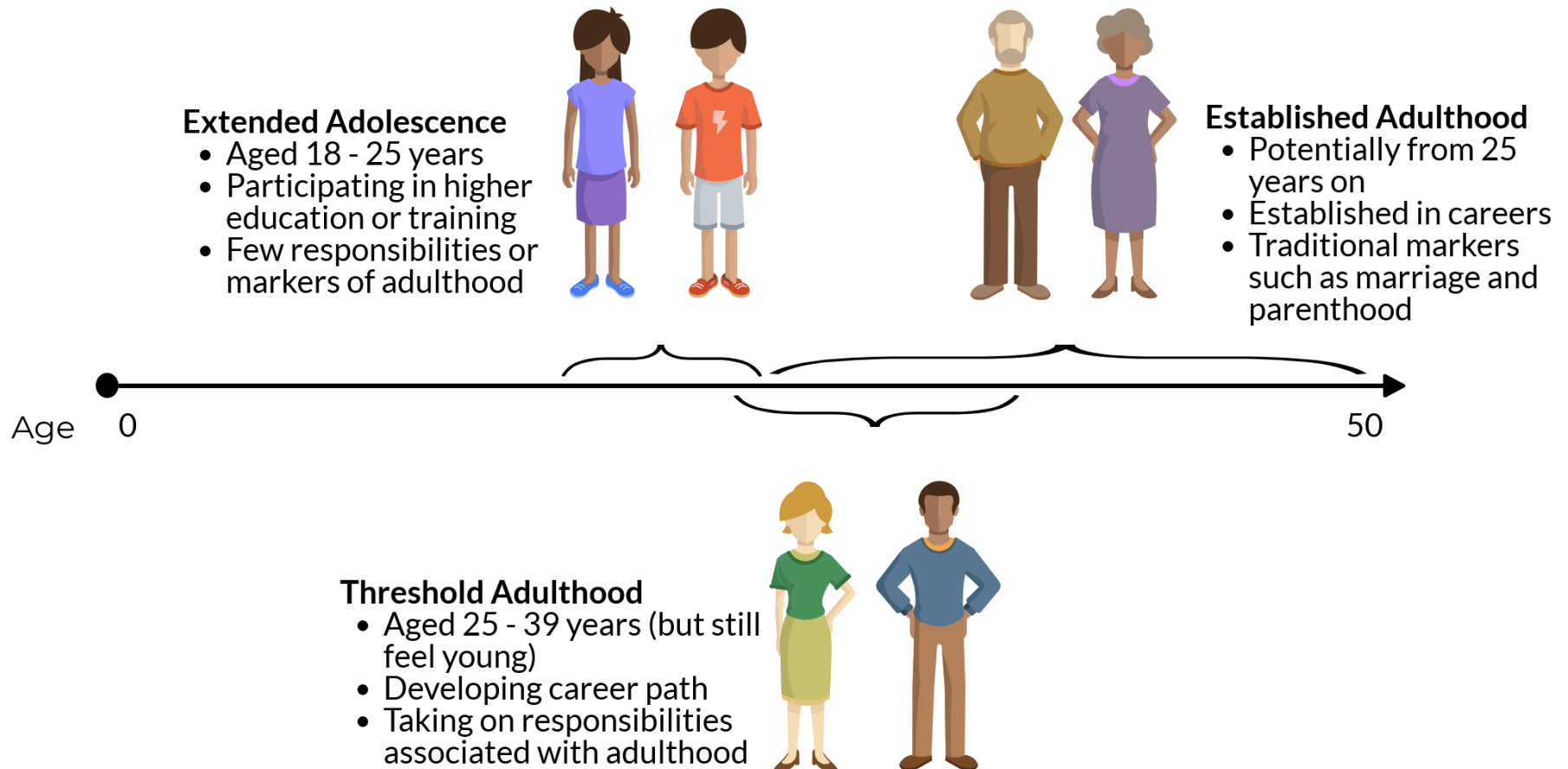
What limits workplace pension saving amongst threshold adults?

