

Young People and Attitudes towards Pension Planning

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There has been much concern about people not saving enough for retirement in the UK and how to encourage further saving. This has led to pension policy developments, including the introduction of auto-enrolment, a form of ‘soft’ compulsion, to ‘nudge’ people to save. Given that young working age cohorts have longest to contribute to pensions and have traditionally been least likely to save for retirement, it is important to investigate their attitudes and expectations in relation to pensions and the potential effects of auto-enrolment on their future retirement income. This study utilises the findings of thirty interviews with young people aged eighteen to thirty about their opportunities and attitudes towards pensions, and identifies a variety of factors which affect pension contributions, including knowledge and advice, trust and myopia. It then focuses explicitly on auto-enrolment before concluding that if auto-enrolment is to succeed, people need to be reassured beyond doubt that it ‘pays to save’.

Key words: Pensions, attitudes, auto-enrolment, financial education, knowledge.

Introduction

Increased longevity creates challenges, not least in relation to pension provision and future sustainability. These challenges have been exacerbated by ‘under-saving’ for retirement. In the UK, it has been estimated that approximately eleven million working age individuals will receive lower retirement incomes compared to the level they expect (DWP, 2013a). Levels of pension saving are lowest among the youngest working age cohorts. For instance, around one in eight (13 per cent) of eighteen- to twenty-four-year olds have ever had a private pension compared with eight in ten (81 per cent) of forty-five- to fifty-four-year olds (MacLeod *et al.*, 2012).¹ Given that pensions are based on levels of contributions through the life course, it is imperative to understand the attitudes, knowledge, expectations and savings habits of people from an early working age (Foster, 2012). This will enable policymakers to identify why under-saving may occur and inform policy measures. In the UK, in order to contain welfare costs, recent governments have promoted non-state pension provision and emphasised individual responsibility for financial provision in retirement (Ebbinghaus *et al.*, 2012; Foster, 2011). This has placed increased demands on individuals’ ability to plan effectively for their retirement. Despite these trends, between 2001 and 2011 saving rates fell from 43 per cent to 31 per cent for those aged between twenty and forty (ONS, 2011).

Failure to encourage sufficient private pension saving led the Coalition government, based in part on recommendations from the Pension Commission (2006), to introduce substantial changes to the UK pension system, with the introduction of ‘soft’ compulsion in the form of auto-enrolment into non-state pensions. It has been estimated that this

will result in six to nine million new savers, including many young people (DWP, 2013b). Given that the youngest working age cohorts have longest to contribute to pensions and are currently least likely to save for retirement it is important to explore the potential effects of policy changes, and auto-enrolment in particular, on their future retirement income, and how these relate to their attitudes towards pensions. However, there is currently limited research which focuses specifically on young people's pension behaviour (Foster, 2012; Pettigrew *et al.*, 2007) with much research in this area concerned with pre-retirement transitions (Bardasi and Jenkins, 2010). This study utilises findings from thirty interviews with young women and men (fifteen men and fifteen women) aged eighteen to thirty,² conducted between 2012 and 2014, about their opportunities and attitudes towards contributing to pensions. Participants were selected according to their socio-economic status (ten people in routine or manual occupations, ten in intermediate occupations and ten in professional or managerial roles). The study aims to assist our understanding of the challenges young people face in relation to pension saving and the potential policy implications. Initially, the current UK pension context is briefly outlined, including the introduction of auto-enrolment. Then, using findings from the interviews, factors are identified which affect the likelihood of contributing to a pension, including knowledge and advice, trust, myopia, and the young people's attitudes towards auto-enrolment are considered. Finally, it explores how these factors are likely to impact on the effectiveness of auto-enrolment among young people.

