ROYAL LONDON

THE MILLENNIAL MOSAIC

Pensions Through The Ages

For the report, **Pensions Through the Ages: The Millennial Mosaic**, Royal London conducted research among 1,500 millennials (aged 25 - 34) to understand the key influences on millennials' future long-term pension savings. For many in this group the introduction of automatic enrolment in the last five years would be potentially the first time they have secured a pension through employment. The research identifies some of the lifestyles, life stages and issues millennials face and the impact of government pension policy on their engagement with pension planning.

Pensions Through the Ages: Generation 2050 and Beyond, published in 2015, highlighted how the changing pensions landscape was impacting pensions savings and the future income available in retirement for people of different ages. The research findings identified that those aged 30 - 40 years old were the hardest hit, struggling to save or improve their pension savings due to other financial priorities.

This was followed by **Pensions Through the Ages: Feeling the Squeeze**, in 2016, which explored the '**Squeezed Middle**' - those aged 35 - 44 - for whom the challenges of saving for retirement had been identified as being of particular concern.

Overview

'Millennials' is an all-encompassing term for those born from the early 1980s to the early 2000s. This group has had to face some of the biggest financial pressures of recent years: the repercussions of the financial crash; staggeringly high house prices[i], rent and cost of living; the worst stagnation of pay since the 19th century[ii]; an increasing state pension age and a state pension with an uncertain future.

What's more, this is a hugely diverse group of people, in terms of everything from living arrangements and financial capability to personal aspirations and goals. This makes understanding millennials all the more complicated.

The purpose of the **Pensions Through The Ages: The Millennial Mosaic** research is to explore these differences, in order to understand the hurdles this group has to tackle when it comes to long-term pension savings. Our research split the group into a **younger** group aged **25 - 29** and an **older** group aged **30 - 34** and discovered that millennials cannot be classed as one group. We identified the following five distinct groups:

Measured Homeowners

These millennials appear to be more financially confident in that they have a mortgage and are also more likely to have better pension savings. They are normally older millennials aged 30 - 34.

Just About Managing

These millennial '**JAMs**' tend to be new families aged 25 - 29 who have just brought a property or single first time buyers entering into their first years of mortgage repayments. For this group, paying bills month to month is a stretch; but they are happy to have got onto the property ladder.

Restless Renters

These millennials are stuck in a cycle of renting, living pay cheque to pay cheque and struggling to save for a rainy day, let alone a pension. They want to get on the property ladder one day and save into their pension but due to other financial commitments, such as paying the bills and paying off debt, this prevents them from doing so. This group spans the entire millennial age range from 25 - 34.

No Other Option

The '**NOO**' millennials live at home with parents or a relative and cannot afford to move out because of high rental costs and low wages or their financial circumstances. They tend to be older millennials aged 30 - 34.

Sacrifice To Save

These millennials have consciously opted to stay at home to save. This could be to save for a property, fund further education, have aspiration to have a special holiday or travel, or to save for their wedding. If they wanted to they could potentially afford to move out, but it would be a squeeze. So they have chosen to stay at home to save a significant amount each month that would otherwise go on rent or other expenses. These millennials are normally aged 25 - 29.

Understandably all of these different pressures and circumstances results in different attitudes towards long-term saving and pension provision, so trying to 'pigeon-hole' millennials is complicated.

However, a fact that was relatively consistent across all the millennial groups was that pensions are not currently at the top of their savings agenda. Our research found only 8% of millennials ranked pension savings in their top two savings priorities and that their average pension contribution of 4.6% was well below the level Royal London recommends, which is a contribution level of 12-15% to achieve a reasonable retirement income.

8% of millennials ranked pension savings in their top two savings priorities

However, this is not to say that millennials are not engaged in their pension planning as the introduction of auto-enrolment appears to be helping millennials start their pension savings. The proportion of eligible 22 - 29 year olds with a private sector workplace pension has increased from 28% to about 80%[iii]. Royal London research confirms that auto-enrolment is popular among millennials, with nearly three-quarters (71%) deciding to not opt-out after being enrolled and a further 8% saying that they initially opted out but went back in.

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The majority of millennials told us that they are looking to increase their contributions, too: 75% of respondents said that they will increase their payments automatically should they get a pay rise, while 40% plan to increase their contributions next year, rising to 50% for those who said that their pension was a high priority. Most aren't put off by the planned increase in contributions, either, which will see total minimum contributions (including those from the employer) rise to 8% in 2019.

75% of respondents said that they'll increase their payments automatically should they get a pay rise

Auto-enrolment is providing millennials and future generations with the opportunity to secure an adequate retirement income, rather than face pensioner poverty by being just dependent on whatever state benefits may be available at the time they are able to retire. However, although auto-enrolment has been hugely popular, it is not a solution on its own.

As well as engaging millennials so they take a more proactive approach to their pension, there is an important role for employers in providing workplace pensions with good contribution levels. This will ensure individuals are able to take advantage of every opportunity to save available to them to help achieve good outcomes in retirement.

Steve Webb
Director of Policy
Royal London

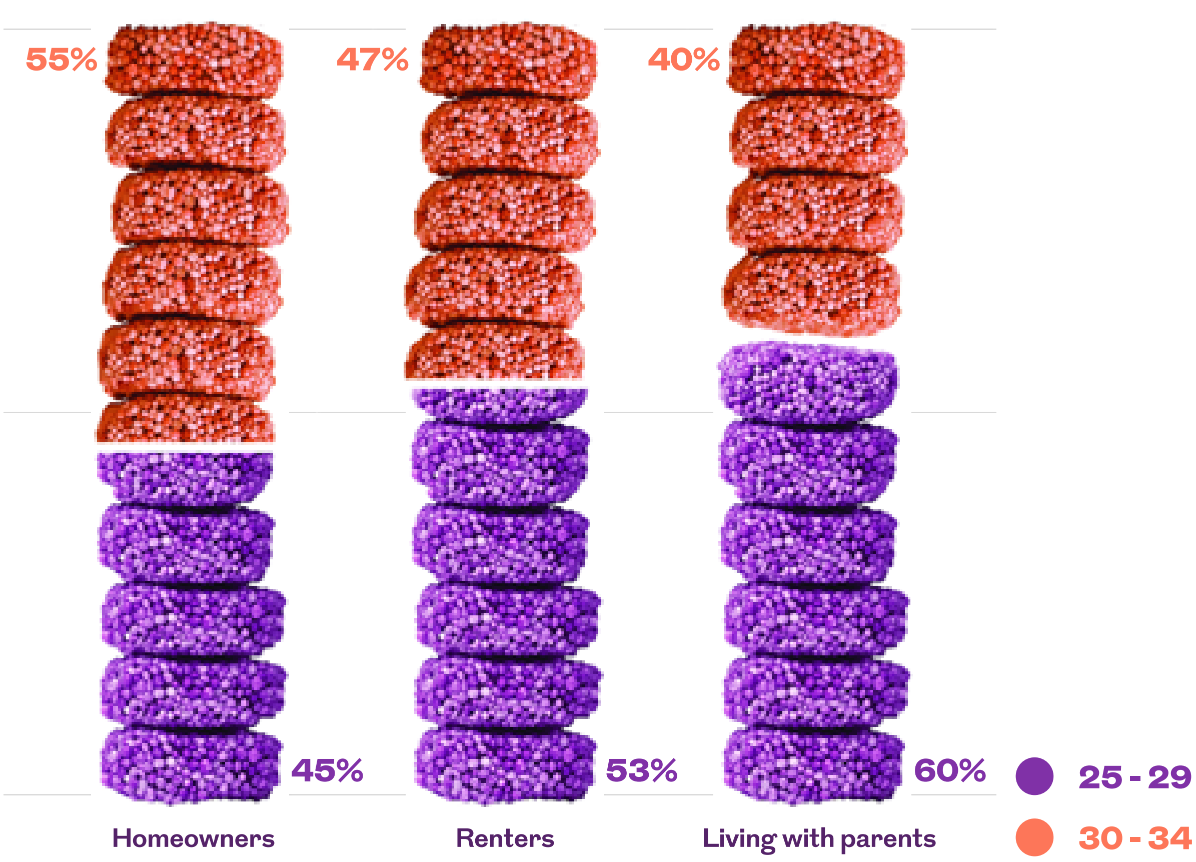
"This research shows that millennials are not a single group with common characteristics but rather a diverse group of people at different life stages and with different experiences and priorities. It is these variations that we urge policy makers to consider when devising future pensions policy for millennials. The 2017 Automatic Enrolment Review, for example, needs to 'drill down' into the individual situations of these varied subgroups and not assume that everyone in their late 20s or early 30s has the same issues and challenges. This means being more focused on how we communicate with them to ensure there is better engagement. We also need to consider how other policy areas, such as the lack of affordable housing or student debt, are impacting millennials' ability to save and secure a financially comfortable retirement."

