Future Positive? Bridging the pension savings gap

We are a last minute nation when it comes to pension saving. But pensions need radical innovation before the Millennials will start saving for their retirement.

The UK population is not renowned for its ability to pass the 'marshmallow test'. It is commonly believed that we don't do 'delayed gratification' but rather we like to think of ourselves as a nation that spends first and asks questions later.

However, the idea that we are spendthrifts doesn't match the reality of peoples' motivations when it comes to saving for our retirement. The majority of us are well aware that we need to start a pension, and that sooner is better than later. The problem, particularly for the next generation of pension savers known as the Millennials, is that pensions haven't caught up with attitudes to finance and money in the 21st century.

Our latest white paper, "Future Positive? Bridging the pension savings gap" highlights the difference between attitudes and behaviour amongst UK adults. We know that we need to save for our retirement but there are significant barriers to getting started.

Our Positive Pensions survey has identified three key concerns among UK pension savers. They are calling for greater transparency of where their funds are invested, access to a wider range of asset classes (especially investments that are uncorrelated with global markets) and they want far greater control over how their money is used to fund their retirement. Our survey also revealed they believe the pensions industry has a long way to go to satisfy them in all of these areas.

Abundance has an established track record of innovation when it comes to investment, having been the world's first regulated peer-to-peer investment platform. We are now proud to launch a pension that provides investors with a new option for their retirement savings that fits their needs for transparency, control and diversification.

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Challenge one; The British Public aren't saving for their retirement – exposure to market shocks and lack of transparency are paralysing the market

Key facts

- **A third of people (33%) worry about where their pension funds are invested, with just 14% believing their pension provider is very transparent in this area**
- **21% of people would invest more in their pension if they knew exactly where the funds were being invested**
- **47% of people are concerned about the effects of global stock market shocks on their pension, and 44% are interested in pension options that reduce their exposure to the global markets**

We know it is our own responsibility to provide for our retirement, but not all of us actually do something about it. Gone are the days of relying on the State or your employer to fund your dotage; the Positive Pensions survey has revealed that 88% of people believe they have personal responsibility to provide a pension income, compared to just 40% holding the government responsible. And people also realise the need to start saving early; over three quarters of the public believe the best time to start saving for your retirement is before the age of 35.

Despite this fact, take-up of private pensions is worryingly low. Just 63% of people overall have a pension and this falls to just 44% of the 'Millenial' generation (the under 35s), meaning only a fraction of people who believe they need to provide themselves with a retirement income in this age group have actually taken steps to do so. This worrying trend can only be arrested if action is taken to engage people to save for their retirement.

Transparency is key to increase pension saving

There is a well-established trend of people becoming increasingly concerned with the impact the money they spend and invest has on society and the environment. The Abundance Great British Money Survey in May 2015 revealed that 72% of people wanted to know where their money was being invested to get a return. This call for transparency has also carried across into pensions; 33% of people worry about where their pension funds are invested, reflecting this shift towards people carefully looking at the sectors they are exposed to when investing.

And this trend is starting to have an impact on the level of investment people make into their pensions. In our survey, 21% of people said they would invest more in their pension if they knew exactly where it was being invested, suggesting a level of transparency is key to unlocking additional pension investment. However it is a trend pension providers have yet to take action on; just 14% of people believed that their pension provider was very transparent on where pension funds were invested, reflecting a clear opportunity for the industry to improve transparency to significantly increase the level of retirement saving.

Stock market worries cause pension inertia

The other key concern identified in the Positive Pensions survey was the impact of market shocks on pension funds. 47% of people were concerned about this, rising as high as 56% in the older cohorts getting closer to drawing down their pension. Given the majority of UK pension holdings are majorly exposed to the markets through equity elements it is understandable that the public are concerned by public market shocks such as the recent stock market crashes in China. In this area there is also a clear desire to take action. Almost as many people (44%) would be interested in pension options that are less tied to public markets to mitigate this risk.

There is significant demand for uncorrelated pension assets to spread the risk

These survey results are a substantial call to action for the industry to deliver uncorrelated pension options. Pension savers are becoming increasingly sophisticated in their understanding of how they can do this through alternative asset classes such as energy – where returns are correlated to energy prices, not public markets. For instance, 22% of people in our survey would be interested in a pension that offered returns solely derived from renewable energy, with the average pension investor looking to move around 25% of their assets into such a pension. This significant desire to hedge stock market investments with uncorrelated assets is as a result of both trends revealed in our survey for transparent investments in sectors that offer both financial and broader returns.