The current UK pension content and the introduction of auto-enrolment

The UK pension system has been characterised by an abundance of piecemeal changes since the Basic State Pension (BSP) scheme was introduced following the Second World War. This has led to the formation of a complicated pension system (Foster, 2014). The long-term decline in the relative value of the BSP, an increasing reliance on means-tested benefits and a patchwork of add-ons have characterised developments in relation to the state system (DWP, 2013a). Meanwhile, contracting out mechanisms, tax relief and further regulation have added to the complexity within private pensions. These changes have made it difficult for people to engage with decisions about their savings (Crawford *et al.*, 2013). Furthermore, these changes have ultimately failed to eradicate concerns about the future sustainability of pensions or sufficiently incentivised pension saving. Under-saving for retirement and the need to limit state intervention have become key drivers in relation to pension policy over recent years, with a focus on individual responsibility (Waine, 2009). There has been a move to individuate risk associated with welfare provision, with occupational welfare also reined back by employers in an attempt to divest themselves of responsibility (Foster, 2010). This has led to a move from Defined Benefit (DB) occupational pension schemes, where employers take on the investment risk (falling equity prices and declining annuity rates have meant they are progressively more expensive to provide and the triennial valuation cycle administered by the Pensions Regulator means DB schemes are under considerable pressure to demonstrate their financial health in current terms, even though their principal liabilities may not fall due for many decades), to Defined Contribution (DC) schemes (the pensions build up a pension pot using contributions made by the employee and employer, if applicable, plus investment returns and tax relief), where the risk is borne by the employee, given that the value of investments can go up or down (PPI, 2012).

This focus presents challenges. For instance, ‘appropriate’³ decision making regarding pensions is often difficult given that individuals, especially those who are some distance from retirement, struggle to identify how much pension saving will be required to ensure the standard of living they require in retirement (Kotecha *et al.*, 2010). New Labour’s approach to addressing under-saving was to attempt to work ‘with’ people to help them make ‘appropriate’ pension decisions by enhancing pension education and facilitating choice (Strauss, 2008). Although advice and information may improve understanding, behavioural barriers, including myopia, cynicism and inertia, can still inhibit action in relation to saving for retirement (Wicks and Horack, 2009). These challenges are not specific to those under thirty. However, rather worryingly, many people do not think about retirement (or believe pension planning is necessary) until post thirties, or in many cases until they reach their forties (Kotecha *et al.*, 2010; Bryan and Lloyd, 2014). Immediate needs (which may include housing costs and student loan repayments but are beyond the scope of this article) often mean sacrifices are made to people’s pension saving (Quilgars *et al.*, 2008). At the same time, there may be little awareness of the long-term implications of such decisions (Foster, 2012).

Furthermore, young adults have been identified as the most unrealistic about their pension goals according to research by Aegon UK reported in Pensions World (2015), which found that those aged sixteen to twenty-four hope to retire with an average annual income of £64,000, nearly six times the average income they are likely to receive. This would require a savings pot of nearly £1.9 million. This is further challenged by the reality that three-fifths (59 per cent) of this age group do not contribute to a pension pot. As people get older their retirement income ambitions decrease, with the income people hope for dropping through each age group. For instance, those aged twenty-five to thirty-four stated a figure of £45,000, and those closest to retirement (age fifty-five to sixty-four) hope to have an annual income of £30,000, less than half that of the sixteen- to twenty-four-year olds. Aegon’s research also revealed that those aged sixteen to twenty-four were the least engaged with pension savings: seven out of ten (70 per cent) had never done anything to review or affect plans for retirement, while over half (54 per cent) did not know whether they were eligible for a company pension (Pensions World, 2015).

The introduction of auto-enrolment stems from a concern that more targeted financial education and information is unlikely to sufficiently encourage further saving for retirement (Ring, 2010). Auto-enrolment is a technique associated with the concept of ‘nudge’. This ‘nudge’, where eligible employees (generally low-to-median earners) are automatically enrolled into a DC scheme, is based on the assumption that on the whole people understand that it is necessary to save for retirement, yet are not prepared to proactively enrol in a pension (MacLeod *et al.*, 2012). Those who are not inclined to participate may subsequently opt-out of the scheme. As such, an element of choice is embedded within the scheme. It is envisaged that financial incentives of tax relief, investment growth and employer and government contributions will persuade most of the auto-enrolled who are tempted to opt out to resist (Wicks and Horack, 2009). This approach is justified ‘given the financial position that many individuals might otherwise experience at retirement were they left to themselves’ (Ring, 2010: 544). Introduced in a phased manner from July 2012, employers become subject to their duties in order of size. It entails automatically enrolling individuals without access to a good quality workplace pension into a low cost portable occupational pension, while allowing existing schemes, with benefits or contributions above the National Employment Savings Trust (NEST) (the