Chapter 1: **Millennial diversity**

Millennials are not one single group, they don't all face the same challenges and don't all have the same concerns. They are a generation with a mix of different lifestyles and different life stages; a mosaic of experiences, attitudes and capabilities.

Our '**Pensions Through The Ages: The Millennial Mosaic**' research discovered several noticeable patterns and a number of subgroups. Our findings showed a clear correlation between age group and living arrangements: **homeowners** being the **older** millennials (30 - 34) and **younger** millennials (25 - 29) more likely to be **living with parents**.

Figure 1: Breakdown of millennials by living arrangement and age



Base: All respondents are Homeowners (602); Renters (703); Living with parents (195) Base 25 – 29: Homeowners (266); Renters (366); Living with parents (118) Base 30 – 34: Homeowners (336); Renters (337); Living with parents (77) Weighted bases are used but otherwise unweighted have been stated
**With a pension includes all those stating they have a pension and those that were auto enrolled into a pension and did not opt out*

Homeowners

'**Pensions Through The Ages: The Millennial Mosaic**' research showed that **homeowners** are more forward-thinking, financially savvy and more aware about their financial situation than those that were renters or living at home with parents. As shown in Table 1 on average millennial **homeowners** have significantly bigger pension pots, are more likely to be in full time employment, and have higher average income than other millennials. **Homeowners** are more realistic about how much they will need in retirement, on average they expect a total pension pot in retirement of £319k, more than £100k higher than the average expected pension pot for renters (£208k) and those living at home (£234k). These financially stable **homeowners** have average annual income that is nearly double that of those living at home, £32k compared with £16.5k.

Of this group we found that **older** millennial **homeowners** are more comfortable with their finances, compared to younger millennials. **Younger** millennial **homeowners**, for example, are significantly more likely to find their finances unmanageable (13%) compared with older home-owning millennials (5%). We class **older** millennial **homeowners** as '**Measured Homeowners**', while **younger** millennials, whose finances are a bit more squeezed, are '**Just About Managing**' or **JAM** millennials.

Catherine Harford, 31 year old administrator and homeowner from Hertfordshire.

Catherine explains why she believes being in control of your finances is important: "I believe it's really important to have some financial self-control and so saving is a major priority for me. At the moment our savings are focused on short-term saving for our wedding as we get married in 6 months. I'm still saving money for Christmas and holidays as well as general costs for the children, as well as thinking for our long-term future. Once the wedding is out of the way, we may then consider moving to a bigger home and then possibly in the future downsizing to release money from our property for our retirement. We may even move abroad."

Table 1: Breakdown of millennials' finances by living arrangement

	Homeowners	Renters	Living with parents
Average income	£32,000	£18,500	£16,500
Full time employed	79%	51%	49%
Average number of pensions held	1.4	1.2	1.3
Personal monthly contributions	5%	4.10%	4.30%
Average pension pot	£19,062	£6,666	£5,913
Pension pot expected to fund retirement	£319k	£208k	£234k

Renters

Millennials who are renting have the highest focus on bills with 2 in 5 (40%) saying that bills are most likely to keep them awake at night, compared to a quarter (26%) of homeowners and over 1 in 5 (21%) of millennials who are living at home. **Renters** also worry more about debt than any other group. Worryingly just over a quarter of millennial **renters** (26%) have no savings at all.

Renters are the most likely to feel like their finances are squeezed. Nearly 2 in 5 (38%) **renters** feel their finances are less manageable than their peers, compared to just over a quarter (27%) of those living with parents.

These millennials, who are stuck in a cycle of renting, who live 'pay cheque to pay cheque' and struggle to save for a rainy day, let alone into a pension are classed as '**Restless Renters**'. These are millennials who are renting and may want to get on the property ladder and save more into their pension, but due to other financial constraints, such as paying the bills and paying off debt, are prevented from doing so.

Zara Randall, 33 year old agency worker from Wolverhampton.

Zara rents with her partner and describes her current financial position as 'squeezed': "At the moment pension saving is not my main priority. I have to cover all my bills. Once my partner is back in work, we'll start to save together. Currently, the majority of my monthly outgoings are going towards rent, but we are planning on buying our own house."

Living with parents

Younger millennials are more likely to be **living with their parents**, 3 in 5 (60%) of those living at home are aged between 25 - 29. For this group, maintaining a particular type of lifestyle (38%) and not being able to afford a property (36%) are two of their biggest concerns. Job stability is also a concern, more so for **younger** millennials **living with their parents** (29%) compared to a quarter (25%) of **older** millennials **living with their parents**.

Millennials who have opted to stay at home, whether it's to save for a deposit or maintain a particular lifestyle we see as having to '**Sacrifice to Save**'.

Sarah Millward, 31 year old pharmacy dispenser from Birmingham.

Sarah lives at home with parents and is currently saving for her wedding. "Living at home has definitely helped with my savings priorities. I don't live here for free, but it's much less renting or paying a mortgage. I'm currently saving for my wedding, that's my primary saving goal at the moment."

However, there are millennials who have no alternative but to live at home, due to high rental costs, low wages or unemployment - the '**No Other Option**' millennials. Our research found that unemployment is significantly higher among those **living with parents**, 1 in 5 (20%) compared to just 1% of homeowners and 12% of renters. What is concerning is that unemployment is higher among **older** millennials **living with parents**; nearly a quarter of millennials aged 30 - 34 (23%) who live at home are unemployed, compared to an unemployment rate of less than 1 in 5 (17%) among **younger** millennials who live at home.

Table 2: Which, if any, of the following is most likely to keep you awake at night?

	Homeowners		Renters		Living with parents	
	25 - 29	30 - 34	25 - 29	30 - 34	25 - 29	30 - 34
My health	24%	33%	28%	33%	37%	41%
Job stability	17%	20%	20%	22%	29%	25%
Not having a job	14%	17%	21%	22%	30%	34%
Paying bills	24%	27%	39%	42%	20%	24%
Paying off debts	21%	22%	35%	36%	20%	24%

Base 25 - 29: Homeowners (266); Renters (366); Living with parents (118) Base 30 - 34: Homeowners (336); Renters (337); Living with parents (77) Weighted bases are used but otherwise unweighted have been stated

Keri German, 29 years old from London.

Keri currently lives at home with her parents and hopes to save up for a round the world trip. "I've recently been made redundant from my job, but before this I was paying into my pension. I want to save more, but it's difficult when you are not earning. I've thought about starting my own business, but the risks involved worry me. My dad had his own business and it didn't work out. Now he's living on the state pension and it's quite depressing."

Steve Webb
Director of Policy
Royal London

"These different categories by no means cover all of the nuances within the Millennial Mosaic. However, the subgroups help to highlight some of the diverse circumstances millennials find themselves in. These breakdowns will hopefully help government, policy makers and the pensions industry understand what really matters to this age group and so help them start to build adequate long term pension savings for the future."

Chapter 2:
The Pension Patchwork

Given that many of this age group have only just started saving into a pension[iv] and have a number of other financial concerns, it comes as no surprise that pensions are not considered a top priority.

The **Pensions Through The Ages: The Millennial Mosaic** research showed that just 8% of millennials ranked pension savings in their top two savings priorities, over two thirds said that paying the bills (67%) and providing for myself/family was mentioned by 3 in 5 (60%) as the highest top two savings priorities.