Challenge two; Making pensions relevant to the 'Millenial' generation

Key facts

- **80% of Millenials (those aged 18-34) see themselves as responsible for ensuring they have an income in retirement, yet just 44% currently hold a pension**
- **34% of Millenials would invest more in their pension if they knew exactly where their money was going**
- **52% of Millenials are interested in a pension that is less exposed to global market shocks**

Pensions: one more thing on their minds

'Millenials' – the generation of young people currently aged 18-34 – have, like many, not had it too easy in the past decade. They have graduated and entered the job market during a global recession. They have watched house prices rise while real wages have stagnated. Many are paying high rents and some are giving up on ever owning their own home. Those that do buy often receive help from family. And they don't expect any respite come retirement. Our survey found that 80% of Millenials see themselves as responsible for ensuring they have an income in retirement – with just 42% putting some of their faith in the government.

Despite a sense of responsibility about saving for their own retirement, Millenials aren't all doing it. Only two fifths (44%) of 18-34 year olds currently hold a pension. With pension advisers urging young people to start early and put away as much as 12% of their salary for a comfortable retirement, why isn't the savings rate higher? Our survey results highlighted two likely explanations.

Millenials are acutely aware of the risk of stock market shocks on their pensions

It is unlikely to come as a surprise that Millenials, having come of age during the worst recession in 40 years and seeing just how vulnerable national stock markets are to global events, don't inherently trust the stock market with their retirement money. 44% of Millenials with pension holdings are worried about the effect of global market shocks on their pension holdings.

Even more telling, over half (52%) of Millenials said they would be interested in pension options that allow you to reduce your exposure to global stock market shocks, showing a significant demand in this age group for a shift to uncorrelated assets. With the vast majority of both private and workplace pensions investing heavily in the stock markets, this is likely to partly explain why so few Millenials have started saving into a pension. Their responses suggest more options, in different asset classes, offering the chance to minimise their exposure to stock market fluctuations might just be the answer.

Millenials want to create a pension that fits with their values

It isn't only asset class options Millenials want, though. They want to create a retirement income from the things they're interested in, and they are demanding pension options to help them achieve this. Indeed, 39% of Millenials are concerned about where their pension funds are invested – 8% higher than the older cohorts. Transparency can also help unlock greater levels of retirement saving from this age group. 34% of Millenials who already have a pension would save more if they knew exactly where their money was going – compared to just 18% of over 35s –

suggesting more transparency from pension providers could encourage this age group to save more.

Opening up new sectors is also key to unlocking pension investment in this group, particularly sectors that match with peoples' ethics and values. An example of this is renewable energy; our survey found that 34% of Millenials would open a pension invested entirely in renewable energy if it was available – twice as many as in older cohorts. This represents a significant minority of the Millenials population, and suggests a wider interest in this group in putting their money into sectors they see as the future. The interest in renewable energy pensions can be attributed to the focus on climate change and meeting future energy needs on the national and global stage today.

And they want to put a significant amount of their money into this type of pension, too. Of those that would open a pension invested in renewable energy, 31% would invest more than 25% of their pension pot into it. A further 42% would invest 10-24% of their pot into the same. This suggests a significant demand for pension options that are both uncorrelated and reflect personal values.

The solution; expanding the range of transparent, uncorrelated pension options

It is clear that if we are to inspire the next generation of pension savers to take the first steps on the long road to retirement saving, the pension landscape as we know it needs to change. There needs to be a range of options, both on stock markets and outside them, to choose from. There also needs to be a focus on the sectors this generation are interested in, and opening access to those sectors to all.

While the mainstream pension industry has been slow to react to these trends, the peer-to-peer industry is already leading the way in offering consumer choice. Having long been aware of the desire for savings and investments that are more transparent for both lenders and borrowers, the peer-to-peer industry is well placed to offer the transparent and uncorrelated returns that pension savers crave.

The Abundance Pension is the first peer-to-peer investment pension that allows retirement savers to do exactly that. It is a single asset self-invested personal pension (SIPP), which allows you to create a tax-efficient retirement income from our peer-to-peer investments. You can invest directly in projects that offer bank beating returns of 6 - 9% IRR, and something good for the environment and society too. It allows pension savers to easily diversify their pension holdings into sectors that are uncorrelated to mainstream markets.

Note; The Abundance Pension is a self-invested personal pension (SIPP) provided by European Pensions Management (EPM), who are authorised and regulated by the FCA (461099). Your capital is at risk, investments are long term and may not be readily realisable. You can find out more at **abundanceinvestment.com**

Case study; Creating a retirement income with Abundance
Colin has invested a total of £27,000 across a number of projects through Abundance as part of a diversified investment strategy. His view on his pension is that since "the majority of my cash sits in my pension, it's important it feels secure and provides growth. [With Abundance] I get a steady return over 20 years of between 6-9% IRR, it's tax free and transparent."

About the Positive Pensions survey

The Positive Pensions survey was carried out by independent market research specialists OnePoll, and was commissioned by Abundance. It involved interviews with 2,000 people across the UK and was conducted on 6 - 7 October 2015. All data in this report is taken from the Positive Pensions survey unless otherwise stated. You can download the full results of this survey, as well as the previous editions of our Great British Money Survey, at **abndnce.in/futurepositive**