- Who are threshold adults?
- Workplace pension saving amongst threshold adults
- Research on pension decisions
- The role of financial and social establishment

Who are threshold adults?

- Threshold adults are aged 25 to 39 years old
- They have passed adolescence and have some (but not all) markers of adulthood
- Subjective positioning
 - “We’re still young” James, aged 30-39 years old
 - “We feel like fully-fledged adults” Izzy, aged 20-29 years old

Who are threshold adults?



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Workplace pension saving amongst threshold adults



- Workplace pension saving amongst threshold adults has risen substantially since the introduction of automatic enrolment
 - Participation rose 36 percentage points and 23.4 percentage points amongst 20-29 and 30-39 year olds since 2012

Workplace pension saving amongst threshold adults



- Many threshold adults have stuck to minimum contribution levels, and it is unclear whether this will continue as they rise
 - There is a risk that they may decide to stop contributing altogether
- Even increased minimum levels may not be enough to provide for adequacy.
 - 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
- Existing research has highlighted a reluctance to save amongst threshold adults
 - This has been described as present bias or myopia, which describe a focus on the present rather than long-term
 - Also includes the role of optimism bias in over-estimating future resources

Workplace pension saving amongst threshold adults



- Threshold adults face competing financial priorities at a time when they may have lower financial capability
- Understanding how threshold adults think about their pension saving (or lack of it) may be important to determine the best approach

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Research on pension decisions

- PhD project sponsored by the Pensions Policy Institute and the Economic and Social Research Council
- Qualitative research considering individual pension decision-making following automatic enrolment
- Interviews with employees of three case-study organisations aged 25 - 45 years old
- Emphasis on the participants' own understanding of their pension decision

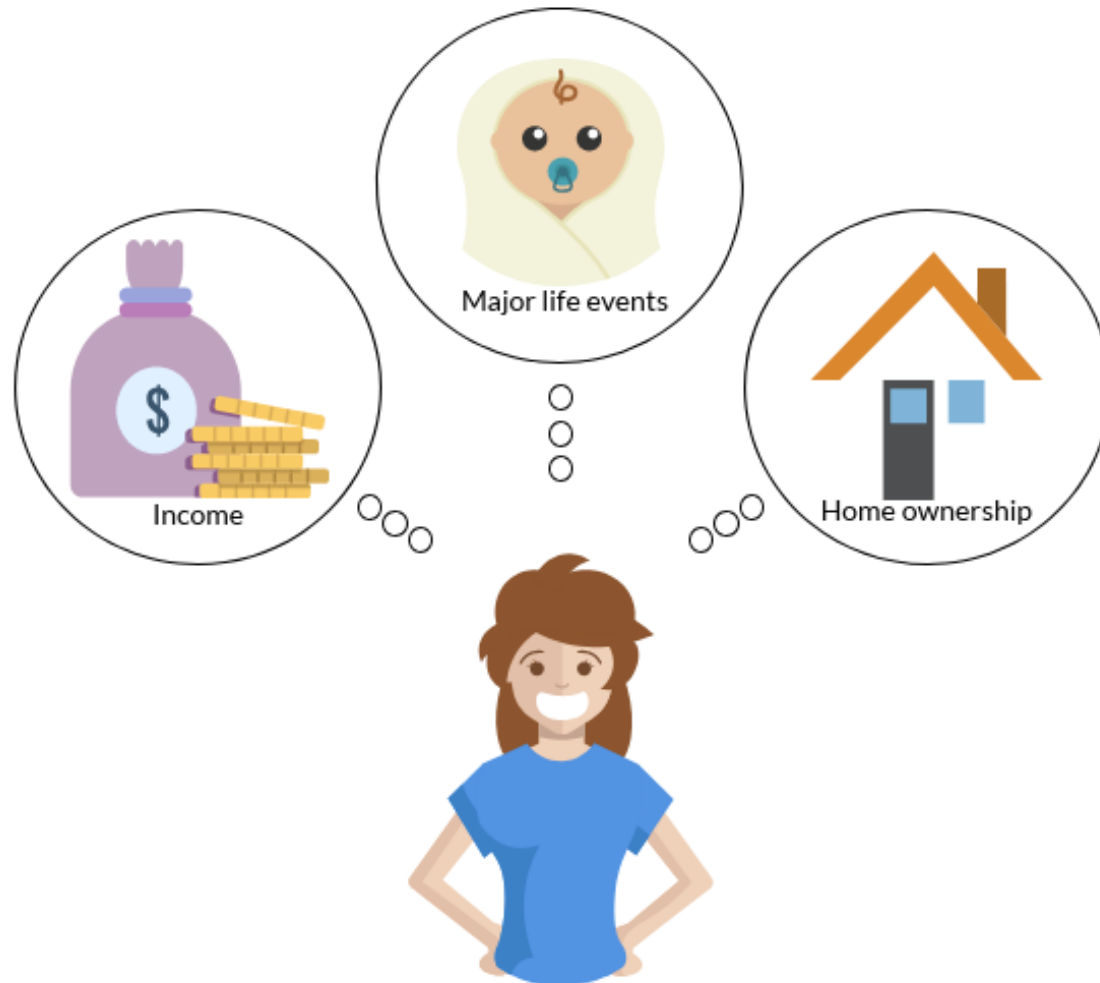
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The role of financial and social establishment