Rebecca Dix, 34 year old Lab Manager from Swansea.

Rebecca comments on why her pension is not in her top savings priorities: "It's really hard to prioritise pension saving when you are paying for other things. I feel like my pension should be a big priority, but I can't currently. It's definitely becoming more of a priority."

Engagement levels are low among millennials; this is highlighted with some of those surveyed unaware that they had a pension. For example, we found that over a fifth (22%) of millennials were unaware that they had a pension, when initially asked about which savings or investment they had. This could be improved by better engagement.

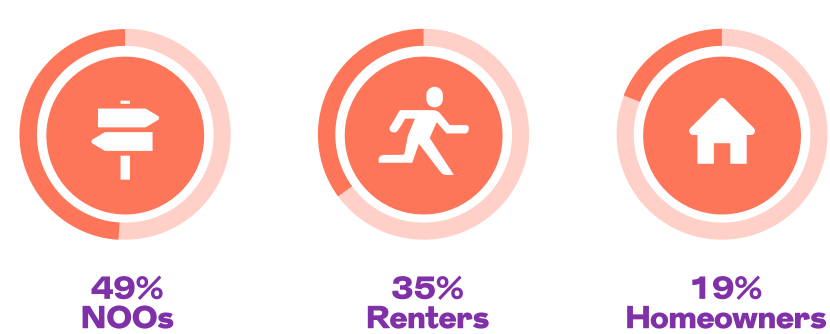
When auto-enrolment was described to them later in the survey, a further 22% said that they do in fact have a pension - they had been auto-enrolled and had not opted out.

Pensions

Again, age and living arrangements can also impact pension holdings. **Older 'Measured Homeowners'** millennials were the most likely group to have a pension, with almost 7 in 10 (68%) saying they have a pension. The '**Just About Managing**' millennials were more likely (59%) than both **renters** (52%) and millennials **living with parents** (47%) to have a pension; however they were also significantly behind the **older homeowners** with 3 in 5 (59%) holding a pension.

Older 'No Other Option' millennials living at home are the most likely to state that low earnings prevent them from saving more in to a pension; half (49%) of 30 - 34 year old **NOOs** said that their income held them back from paying more into their pension, compared to over a third (35%) of **older renters** and 19% of **older homeowners**

Figure 2: Low earnings prevents me from paying more into my pension



Over half (53% and 51%) of **Restless Renters** hold a pension and there is little difference by age in this group, indicating that it is an issue faced by both **younger** and **older renters**.

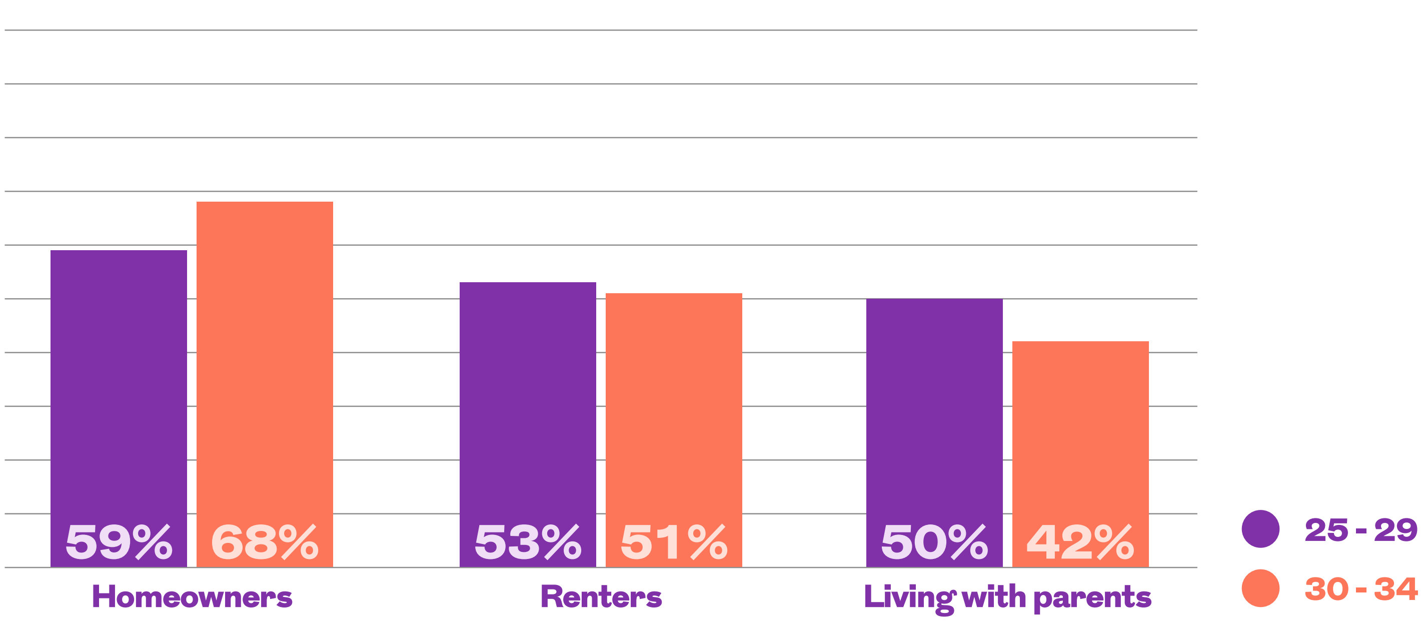
State pension

Attitudes towards the state pension varied across the different millennial living arrangements. Millennials **living with parents** have a more positive outlook, with over a third (34%) thinking the state pension will not exist in their retirement, compared to 2 in 5 of both **renters** (41%) and **homeowners** (42%).

Melissa Coates, 32 year old library assistant and a homeowner from Orpington.

"If you want a reasonable level of retirement, the state pension is not enough. But if you pay into a pension, your employer pays in too; it's basically free money."

Figure 3: Percentage of millennials with a pension, by age and living arrangements



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Weighted bases are used but otherwise unweighted have been stated
**With a pension includes all those stating they have a pension and those that were auto enrolled into a pension and did not opt out*

Opt out

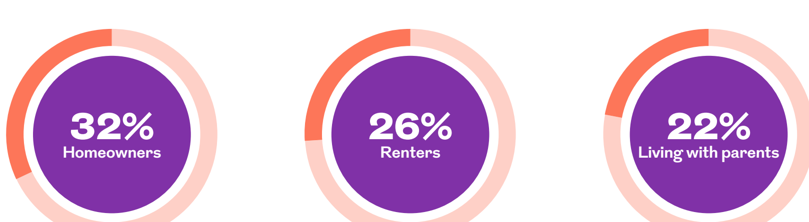
Homeowners, are the most likely to have opted out of an auto-enrolled pension with a quarter (25%) saying they opted out and stayed out, compared to 14% of **renters** and 12% of those **living with their parents**.

> **Robert Rushton, 34 year old home owning millennial from Wales.**
> "I would definitely consider using a financial adviser, as I don't know much about the investment side and I have used one in the past for my mortgage. I want to know more about the risks and rewards of investing."

Financial advice

Almost half of **renters** (47%) have never reviewed their pension, similar to millennials **living with parents** (45%). Engagement rates with financial advisers are low across the board but that is to be expected if pension savings are not a high priority and levels of savings are low. Nearly a third (32%) of **homeowners**, say that they have consulted a financial adviser compared to over a quarter of **renters** (26%) and just over 1 in 5 of those **living with parents** (22%).

