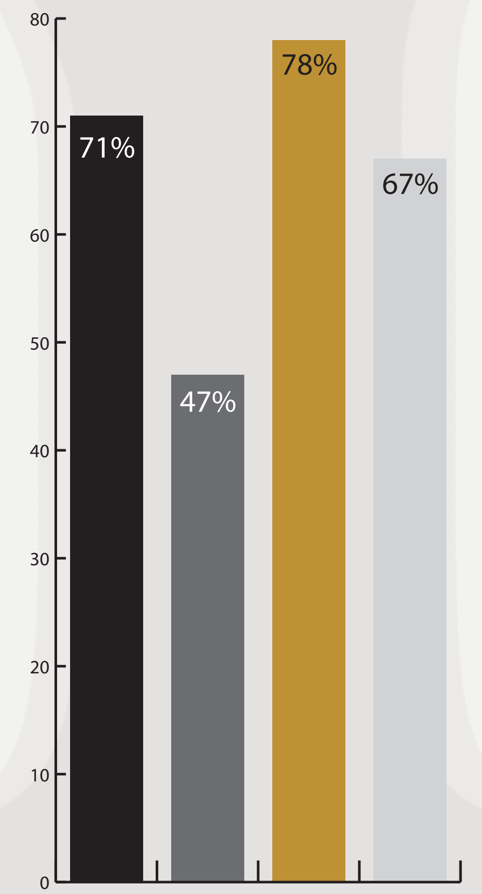
in Focus PensionsInsight

The generation Y

Is enough being done to encourage twentysomethings to save for their retirement? Nicola Sullivan investigates

What Generation Y thinks about pensions. They...

- ...agreed they may not have put enough aside because they don't want to make the wrong decision about saving for retirement
- ...agree it's because they don't know enough about their best options
- ...say knowing they have something put aside and growing ready for their retirement would make them stay opted-in
- ...say it would be a relief that they could stop worrying that they had done nothing to prepare for retirement



Source: Nest

Convincing Generation Y to put more away for retirement could seem almost impossible when, for many, financial fire-fighting in a tough economic climate obscures thoughts about the future.

Large numbers in this group (born between roughly 1981 and 2001) of the workforce are preoccupied with managing the challenges associated with student loan debt, the increased cost of living, lack of affordable property and marginal or no pay increases in an uncertain job market.

David Millar, corporate benefits communications manager at Friends Life, says: "It is an interesting dichotomy. We have a new generation of people coming into the workforce who are under so much more pressure financially than anybody else, yet they have more distractions and reasons not to save."

Despite the financial challenges they face, young employees have not lost sight of the fact that it does make sense to make provision for their retirement. According to Graham Vidler, director of communications and engagement at Nest, the problem is not getting young people to understand why saving into a pension makes sense, it is actually encouraging them to do something about it.

Of a sample of 1,874 people eligible for auto-enrolment about not saving into a pension surveyed by Nest, 71% agreed that they may not have put enough aside because they don't want to make the wrong decision (see graph, left).

Vidler says the complexity of pensions language, a lack of understanding of how pensions work and a proliferation of investment choices are all factors that prevent people from taking action and making decisions about pension saving.

Trevor Rutter, a communication consultant at Like Minds, says: "The industry is responding slowly, and not enough is being done to make pensions attractive to [Generation Y] or any other group."

KEEPING IT SIMPLE

Nest is on a crusade to simplify language associated with pensions, and hopes the rest the industry will adopt elements of its phrase book, which states that phrases such as 'trivial commutation' should be replaced with 'taking your retirement pot as cash'.

Vidler says: "All of us find thinking about the long term difficult, and a lot of us find terms like compound interest difficult. It is just not the sort of thing we are hard-wired to do. There is always going to be a veil of difficult and risk of disengagement."

He adds: "What we need to do as an industry is strip away the language that confuses, rather than enlightens."

It is widely acknowledged by the industry that getting people into pensions is only half of the battle and that staff will need more than the minimum contribution required by auto-enrolment to achieve a decent income at retirement.

The next challenge is getting young employees to make the most of pensions once they have been enrolled into schemes.

Meanwhile, Nest's eight golden rules on pensions communication advocate a practical approach. The rules state that people respond well if what they need to save is translated into goods and services, and pension contributions should be described in pounds and pence rather than percentages of salary.