default option auto-enrolment scheme) minimum, to continue. Minimum contributions are being gradually increased and will be set at 4 per cent for the employee, 3 per cent for the employer and 1 per cent in tax relief by 2018. The DWP (2013b) estimated that around 11 million people will be eligible. By October 2014, 4.8 million people had been auto-enrolled while opt-out rates have thus far been lower than expected (DWP, 2014a). These are expected to increase when greater numbers of small employers are included. However, the fact that employees earning below £10,000 per annum are not auto-enrolled (although those earning between £5,772 per annum and £10,000 per annum may choose to opt in), and those earning below £5,772 per annum may opt into NESTs but will not attract an employer's contribution, present challenges for low earners. This is particularly pertinent given that average wages are lower among younger workers (£280 per week for eighteen- to twenty-one-year olds and £412 per week for twenty-two- to twenty-nine-year olds compared with £573 per week for forty- to forty-nine-year-old full-time workers in the UK (ONS, 2012)).

In addition, the Basic State Pension (BSP) and State Second Pension (S2P) (an additional state pension) will be replaced by a Single-Tier Pension (STP) for those below the State Pension Age in 2016. It is hoped that the STP will lead to a simpler state pension which acts as a foundation for further pension saving including auto-enrolled schemes (DWP, 2013a). It is important to explore these developments within the context of young people's attitudes and behaviour in relation to pensions.

Methodology

Qualitative semi-structured interviews were employed to provide participants with the opportunity to express their own views and interpretations in detail regarding pensions. This approach is especially useful in providing a detailed, contextual and multi-layered interpretation of a particular social problem (Mason, 2002). The thirty individual interviews were conducted by the author with fifteen young women (eighteen to thirty) and fifteen young men (eighteen to thirty) in full-time employment between 2012 and 2014. Participants were located through snowball sampling, starting with people I knew (although I am several years older than the respondents). Although this encouraged them to respond positively to the request, as Peggs (2000) found, participants often did not wish to talk about sensitive financial issues and, as such, limited detail of their financial circumstances was obtained. The interviews ranged from thirty-five minutes to two hours, and were recorded, transcribed and pseudonyms provided. A number of topic areas were identified in relation to pension planning based on the existing literature. In particular, several of the areas addressed by Clery *et al.* (2010) in a quantitative survey commissioned by the DWP on financial planning for retirement and pensions were included in the semi-structured interview guide. These included issues of trust, knowledge (including knowledge of different types of scheme and amounts they provided), sources of advice, choice, responsibility, risk and uncertainty, all characteristics identified elsewhere as important to pension saving but not considered specifically in relation to young people's planning. It is worth noting that to mitigate the risk that participants would downplay their self-reported knowledge as a result of being interviewed by a perceived expert on the topic, specific questions in relation to types of pensions were asked rather than just relying on self-reported knowledge. Initially, participants were asked about their employment history and pension contributions since leaving education, including reasons

for (non)participation before these specific topics were addressed. In addition, participants were asked about general attitudes towards saving and the introduction of auto-enrolment and future predictions and desires.

Data analysis focused on identifying themes employing an open, axial and selective coding process advocated by Strauss and Corbin (1990). Open coding entailed the initial coding of sentences or paragraphs linked to pension saving using 'analytic memos'. Once three interviews had been carried out, these transcripts were analysed. A constant comparative approach advocated in grounded theory was used. As new themes and issues emerged, these were explored in subsequent interviews (Glaser and Strauss, 1967). For instance, the importance of property in providing a retirement income was identified in the initial interviews and subsequently incorporated in greater depth in the additional interviews. In essence, open coding occurred simultaneously with the collection process, preventing the imposition of theoretical sampling at an early stage (Charmaz, 2000). Axial coding was then employed to collapse categories with similar semantic meaning derived from open coding, and a grid system used to organise the data (Taylor-Gooby, 2005). This helped to display an integrated representation of the numerous codes identified through the initial process. The selective phase of coding involved a return to the data to clarify at a higher level of abstraction the significance and scope of the themes emerging during axial coding. The key themes in the selective phase of coding were strongly linked to the initial areas identified. These key areas are used to organise the findings and are discussed shortly.