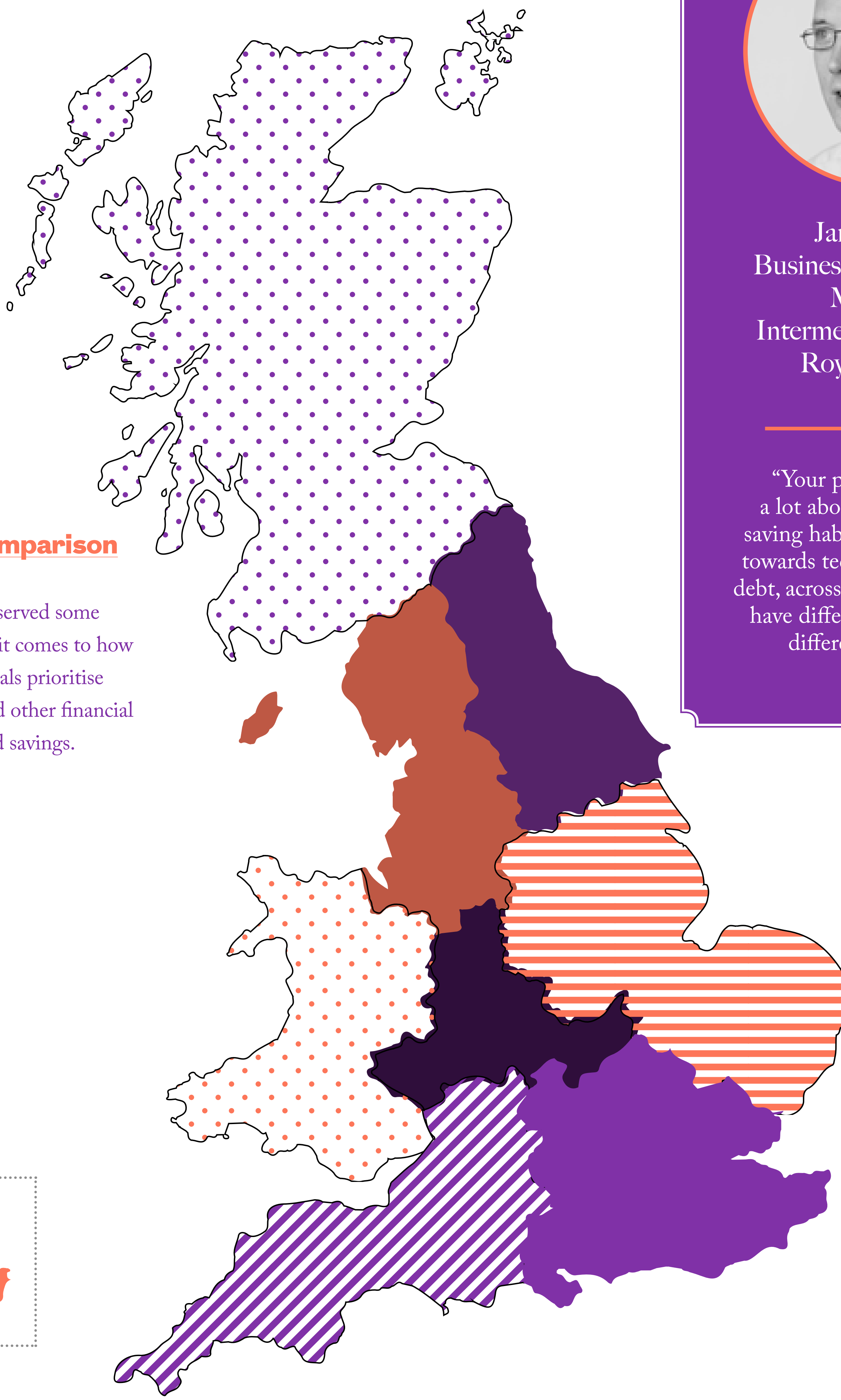
Figure 4: Percentage of millennial who have consulted a financial adviser



This is concerning, as recent research, sponsored by Royal London, by the International Longevity Centre - UK showed that those who are financially advised are on average £40,000 better off than their equivalent un-advised peers[v].

Figure 5: Average financial benefit for customers who take financial advice compared to those who don't

Given its substantial financial benefits, financial advice is considerably more affordable than many people believe[vi] and as many millennials are feeling pressured by their finances, advice could allow this squeezed group to save more. Promisingly, millennials want to receive financial advice **younger** than expected; nearly a quarter (24%) of millennials want to receive advice at the age of 40, compared to 18% who want to receive it at 50 and 13% who say they want financial advice at 60.



Regional comparison

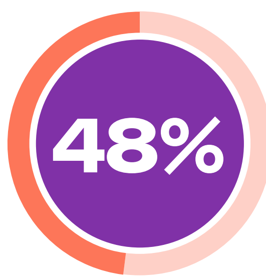
Regionally we observed some differences when it comes to how the UK's millennials prioritise their pensions and other financial commitments and savings.

Jamie Clark
Business Development Manager
Intermediary Pensions
Royal London

"Your postcode can say a lot about you, even your saving habits! From attitudes towards tech to the impact of debt, across the UK millennials have different pressures and different priorities."

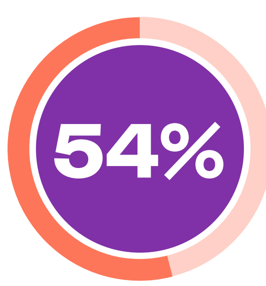
South East

Millennials in the South East are the most pessimistic about the state pension being available when they come to retire, with just under half (48%) saying it will not exist.



“I do not think the state pension will be available when I retire”

Over half (54%) of millennials in the in South East say that they should be mainly responsible for their future retirement saving and promisingly over two thirds (68%) think that they should be saving more for their retirement.



“say that they should be mainly responsible for their future retirement saving”

In particular, they are the most worried about their ability to afford a property, with over a quarter (27%) saying that not being able to get on the property ladder keeps them awake.

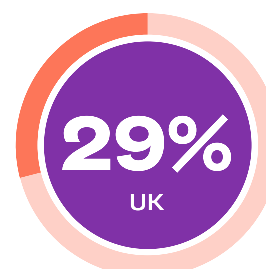
OVER 2 OUT OF 3

say they should be saving more for retirement

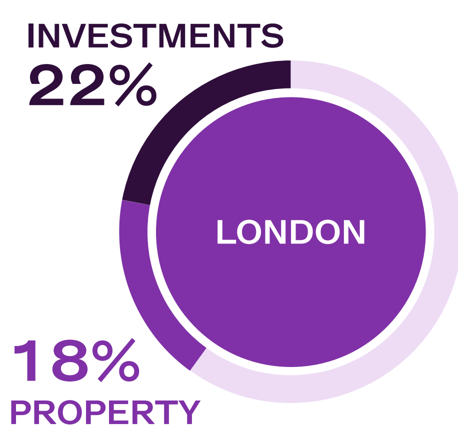
London

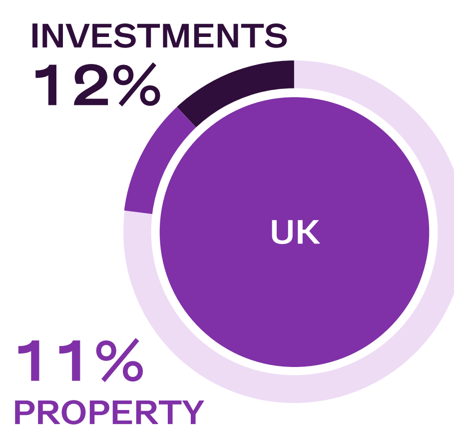
Nearly half (45%) of millennial Londoners are unlikely to use a pension to fund their retirement income, compared to nearly three quarters (71%) nationally who say they are intending to use pensions to fund their retirement.

“unlikely to use a pension to fund their retirement income”

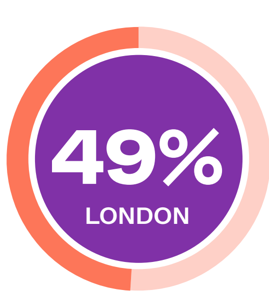


Instead nearly a quarter of young people in the capital said they were more likely to use investments, (22%) compared to 1 in 8 (12%) nationally. Nearly 1 in 5 (18%) said that they will use property, compared to 1 in 9 (11%) nationally, to fund their retirement.