Katie Frost, a director at Shilling Communication, is a fan of keeping it real when

Y game

Generation Y

Clare Mulligan, an organisational psychologist, says workplace pensions should be marketed and sold in the same way as consumer products that directly tap into Generation Y's lifestyle and values like the Apple iPad. She says: "The ways in which companies are selling their brand are changing a lot with the influence of social media and the way we are using technology. Generation Y buy into any brand that matches their values and matches their lifestyle. This is the way other products are being sold, but I don't think the pensions industry quite sees a pension as a product."

"Generation Y buy into any brand that matches their values and matches their lifestyle"

Clare Mulligan, organisational psychologist

it comes to communicating the benefits of saving more." Show people where they can make savings – for example, the coffee they buy every day on the way to work," she says.

According to Matthew Mitten, a partner at Secondsight, it is important to encourage employees to think about what their ideal retirement would look like before helping them to calculate how much they will need to save to achieve it.

"Most people will say 'I want to retire on as much as I can and as young as I can'," says Mitten.

He suggests that if the employee finds they can't afford to make the monthly contribution required to achieve the retirement of their dreams, they should then be encouraged to focus on the minimum income they would need to stop work, weighing up factors such as how long they are prepared to work for and how much they can afford to save.

While some communications experts believe young people need to be hit with hard-hitting messages designed to shock them into saving for retirement, others advocate a more positive approach.

For example, Nest argues that people respond more positively to communication that focuses on their entitlements rather than threats about what they ought to be doing.

Retirement will seem an incredibly long way off for the average 22-year-old, especially considering increasing retirement ages and the removal of the default retirement age.

Nest's eight golden rules stress the importance of bringing messages about pensions into their current working lives, highlighting that people don't like 'projecting themselves into old age' and therefore the future should be discussed in more general terms.

Similarly, Charles Cotton, reward adviser at the Chartered Institute of Personnel and Development, says that the pensions industry should exploit Generation Y's current appreciation of and interest in work-life balance as a hook for discussions around saving for retirement.

He explains: "Generation Y are into work-life balance. They are interested in their careers but they are also interested in what they do outside of work and that can be quite an opening for employers to ask them, 'What are you going to be doing when you leave work?'".

Technology can also be used to engage Generation Y and encourage them to maximise the value of their pension. Online pensions calculators can be used to instantly project retirement income and it is increasingly possible for pension scheme members to manage contributions and investments online or via smartphone apps.

Dedicated websites, emails or text messages can be used to communicate fund performance and alert staff of the need to contribute more if their pension is not on target to meet a decent retirement income.

But any investment in technology will be wasted if preliminary work is not done to indentify attitudes and concerns about pension saving warns Rutter. "Fundamentally, you assess needs through research. That should always be the starting point. A brilliant website is a waste of money if your audience is not convinced saving is relevant or achievable – they won't look at it. So use the tools you have to find out people's attitudes towards saving and how they would prefer to be communicated with", he explains.

The pensions industry can't address communication issues without evaluating the continued relevance of pensions for Generation Y, many of whom have shelved the concept of a job for life in favour of more flexible careers.

KEEPING IT SIMPLE

Plummeting annuity rates, controversy over annual management charges and poor investment performance also raise questions over the appropriateness of pensions for future generations.

Duncan Brown, a principal at Aon Hewitt, says: "Should we be encouraging a pension or should the government have a framework that actually encourages people to save (with the equivalent tax breaks) for a range of activities? These could include people taking time out to re-skill themselves, investing in a house or other long-term activities. Why just a pension?"

To some extent, the industry has addressed the need for broader savings culture by developing workplace savings platforms and corporate wrap products, which give employees access to a wide range of investment options, including pensions, share plans and corporate Isas.

These products, says Brown, are all well and good, but tend to favour more sophisticated investors. He adds: "At the moment, how it is skewed [these products] are very much for sophisticated investors."

Brown believes that the industry should also be pushing schemes designed to allow a proportion of the pension contribution to go towards paying student loans or long-term saving say, for instance, for a deposit on a house.

Much of the industry already argues it is finding creative ways to get Generation Y saving. The success of the auto-enrolment project among the young will be the real test of that assertion. ■