Due to the sample size and strategy, theoretical saturation cannot be assumed. The study is therefore illustrative (of the analytical themes) as opposed to extensive. Quotes and examples are utilised to exhibit the range within themes (rather than a comprehensive picture of them). However, the interpretation of meanings and actions of actors according to their own subjective frame of reference is still important. The strength of this approach is in 'developing a much richer understanding of processes, motivations, beliefs and attitudes than can be gained from quantitative research' (Rowlingson, 2002: 632). 'Moderatum' generalisations can be drawn from the data. According to Payne and Williams (2005: 297), these are intermediate generalisations which resemble modest, pragmatic generalisations drawn from personal experience which bring a 'semblance of order and consistency to social interaction'. In qualitative research, such 'moderatum' generalisations are often unavoidable. These can be particularly useful when placed within the context of previous research findings in a study such as this.

Findings and analysis

The findings identified a number of factors which assist our understanding of the challenges young people face in relation to pension saving. These include: knowledge and advice, such as young people's awareness of pension schemes and levels of provision and where to find further information; trust, including the extent to which young people trust public and private pension providers and the implications of this for pensions saving; myopia, in terms of whether decisions about contributing to pensions is based on a short-term view of needs; and, finally, attitudes towards auto-enrolment, in order to consider young people's perceptions of this recent policy development.

Knowledge and advice

Only three of the participants stated that they had a self-reported 'good' knowledge of pensions (one woman and two men who were all over twenty-five), with participants generally declaring a limited knowledge of pensions. This is similar to the findings of Macleod *et al.* (2012) who also identified a poor self-defined knowledge of pensions among young men and women, in particular those aged eighteen to twenty-four. The views of Adam, twenty-three, who works at an optician, and Simon, twenty-four, who works in a bank, were representative of the kind of responses received regarding pension knowledge, especially younger members of the sample. Adam stated:

To be honest, I haven't really got a clue about pensions. I have never contributed to one I don't really know anything about them. I doubt many people my age do.

and Simon said:

All I know is my employer pays into it and some money comes out of my pay as well.

It is not uncommon for employees in occupational pension schemes to know little about their pension arrangements (Loretto *et al.*, 2001). For instance, Samantha, twenty-six, a special education teacher and a member of the Teacher's Pension Scheme, misunderstood how their scheme operated:

Whatever your salary is, when you retire you end up getting a quarter or a half of your final salary.

Furthermore, it is apparent that many individuals do not appreciate the value of saving for retirement or are ill-equipped to make appropriate decisions (Clark *et al.*, 2009). For instance, Jenna, a hairdresser, twenty-four, expressed a common view when stating:

I don't feel like I make sound decisions. I don't know enough, I don't think about pensions.

While the details of the scheme, including the benefits, were rarely understood by men or women in the sample, contributing to an occupational pension was often perceived to be the most appropriate course of action when one was available. Those who were contributing to a private pension were more likely to be in managerial and professional occupations, reflecting national trends (Bryan *et al.*, 2011). They were also more likely to be among the older members of the sample (those aged twenty-five and over). Sarah, a university teacher, twenty-seven, said:

It seemed sensible, starting a job. It will go out of my money before I even see it, so it's something less to worry about.

Rod, twenty-nine, also a university teacher, said he joined the scheme because:

A senior member of staff told me that I would be mad not to join . . . she said it was one of the most generous or the best schemes available and it was one of the few remaining good pensions out there.

He had limited insight into how the scheme operated, preferring to rely on the verdict of a colleague. However, there is no doubt that greater income facilitates greater choice, and paying into a pension is more likely to be problematic for those in poorly paid employment who are more likely to notice a loss of income. For instance, Michelle, twenty-two, a post office worker, stated:

I think there is a pension scheme available but how can I be expected to pay for it on my wages!

Advice and information were identified as factors impacting upon pension decisions. For instance, Eve, a nursing assistant, twenty-nine, who has made the decision not to be a member of her employer's occupational pension scheme, cited a lack of information about pensions as limiting her capacity to make informed choices:

I've never really got any information, my own fault really. I've never looked into it but I've been offered it. I've never been offered much information – it's been do you want it, yes or no, without giving me the benefits of it.

There was a considerable mix of responses in relation to where people would find further information about pensions. For instance Rowan, twenty-eight, a project worker, stated she would:

look at things like the Pensions Regulator and Pensions Ombudsman, the Government HMRC things, and then maybe go to a personal financial adviser for further information.