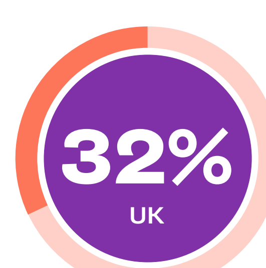




Nearly half (49%) stated that they feel that their finances are more manageable than their friends, compared to the UK average of under a third (32%). However, regardless of their financial confidence, over 4 in 5 millennials (78%) in London say they should be saving more for their retirement.



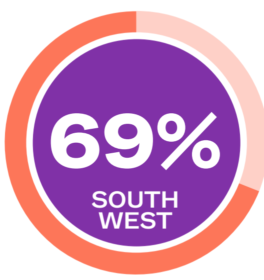
“I feel that my finances are more manageable than my friends’.”



OVER **4** OUT OF **5** say they should be saving more for retirement

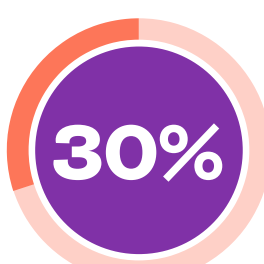
South West

Over two thirds (69%) of millennials in the South West either agree or completely agree that the State Pension will form an essential part of their income when they retire. This compares with a UK national average of over half of millennials (58%) who expect to rely on the State Pension when they retire.



"Either agree or completely agree that the State Pension will form an essential part of their income when they retire"

Almost a third (30%) of millennials in the South West said that their finances are less manageable than their peers and over two thirds (69%) said they should be saving more for their retirement.



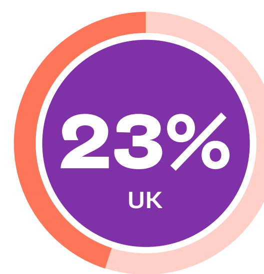
"said that their finances are less manageable than their peers"

OVER **2** OUT OF **3** say they should be saving more for retirement

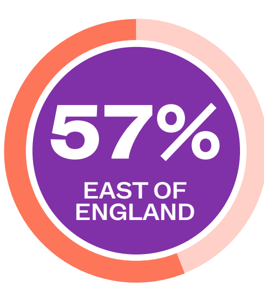
East of England

Getting on the property ladder is less of a concern for millennials in the East of England, with less than a fifth (16%) saying that this would keep them up at night, compared to the national average of nearly a quarter (23%).

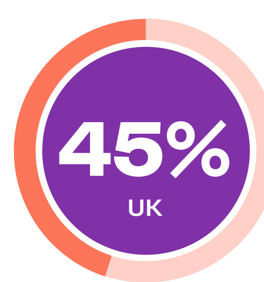
“Getting on the property ladder is what would keep me up at night”



More than half (57%) of millennials in the East of England surveyed said that an increase in pay would help them save more, in line with their pay rises, 12% higher than the national average of 45%.



“An increase in pay would help me save more”



Nearly 4 in 5 millennials in the East of England (79%) intend to fund their retirement with a pension; Nearly 4 in 5 (79%) of East of England millennials say they want to save more for their retirement.

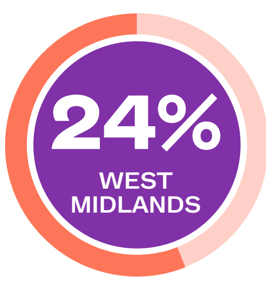
NEARLY **4** OUT OF **5**

want to save more into their pension and intend to fund their retirement with a pension

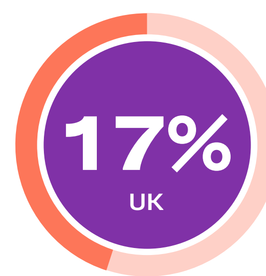
West Midlands

Millennials in the West Midlands are most likely to use technology to help them save into a pension.

Nearly a quarter (24%) said that a digital tool, such as Royal London's online pension calculator, would help them to monitor their pension savings more easily and would incentivise them to save more for retirement. This compares with less than a fifth (17%) of millennials nationally.



"A digital tool would help me monitor my pension savings more easily"



Millennials in the West Midlands want to be saving more for their retirement, with 3 in 4 (75%) saying that they want to save more into their pension.

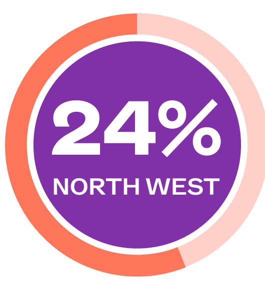
3 OUT OF 4

want to save more into their pension

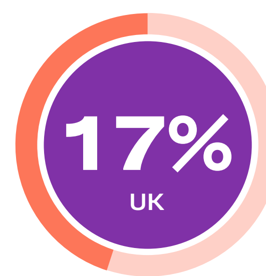
North West

Tech savvy millennials in the North West said that they would use technology to help them save more into their pensions.

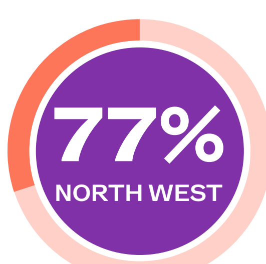
Just under a quarter (24%) said that a digital tool, such as Royal London's online pension calculator, would to help them monitor their pension savings more easily and would incentivise them to save more for retirement. This compares with less than a fifth (17%) of millennials nationally.



"A digital tool would help me monitor my pension savings more easily"



Millennials in the North West want to be saving more for their retirement, with over 3 in 4 (77%) wanting to save more into their pension.



"want to save more for their retirement"

Almost 1 in 10 (9%) millennials in the North West put pensions savings in their top two financial priorities.

9% millennials put pensions savings in their top two financial priorities

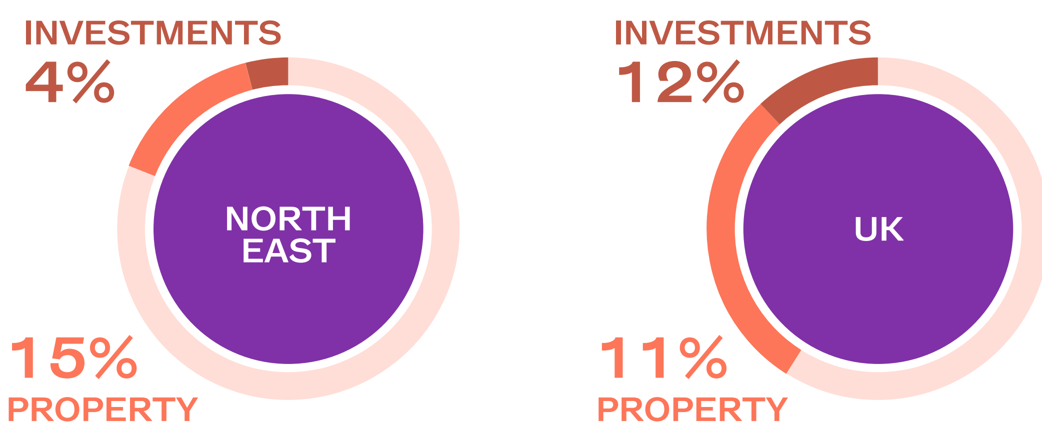
OVER 3 OUT OF 4

want to save more into their pension

North East

7 in 10 (70%) of millennilas in the North East of England said they should be saving more for their retirement.

15% of millennials in the North East expect to fund their retirement with property, compared to the national average of nearly 1 in 9 (11%). Millennials in the North East are the least likely in the UK to fund their retirement through investment products, with 4% stating that this is how they would fund their retirement, compared to the national average of 12%.

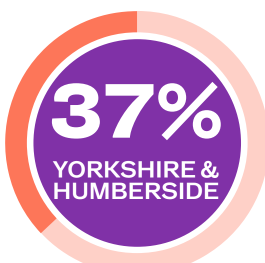


7 OUT OF 10

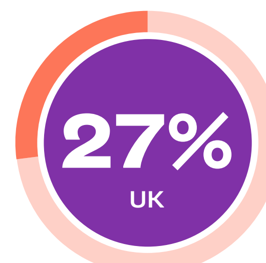
want to save more into their pension

Yorkshire and Humberside

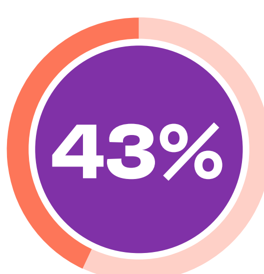
Over a third (37%) millennials aged 25 - 34 in Yorkshire and Humberside are restricted from saving into their pension as a result of debt, compared to a national average of just over a quarter (27%).