- 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
- They may contribute at minimum levels in the meantime, yet some decide not to contribute in order to prioritise establishment

Factors of financial and social establishment



Income as a factor of establishment

- Income is often treated as a driver of pension participation
- This research found income to be more of a facilitator once threshold adults felt ready to engage
- Participants drew on a subjective understanding of their income, both current and expected
- Participants also highlighted the importance of a buffer to protect current lifestyle before committing to more pension saving

Policy considerations

- Automatic enrolment may help threshold adults by encouraging them to save at least at minimum levels
- Targeting communications to those who are experiencing income increases may encourage saving above this
- Schemes such as Save More Tomorrow may be helpful to encourage commitment to pension saving in the future
- The importance of a buffer, especially for low earners, to counter shocks and enable threshold adults to feel more confident about committing to greater pension saving

Home ownership as a factor of establishment

- Threshold adults face challenges in housing markets
- Home ownership was a priority for many participants, as it was considered to offer stability in financial and social terms
- This may be driven by home ownership as a cultural norm in the UK, but also by lack of stability offered by private rental markets

Policy considerations

- Home ownership is a health goal and perhaps paying minimum pension contributions while saving for a house is enough in the short term
- However, as minimum levels rise, this may force threshold adults to take a more active decisions which could lead to deciding not to contribute to their pension
- Again, there is a potential role for targeting support and communications to help threshold adults through these competing demands
- Also, there is a need to consider those who are not able to purchase a home

Major life events as a factor of establishment

- Age alone did not drive engagement with pension saving since threshold adults took a subjective view of their age position
- Instead, participants related establishment to major life events, such as getting married or having children
- Participants suggested they provided a platform for preparing for the future

Policy considerations

- Automatic enrolment may help encourage saving at minimum levels, although some threshold adults may decide to opt-out
- Targeted communications and support based on these transitions, linked to existing touchpoints, such as notifications to HR of life changes
- However, must also consider the gendered impact of such life events, as women who have children accumulate lower pension entitlement

Conclusion

- These findings highlight the subjective nature of establishment amongst threshold adults, and how this may limit their participation in pension saving
- Threshold adults may need specific support to help them prepare for later life, recognising the complex situation they face.
- This raises important policy considerations as to how this might be addressed, such as the use of targeted communications and interventions.

We'd like to thank...



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