A number of the participants cited the internet as a source of information, but some were concerned that the information would be too generalised and not account for the realities of their lives, including the implications of caring responsibilities (more likely to impact on women's pension contributions). For instance, Hayley, twenty-five, an entertainment manager, reported a concern that:

The internet would only tell me the basics, how much the state pension is and that will all change by the time I get to retirement. It wouldn't tell me whether I should contribute to the scheme my employer offers and cut down on the holidays and cinema and things like that.

Those currently contributing to a pension and working in managerial and professional employment were more likely to cite a variety of sources, including consulting with their employer, a financial advisor and various internet sources, including the DWP. It was argued that there is a greater need for financial advice targeted at younger people. Jo, twenty-seven, who works for a charitable organisation, stated that there:

needs to be more information so more people are aware of pensions and information should be targeted at the right people – maybe some information in schools, whatever, university too.

Indeed, the FSA baseline survey by Atkinson *et al.* (2006) found young people much less able than older cohorts to identify the appropriate financial product for their circumstances. As such, education may still have an important role in assisting people to make 'appropriate' decisions from a younger age. Indeed a study by Now: Pensions

(2015) among eighteen- to thirty-five-year olds, identified that 86 per cent of respondents felt further teaching about pensions is required, and 23 per cent said they would be more inclined to save if they had a better understanding of pensions.

Trust

There is also an increased awareness of the short-comings of expertise. This serves to undermine uncritical trust (Waine, 2009). In particular, mis-selling scandals such as Equitable Life have adversely impacted upon trust in the financial market, while inaccurate advice relating to personal pensions in the 1980s impacted on trust in the state's role (Meyer and Brigden, 2008). However, on the whole mistrust in pensions has tended to be greater in relation to private pensions (Foster, 2012). Richard, twenty-five, a supermarket supervisor, stated:

I'd have confidence . . . in the state one, I think, if there's going to be something . . . they've a basic responsibility, they'll have to keep doing it otherwise there are a lot of people who couldn't survive.

There was a sense of inevitability among a number of those in routine and manual occupations, that they would be largely reliant upon state pensions in the future. Jane, nineteen, a supermarket worker stated:

Considering the way things are going, I don't think I will have much for retirement. The state will have to look after me unless I win the lottery or something!

Private pensions were viewed with considerable suspicion by some participants. For instance, Paul, twenty-five, a property developer, was concerned that contributions would not necessary lead to the kind of retirement income people expect, stating that:

I don't have trust in a private pension that you take out. I think a lot of people have just ended up with nothing . . . I don't think you're necessarily going to get what you think you're going to get when you sign up for these things.

and Ben, twenty-two, a builder, pointed to the uncertainty in relation to many pensions:

They seem to fluctuate an awful lot with what's going on . . . and you don't really know what you're paying into. You know you're putting that money aside but you don't know what you're going to get in retirement.

Rod, twenty-nine, was concerned about the principle of private welfare provision and the interests of the providers. He said:

How could you trust a private system which is necessarily there to make money and where this is about welfare? This is about looking after people. So how you can possibly trust a private system in that sense I have no idea.

A survey carried out by the Future Foundation (2010) found that young people trust their employers far less than other age groups in terms of retirement planning. For instance,

among those surveyed, only around 30 per cent of sixteen- to twenty-four-year olds and 40 per cent of twenty-five- to thirty-four-year olds agreed that employer pension schemes are better than alternative private pension schemes, compared to significant majorities among older cohorts. This may be related to the unravelling of employer-based welfare coupled with the fact that young people change employment more frequently (Berry, 2011). They are also less likely to trust financial services (Vickerstaff *et al.*, 2012). This lack of trust in financial services may inhibit engagement and undermine opportunities to save for older age. Bosanquet *et al.* (2008) have argued that trust is the main factor motivating young people to obtain financial advice from family and friends rather than financial services, a trend evident in this survey. Sarah, twenty-seven, stated she would seek advice from:

Mum and dad because I always go to them for advice, particularly about money because they've always given me good advice in the past.

Charlie, twenty, a factory worker, stated that she would ask her dad because:

My dad's quite clued up on things like that.

While discussion with family and peers should not be discouraged, it can be problematic given that the people providing advice may not have the required technical proficiency (Berry, 2011).