"are restricted from saving into their pension as a result of debt"



Low income is also highly cited as a reason for not saving more into their pension, with almost half (43%) stating that their level of income restricted them from saving more into their pension.



"stated that their level of income restricted them from saving more into their pension"

Over 7 out of 10 (71%) of millennials in Yorkshire and Humberside say that they want to save more for their retirement.

OVER 7 OUT OF 10

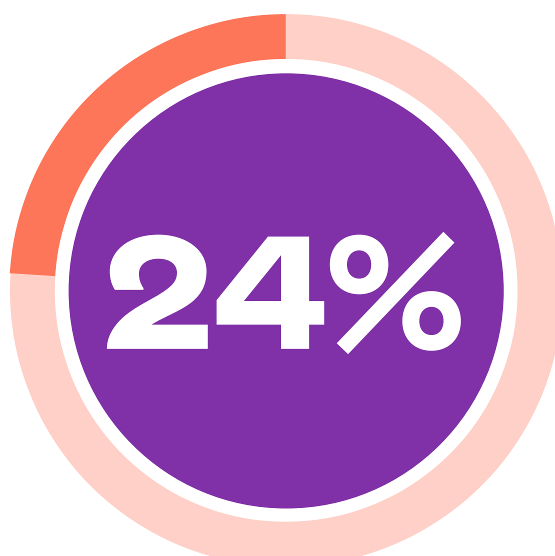
want to save more into their pension

Scotland

Over 3 in 4 (77%) of millennials in Scotland say they should be saving more.

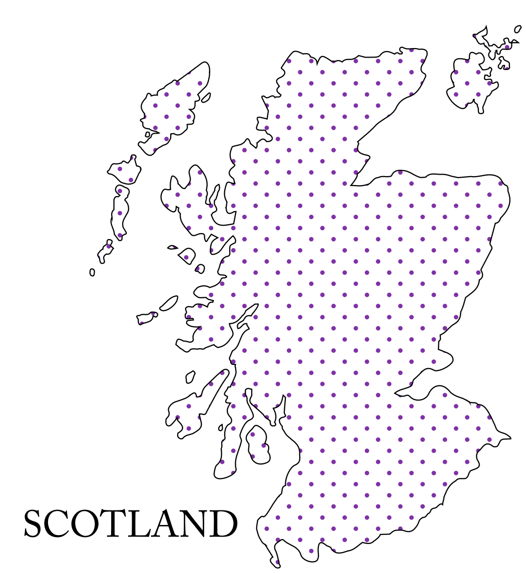
OVER **3** OUT OF **4**

say they should be saving more for retirement



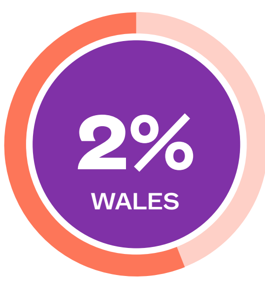
> “said that not being able to afford their desired lifestyle would keep them awake at night”

Scottish millennials are the least concerned in the UK with not being able to afford their desired lifestyle, with just under a quarter (24%) saying that this would keep them awake at night.

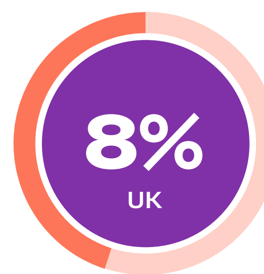


Wales

Welsh millennials view their pension saving as their lowest financial priority compared with the rest of the UK. Only 2% of Welsh millennials ranked pension saving in their top two priorities, compared with the national average for all millennials of 8%.



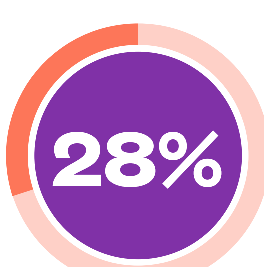
"ranked pension saving in their top two priorities"



In addition, based on the details they gave us, on average their personal monthly pension contribution was 3.5% of their income, which is over 1% lower than the national average of 4.6%. This, coupled with millennials in Wales having the lowest level of average income at just over £22k (£22,157), means that their average pension savings is the lowest in the UK, at just over £5k (£5,089). Over 60% less than the size of the average UK millennial pension pot of over £13k.

However, over 3 in 4 (77%) recognise they need to save more.

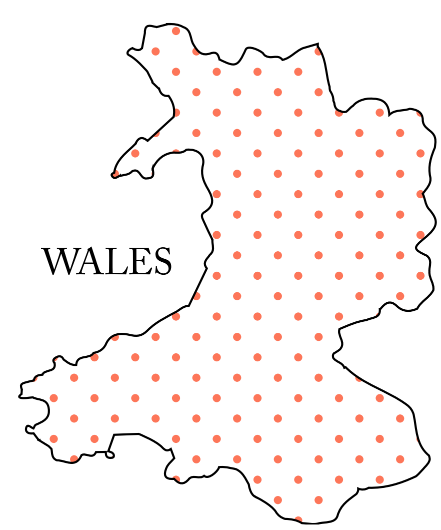
This may be at this level as over a quarter (28%) also say that they did not think that the State Pension would make up an essential part of their retirement income.



"say that they did not think that the State Pension would make up an essential part of their retirement income"

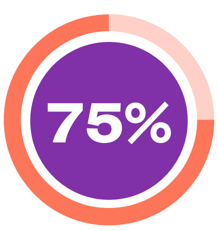
OVER 3 OUT OF 4

say they should be saving more for retirement

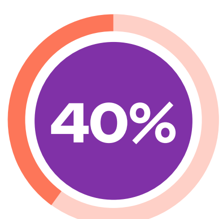


Pension saving silver lining

There is a silver lining. '**Pension Through The Ages: The Millennial Mosaic**' research reveals that millennials do have a definite intention to save more into their pension fund. This could be linked to the success of automatic enrolment, with 3 in 4 (75%) who have a pension saying they would increase their pension payments automatically in line with a pay rise; 2 in 5 (40%) said that they plan to increase their monthly pension contributions next year, with this increasing to a half (50%) for those who said that their pension was a high priority.



"I would increase my pension payments automatically in line with a pay rise"

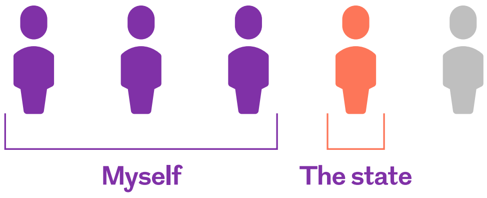


"I will increase my monthly pension contributions next year"

"I plan to increase my contributions as my pension is a high priority."

Automatic enrolment into a workplace pension is also very popular with millennials, with nearly three quarters (71%) deciding not to opt out after being enrolled and a further 8% saying that they opted out but then went back in.

There is also a high level of acceptance that they will have to pay for their retirement and not rely solely on the state pension. Most millennials see themselves as mainly responsible for their retirement planning and funding; nearly 3 in 5 (58%) stated 'myself' as responsible for their pension, compared to nearly 1 in 5 (19%) who said it should be the state.



Responsibility to save for their retirement

All of this is very promising for the future of millennial pension saving. But considering that the average pension contribution levels are still significantly below what is required for a comfortable retirement, more needs to be done to ensure these good intentions are turned into retirement realities.

Steve Webb
Director of Policy
Royal London

"Our research shows that attitudes towards pension savings vary across this age group. However, what is promising is that there is a definite intention to save more and these intentions must be supported by government and policy makers to ensure that intentions are turned into retirement realities."