Myopia

The fact that contributions to pensions throughout the life course are central to pension accumulation seemed to be of little concern to young people in this study. For many their immediate financial situation took precedence. This mirrors the findings of Bryan *et al.* (2011), who found that 38 per cent of people preferred a good standard of living today to saving for retirement. Macleod *et al.* (2012) established that younger respondents, aged eighteen to twenty-four, were more likely to express stronger agreement that they 'try to avoid thinking about retirement' than those aged twenty-five or older (39 per cent of eighteen- to twenty-four-year olds compared with 26 per cent of forty-five- to sixty-four-year olds). It has been argued that young people may be more likely to be myopic in their approach to finances, preferring current over future consumption, believing that the future will 'take care of itself' (Venti, 2006). This kind of attitude is emphasised in the following participant responses.

Well . . . you might be dead tomorrow and so you might as well spend what you've got today. I know it's not really a good answer but that's how I see it. I think I'm twenty nine now, I've got a long time to sixty, anything can happen in between and when you've got two children you want to spend what little money you have on them and go places rather than thinking about thirty-five years' time. (Eve, twenty-nine)

If I've got money, I'd rather spend it now than save it for later . . . you can't take it with you. (Charlie, twenty)

Pete, twenty-three, an engineer, stated that there are other financial factors which take precedence over saving for a pension:

There are times for saving when I am older, at the moment I have to pay off my student loan and think about getting on the property ladder. I also need enough money to go out on a Friday night and go to the football.

James, twenty-five, a coach driver, discussed the fact that your economic position combines with the distance retirement is away to discourage pension saving:

You can't really think about what you're going to do when you retire when you are actually focussing on getting a better job. Retirement is not something that comes within your vision, it's just a waste of time thinking about it 'cos you don't have enough money coming to actually plan for any of that.

The current complexity of the UK pension system (Clark and Strauss, 2008), combined with the length of time to retirement, can lead to difficulty identifying whether 'it pays to save' and whether that saving should be in the form of a pension (Berry, 2011). The benefits of saving for retirement are not always immediately obvious, especially when future needs are difficult to predict. Mike, twenty-nine, a secretary, felt:

You should start saving when you're young but it's so hard to know what my needs are going to be when I retire. Am I going to be single or am I going to be married, am I going to have kids? I don't know what sort of lifestyle I'll be used to and wanting to have. What my health will be like. So I guess the closer I get to retirement it's easier to make good judgements about those things, but the danger is the amount of money that I need to pay in to meet those requirements is impossible.

Attitudes towards auto-enrolment

The interviewees were also questioned specifically about the introduction of auto-enrolment, which seeks to counteract a lack of saving by utilising a 'status quo' bias in individual behaviour. In essence, people are able to remain inactive yet still commence saving for retirement. Rod, twenty-nine, had this experience in relation to an employer scheme:

When I worked in the Insurance Industry, we were automatically enrolled and I just went along with it because I couldn't be bothered to fill out the form to say 'no'.

Pettigrew *et al.* (2007) found that respondents in their survey identified auto-enrolment as a useful way of overcoming apathy towards pensions, whilst leaving an element of personal control through the ability to opt-out. However, young people (eighteen to twenty-four) have been identified as the least supportive of auto-enrolment among all age groups (Macleod *et al.*, 2012). Clery *et al.* (2010) found that more eighteen- to twenty-four-year-old employees opposed auto-enrolment than supported it. This may derive from concerns over short-term financial circumstances and a desire to maintain more control over their economic circumstances (Halpern *et al.*, 2004). Dave, twenty-three, who works for a small company yet to introduce auto-enrolment, stated:

I will have to pay for a pension I don't particularly want or go to the effort of opting out which will be annoying.

and Trish, twenty, an artist, that:

I really can't afford to contribute to a pension now, so for me it will be no good.

Other participants questioned whether the contributions would be missed. Jo, twenty-seven, said:

I suppose part of the logic is once people are in it they can't be bothered to opt-out of it and they perhaps don't miss it in the same way because they're used to it.

Bryan and Lloyd (2014) found that age is one of the few demographic characteristics that are influential in whether someone opts out of a pension scheme. This suggests that young people should be a target of policy aimed at reducing opting out in automatic enrolment, in particular those in the eighteen to twenty-four age bracket, who are least likely to be supportive of auto-enrolment.

However, some of the respondents were positive about the role auto-enrolment could play in counteracting sustainability issues. For instance, Rowan, twenty-eight, stated:

People don't seem to get up and do anything about it themselves so, other than have a massive crisis with millions of poverty stricken pensioners, the government has got to do something, so I think it's a good idea.

and Sarah, twenty-nine:

I think it is a good thing to make it an obligation that everybody has some sort of alternative pension scheme available to them, that they really ought to invest in. 'Opt-out' rather than 'opt-in' is a good standard to set rather than people having to make the choice.

Auto-enrolment was also seen as a potentially positive development for people with limited knowledge in relation to pensions. Richard, twenty-five, who has been auto-enrolled and not opted out, said:

I think it's good, personally, 'cos in all of my previous jobs that I've ever had I've never been told of or encouraged to do anything about pensions. Now I know I am contributing something.

While mixed views were expressed about auto-enrolment, it is worth noting that it does not occur until people reach twenty-two and, as a result, excludes many younger workers. Indeed Pettigrew *et al.* (2007) reported that a number of their participants deemed it to be fairer and simpler to reduce the age of automatic enrolment to eighteen.

Discussion

The interviews identified a variety of factors which impact on young people's attitudes and opportunities to save. These include an information deficit concerning pensions, how they operate and where to seek appropriate advice; a lack of trust in pension schemes

and their envisaged returns; a tendency to be myopic in relation to saving; and inability to afford to pay contributions at this stage of the life course. The interviews emphasise that the decision to save for retirement requires considerable effort to assemble the necessary information to make an informed decision (Clark and Struass, 2008). This dissuades many people, especially the young, for whom retirement may not be perceived as an immediate priority, from commencing saving for retirement. Through auto-enrolment, it is possible for people to remain inactive while still making pension contributions. For a number of the interview participants without access to an occupational pension scheme, auto-enrolment could result in future saving for retirement where it would not previously have occurred. This is particularly the case among young people in the private sector, with more than half now saving. For instance 54 per cent of twenty-two to twenty-nine-year olds made regular contributions in 2014, more than double the figure for 2012 of 24 per cent (Pensions World, 2015).

However, there are concerns that the value of the pension will not deliver sustainable retirement incomes for those who are enrolled (Grady, 2015). In particular, there is a concern that the contribution rate of 8 per cent is too low (Pensions World, 2015). For instance, someone earning £28,900 would need to put away £3,250 a year (11.2 per cent of salary), to even have a chance of a comfortable retirement (Morley, 2014: 3). Given that auto-enrolment only requires 8 per cent contributions, this leaves a 3.2 per cent gap for this salary group. As such, it remains to be seen whether it will pay for young people to save into auto-enrolment schemes. The default auto-enrolment option, the NEST, employs DC-type features of investment choice and individualised risk where there is no guarantee the fund at retirement will exceed the value of contributions. Price and Livsey (2013) note that as employers may choose the scheme utilised, auto-enrolled workers could find themselves in badly run funds with substantial annual charges. This is particularly difficult to predict for those some distance from retirement (Hardcastle, 2012). Furthermore, auto-enrolment is not available to all. There is a concern that many low to middle earners will lose out from the levelling down of pension provision to minimum standards, as average contributions by those employers who make them are approximately double those required by auto-enrolment (Van de Ven, 2012). There is also a fear that everyone will eventually pay for the employer contribution through lower wages and higher prices (Price and Livsey, 2013).

Therefore, targeted information appropriate to individual circumstances, focussed on whole-of-life planning, especially for young people, is essential in the context of a complex pension environment and auto-enrolment (Oehler and Werner, 2008; Waine, 2009). Decisions about whether to contribute to the NEST are not helped by the fact that free advice is generic, while individual advice is costly. This study found that in their current form pensions, including auto-enrolment, tend to be misunderstood by young people. This echoes the findings of Pettigrew *et al.* (2007), who found that once the incentives of schemes such as NEST, including the matching contribution from employers and the state, were explained, the young people interviewed were more likely to declare support for the policy. This emphasises the need for 'positive news' around the incentive structure, their mobility and availability of account information online, to feature prominently in communication strategies (Berry, 2011). Furthermore, the message that matching contributions they are legally entitled to will be lost if they choose to opt-out should also be a feature in how NEST is communicated (Vickerstaff *et al.*, 2012). This is important given fears that there may be higher opt-out rates among young people. It is