Chapter 3:
Millennial experience of pensions and long-term saving

The initial roll out of automatic enrolment has widely been considered a success. Young people have benefited greatly from automatic enrolment, as the proportion of eligible 22 to 29-year-old private sector employees with a workplace pension shot up from 28% to about 80%[vii] over 4 years.

However, millennials are only at the beginning of their pension journey and have only just started to build up a pot. According to our research, millennials who have a pension have an average pot of £12,614 and have held an average of 1.3 pensions.

We spoke to **Tim Bresnan, Vice-Captain of Yorkshire County Cricket Club** and two-time Ashes winning all-rounder about his pension experience. Tim is a '**Measured Homeowner**' millennial and this section explores what caused him to start his first pension; what triggered his current interest in his retirement funds; what incentives he believes should be offered to encourage long term pension saving and what barriers millennials face to pay more into their pension.

Tim started his first pension significantly earlier than the average millennial. He was just 15 years old when he signed his first professional cricketing contract and was then lucky enough to be enrolled automatically into a pension scheme with the Professional Cricketers' Association from the age of 16.

What triggered your interest in your pension?

"When you are that young you're not really thinking about retirement; it's just something that's rumbling along in the background.

I recently started to think about my future and my family's future. As a professional cricketer I'll be very lucky to play until I'm 40; an injury could end my career and change my circumstances completely. Although I'll probably find another job after I retire from cricket, the uncertainty is still unnerving. So about 4 years ago, with the help of a financial adviser, I checked how my pension savings were doing – I was really surprised at how much I had saved. This really got me interested in my pension and planning for my retirement. Previously I'd not been thinking about it."

"I became curious about how long I would need to save to reach my desired savings goal. I set a target of £1m. So using a pension calculator I found online, I established that if I saved £200 a month, with interest at 6%, I would need to be saving for 43 years! And given that it's currently difficult to find a saving or investment that could offer a 6% return, a 4% return would mean that I wouldn't retire until I was 104 if I wanted to reach my target. I was shocked.

To add to this, I also established that it is more than 30 years before I would receive my state pension, if it still exists by then. I've not factored the state pension into my retirement planning as I think it will be just beer tokens by the time I retire."

'Saving for the future is now incredibly important to me. After properly reviewing my pension savings it became clear to me that saving into a pension was the most efficient way of saving due to the additional tax relief available from the Government. Quite simply, it's free money from the tax man. Who's going to argue with that? If I could I, would top up my pension to the maximum each year. If you can afford it, do it."

What would incentivise you to pay more into your pension?

"I'd like to have more say in when and how I get my pension. For me flexibility is key."

What do you think the barriers are to saving into a pension?

Tim mentioned how there aren't that many barriers when it comes to saving into a pension. *"Yes, people may have other financial pressures and the government may keep on updating the rules and regulations around pension savings; but in comparison to other savings options it's by far the simplest way to gain the highest returns".* Tim explained how he believes that property has lots of hidden costs and issues such as maintenance and agency costs and the value of a property does not always increase. *"Well, this is the case for me in Yorkshire; London's property market is different."* Other saving products, such as ISAs, also have their limitations. *"ISAs can be relatively restrictive when it comes to how much you can save each year. But with a pension you contribute X, your employer contributes Y and the government gives you tax relief for doing so. It was a no brainer for me."*

That being said, Tim thinks that pensions should be more transparent and benefits should be explained in layman's terms. It needs to be communicated that a pension pot doesn't build up overnight; it takes a dedicated savings commitment over a substantial period of time. The regular reviews with his financial adviser have been so important at keeping him on track to ensure he has enough pension savings in place for him and his family when he does choose to retire.

What advice would you give to other millennials when it comes to pension savings?

"The best advice I can give to other millennials regardless of their age or career, is the younger you start saving into your pension the better."

Tim Bresnan
Vice-Captain
Yorkshire County
Cricket Club

Chapter 4:
Millennials need to do their SUMS

Even if millennials feel restricted by their current financial position, '**Pensions Through The Ages: The Millennial Mosaic**' research indicates that millennials do intend to save more into their pensions and that automatic enrolment has been a success in this age group, with low opt-out rates and a clear intention to up their contributions when they are able to.

Thankfully, in comparison to older generations, time is plentiful for this age group. As such promising behavioural traits must be built upon now to establish good savings habits for the future. The scare factor to shock people into saving more is one route, but it is not necessarily the best. Simply being told a huge figure you have to reach when you have just started saving into your pension pot can seem intimidating and unachievable.

Royal London would recommend that millennials speak to a financial adviser, to ensure they are making the best decision when it comes to their pension planning. Our recent study with the International Longevity Centre UK shows that those who are advised are on average £40,000 better off than their equivalent unadvised peers.

Royal London has a simple rule of thumb for millennials to follow to build up their pension saving - they just need to do their **SUMS**.

Millennials interested in finding out more about pension planning should speak to an impartial financial adviser, if possible. They could also take a look at details available on the Royal London website on workplace pensions and the online tools that could help with their pension planning at [Planning for Retirement].

Figure 6: How to do pension SUMS

S	Start saving as soon as they can, no matter how small the amount
U	Up their pension contributions when given a pay rise
M	Max out on any employer pension contributions available
S	Speak to a financial adviser to help with their pension planning

Engagement

Our research showed that nearly a third (28%) of millennials with a pension didn't know what pension contributions were being made into their pension. Millennials also ranked having no idea how much they needed to save as the third highest (18%) barrier preventing them from paying into a pension. Clearly there is still a lack of awareness within this age group with over a fifth (22%) of millennials being unaware that they actually had a pension. This could potentially be holding them back when it comes to making adequate pension savings.

Figure 7: Millennials who are unaware that they have a pension

22% are unaware that they actually have a pension

As well as millennials taking a more proactive role towards their pension, employers should also help to ensure that individuals are able to take advantage of every saving opportunity available to them. This could be matching or increasing the contributions they make to the workplace scheme they have in place for employees or allowing workers to sacrifice part of their salary or bonus as a pension contribution.

Advisers looking for more details on the workplace pensions offered by Royal London should speak to their normal Royal London contact or go to Workplace Pensions.

Catherine Hartford, 31 year old administrator from Hertfordshire.

"I'd taken a pay cut to go to this new job so trying to save any money into the pension scheme when I started just wasn't possible, so I opted-out. However, the following year I received an increase in my salary and the amount I contribute is in-line with my step-up in salary so there was no 'real' impact to my financial position. The money is taken from my salary before I have it and that really helps.

I'm currently on maternity leave, but when I return to work I want to continue to contribute to my pension so I'm able to take advantage of the generous contributions made by my employer. It's silly not to take advantage of this 'free' money."

Jamie Clark
Business Development Manager
Intermediary Pensions
Royal London

"Pensions can be daunting and confusing for this generation, with millennials not knowing what contribution they are making, not being sure of their retirement fund target and in some cases being completely unaware that they have a pension at all. But it doesn't have to be this complicated, as there are a few simple tips that would make sense for most people -
S - Start saving as soon as they can,
U - Up their contributions when they get a pay rise,
M- Max out on what their employer will give them,
and S - Speak to a financial adviser to help with their pension planning.

Doing their SUMS in this way would get most millennials well on the way to a comfortable retirement."

Conclusion

The ultimate aim of the '**Pensions Through the Ages: The Millennial Mosaic**' research is to help inform other millennials, the pensions industry and the government about the attitudes of this diverse age group, the challenges they face and the long term issues that need to be overcome.

Millennials have an array of complex financial pressures and hurdles to face which impacts their ability to save and our research shows several emerging trends.

Older '**Measured Homeowner**' millennials are the closest to having their finances sorted, including their pension, while **younger** '**Just About Managing**' millennials, although a little more squeezed, are just a few steps behind financially.

'**Restless Renter**' millennials, both **young** and **old**, are under a large amount of pressure financially with debt and paying the bills keeping them awake at night.

Older millennials who are **living at home** have '**No Other Option**' as a result of higher unemployment and lower income, making them the least likely to save more into a pension. '**Sacrifice To Save**' millennials are mostly concerned with maintaining a particular lifestyle and not being able to afford a property.