not clear whether this may be a result of lower earnings (Bryan and Lloyd, 2014; DWP, 2014b). Auto-enrolment may also contradict an apparent desire among many young people to exercise control over their own circumstances (Halpern *et al.*, 2004). This may be also derived from concerns over more short-term financial circumstances. The government should therefore explore the possibility of offering young people vehicles for saving in a more liquid format. For instance, funds which could be converted into pensions saving at a certain point. Such an approach would provide greater flexibility while also reinforcing the message that planning for retirement is not something which can be delayed indefinitely (Berry, 2011). This approach fits with the findings of a survey conducted by NOW: Pensions (2015), which highlighted an appetite for more flexible pension saving products among younger people that allow withdrawals when people have other big financial ambitions at different stages of life. Such flexibility would be in line with changes to annuity rules which allow over-55s to unlock their entire lifetime savings to spend, save or invest as they wish, promoting the notion of personal responsibility for their own retirement security.

It is evident that trust must play an important role in encouraging young people to save for retirement. Whilst some respondents cited the vital role of clear communication in restoring confidence, for others more fundamental market failures required addressing, including reducing charges and ensuring that people are clear about what they are paying for. This is a particular challenge with younger people, who tend to have the lowest levels of pension knowledge (Macleod *et al.*, 2012). At the same time it needs to be recognised that trust is not necessarily a positive attribute. The history of pension mis-selling is littered with examples where people may have trusted too much in the past. Rather, 'it is discriminating trust that individuals need and for this they must have some confidence in their own ability to make judgements about the advice and expertise on offer' (Vickerstaff *et al.*, 2012: 31). However, people's capacity to make such assessments is highly differentiated (Taylor-Gooby, 2005). This is affected by occupational status and income (with participants in managerial and professional occupations more likely to be in a position to contribute to a private pension scheme), and age (with younger participants, those under twenty-five, less likely to be saving in a private pension or identify it as currently necessary).

Conclusion

This study has identified a number of characteristics associated with young people's apparent under-saving. These include a lack of knowledge about pensions and where to seek advice, a lack of trust in providers, a perceived inability to afford current contributions and a myopic view of pensions. It is apparent that asking more young people to save for retirement, or put aside more for retirement, entails changing individual attitudes and behaviour (Berry, 2011). UK governments have sought to encourage individuals to save more for their own retirement from a younger age. Auto-enrolment is key to these plans to encourage or 'nudge' people to save. This research has contributed to discussions around pension saving among young people and has indicated that mixed views exist about the emergence of auto-enrolment and whether it will suitably address challenges of under-saving among younger people. If automatic enrolment is to succeed, people need to be reassured beyond doubt that it 'pays to save' (Hardcastle, 2012). However, questions still exist as to whether this will be the case in the long-run (Ginn and MacIntyre, 2013).

Auto-enrolment alone may not be sufficient to resuscitate retirement saving, especially among young people (Berry, 2011). As such, further options need to be explored, including more flexible forms of saving which may better suit younger peoples' needs. In order to develop such policies more work is required to understand the attitudes and needs of young people towards retirement and saving more generally. These need to take into account the differences identified in this study in relation to the ages of participants (with the youngest members of the sample least likely to contribute to a pension and have the most limited knowledge about them), and occupational status (and associated differences in access and affordability of pensions), in addition to characteristics such as gender and education. Any pension developments need to be transparent, flexible and accompanied by access to suitable impartial guidance, in order for people to be able to make informed choices about whether it pays to save.

Notes

1 This is not a cohort specific trend. Lower earning, pension knowledge and private pension scheme membership have long been identified as an issue among young people by policymakers (see Foster, 2012).

2 Various studies employ different age ranges to portray young people. However, eighteen to thirty was chosen as it is likely to incorporate those who are relatively new to paid employment (and pensions) but also includes individuals who have been engaged in employment for several years. As such there are likely to be differences within this age cohort in relation to attitudes towards pensions.

3 The notion of 'appropriate' decision making regarding pensions is a contested one. This depends on what constitutes an adequate income in retirement for an individual. It is common for replacement rates to be utilised with the PPI (2009) calculating that for people on median earnings, two thirds of replacement income (after subtracting income tax) in retirement could allow for similar consumption levels to those experienced during working life (expenses are reduced in retirement, partly due to lower taxes and National Insurance). A higher replacement rate is required for those on a low income prior to retirement.

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