Based on the surveys results, over half of millennials do have a pension (56%), with **homeowners** clearly the most likely to have at least one pension in place. However, at the current average contribution rates, millennials will not save enough for their desired retirement lifestyle[viii] and with student debt set to become a bigger burden on this generation[ix] and with housing and rental costs set to remain high, regardless of good intentions, the future financial prospects of this generation still remain questionable.

Figure 8: The top financial concerns for millennials

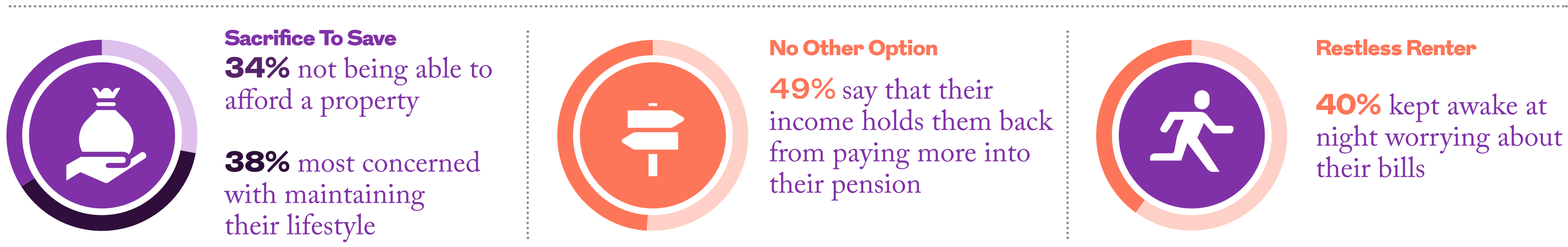
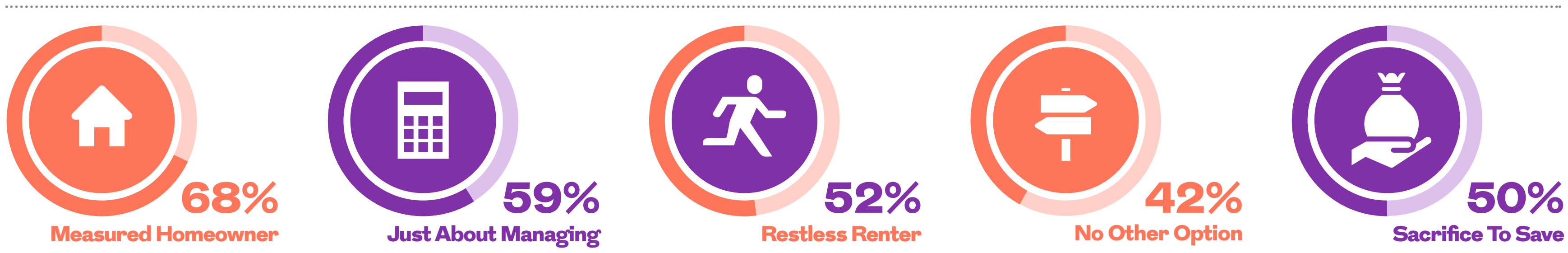


Figure 9: Percentage of millennials having a pension



The government is currently reviewing how to build upon the success of automatic enrolment and how to encourage as many people as possible to save into a workplace pension. Policy makers and government must 'drill down' into the positions of individual groups and not assume that a 'one size fits all' solution will work when it comes to what millennials can afford to save, given their various ages, living arrangements, lifestyles and life stages.

Ultimately this means being more creative with how we communicate with millennials and also being more aware of how other policy areas, such as the lack of affordable housing, student debt or wages, impact on people's ability to save for their old age.

To ensure the continued success of automatic enrolment with millennials, Royal London has a number of recommendations:

1. **Serious consideration as to how we get people to save beyond the minimum 8% of pensionable earnings so savers end up with a decent pension fund**. For Royal London the current average contribution rate is 6.1% - far higher than the mandatory minimum 2% of qualifying earnings. However, without the benefit of financial advice many employers and employees may only stick to the minimum contribution levels required;

2. **Expansion of the criteria** so people such as the self-employed and low earners with multiple jobs can also be auto-enrolled or have similar opportunities to improve their future pension savings;

3. **Introduction of mandatory regular reviews** so workers are not trapped in poor performing schemes. While all auto-enrolment schemes now benefit from an Independent Governance Committee (IGC), there is still no requirement for employers to review their scheme to ensure it still delivers true value to their members.

What will be key here is how these are communicated to the different millennial groups in a way that recognises their different circumstances. For a generation shrouded in financial uncertainty, to be able to ensure a healthy pension in retirement would provide a breath of fresh air.

Contacts

For more info on Royal London's **Pensions Through the Ages; The Millennial Mosaic** research please contact:

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Steve Webb
Director of Policy
Royal London

"This research highlights that even within the 25 - 34 age group there is a huge variation in people's attitude to finances and pension saving.

Those who have managed to get onto the property ladder and started building up a decent pension pot are relatively well placed. But their contemporaries who are paying rent and trying to save for a house face a real financial squeeze with limited money left for pensions.

Those living at home are probably saving on rent but may have a modest wage which also makes pension saving more difficult.

Government policy on areas such as the living wage and the supply of affordable housing are clearly having a big impact on people's ability to save for later life.

Automatic enrolment is a great start in tackling these issues and our research shows that most millennials will respond positively to being gradually 'nudged' into saving more. This is likely to be a better strategy than frightening them with dire warnings of the huge sums they might need if they are to have a decent retirement."

Methodology

Data in the 'Royal London Pensions Through the Ages: Millennial Mosaic' report is derived from independent research conducted by Harris Interactive UK Ltd, using a bespoke survey of 1500 Millennial respondents aged 25 - 34, which was conducted between 21st and 29th June 2017.

Individuals were then recruited from the original research by Harris Interactive UK as the case studies detailed in this report.

Regional bases: Total (1500), North East (69), North West (132), Yorkshire & Humber (126), East Midlands (111), West Midlands (119), East of England (103), London (298), South East (164), South West (112), Scotland (124), Wales (100).

Footnotes and sources

i. YouGov survey and data from property website Zoopla has found that millennials face a 59-year wait to save up enough money to put down the deposit for a home, 2017 'Generation rent faces 59-year struggle to save for a deposit'

ii. Bank of England Governor, Mark Carney, stated that the UK hasn't seen a period of such weak income growth since the 19th Century 'The crisis: 10 years in three charts'

iii. Institute of Fiscal studies, Jonathan Cribb and Carl Emmerson, 'Automatic enrolment boosts pension membership to 88% and pension saving by £2.5bn in 2015', p4, 2016

iv. Institute of Fiscal studies, Jonathan Cribb and Carl Emmerson, 'Automatic enrolment boosts pension membership to 88% and pension saving by £2.5bn in 2015', p4, 2016

v. 'New research find those who receive financial advice are on average £40,000 better off than their unadvised peers', Royal London, July 2017,

vi. ILC UK, sponsored by Royal London, 'The Value of Financial Advice' report, p7, 2017

vii. Institute of Fiscal studies, Jonathan Cribb and Carl Emmerson, 'Automatic enrolment boosts pension membership to 88% and pension saving by £2.5bn in 2015', p4, 2016

viii. 'Death of Retirement', Royal London policy paper 2, p3 - p4, 2016. Previous research by Royal London has shown that those who contributed only the statutory minimum contributions under automatic enrolment could face working well into their 70s or beyond if they want the sort of pension enjoyed by previous generations.

ix. 'Higher Education funding in England: past, present and options for the future', Institute for Fiscal Studies, p2, July 2017. Institute of Fiscal Studies has estimated that average student debt will rise to more £50,000

About Royal London:

Royal London is the largest mutual life, pensions and investment company in the UK, with Group funds under management of £106 billion. Group businesses provide around 9 million policies and 3,449 employees. (Figures quoted are as at 30 June 2017).

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Royal London works alongside advisers not in competition with them. That's why we've made some key commitments to the intermediary market. You'll find more detail on our commitment to advisers at Our commitments.

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