

FSCS Podcast #34: Young People's attitudes to pensions

Lila Pleban 00:01

Welcome to Protect your money with FSCS. The podcast from the Financial Services Compensation Scheme. I'm Lila Pleban, Chief Communications Officer at FSCS. And in this series, the fantastic FSCS team will help you understand how we can help to protect your money so you can feel confident your money is safe. I hope you enjoy the podcast.

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Farah Baldock 00:29

Hello, and welcome to Episode 34 of the FSCS Podcast. I'm Farah Baldock from the Communications Team here at FSCS, and I'll be your host today. First of all, a bit of background for any new listeners. FSCS, or the Financial Services Compensation Scheme protects people when authorised financial firms go out of business by paying eligible customers the compensation they are owed. We protect lots of financial products, but not all of them, and our podcast aims to help you understand our protection and feel confident that your money is safe. On today's episode, we're going to be discussing retirement, and in particular, what retirement means to young people in the UK. With us today is Irene Salazar, Communications Research Specialist here at FSCS. Hi, Irene, and thank you for joining us today.

Irene Salazar 01:19

Hi, Farah. Thank you for having me. I'm very excited to be here on the podcast today. This is the first time for me and I'm very looking forward to chatting about young people and retirement.

Farah Baldock 01:32

Great. So, let's get started. Irene, can you tell us why FSCS is interested in people's attitude towards retirement in general?

Irene Salazar 01:41

Yes, it's a very good question. And it's mainly because personal pensions and other pension products such as Self-Invested Personal Pensions or SIPPs, are among the financial products that FSCS protects. There are also lots of other financial products that people may use to fund their retirement that we also protect, for example, savings accounts, and a lot of types of investments.

Farah Baldock 02:07

Yeah, there are actually lots of pension options out there and it can be quite complicated to understand it all. I know, I definitely don't know enough about pensions and to be honest, probably haven't thought that much about my retirement and how I plan to pay for it. It still seems so far away. I won't tell you how old I am so you can work out how far away I'm from retirement though!

Irene Salazar 02:24

You're not alone, Farah, absolutely not. Most people aren't really engaged with thinking about and planning for their retirement. Everyone has different goals and different dreams of what they'd like to do with their retirement. And people may be at different stages of planning for that future or may not even

have thought about it at all, like you said, sounds like it's way, way in the future. But not understanding, not planning for your retirement can of course leave you way more vulnerable if something goes wrong down the line. And unfortunately, over the years here at FSCS, we've seen a high number of claims from people who lost money on their pensions when their financial providers have gone out of business. This can obviously be very devastating, especially if you are very close to retiring or already retired, because you will have much less time to recoup any of those losses. And that, again, will leave you in a very vulnerable position. In some circumstances, FSCS can step in and pay compensation, but this is not always the case. For us, understanding people's attitudes and behaviours towards retirement and how people plan to fund it is quite important. We regularly monitor consumers' attitudes, not just to retirement, but towards a wide range of personal finance products and issues that may impact the work we do. And because this helps us to better understand consumers, and how we can continuously improve how we help people to understand consumer protection, FSCS protection and to make informed decisions about their finances.

Farah Baldock 04:06

And so, when we think about retirement, we naturally think of older age groups who are at or close to retirement age. Why is it important to understand young people and retirement?

Irene Salazar 04:18

What young people do today may impact the claims that we see coming in the future here at FSCS. So, for young people who are starting out in their careers, their first job may be the first time they are exposed to a workplace pension - to pensions in general, really, and to the idea of saving towards their retirement. So again, there are a lot of other financial products available for people who are interested in saving and investing for the future for the long term, whether that's for retirement or any other savings goal. So, we wanted to understand a bit more about that like how people are saving, what they're saving for, and how this ties up to preparing for retirement. So last summer, we conducted a survey among over 2,000 adults in the UK, aged between 18 and 65, so, before they are retired, to explore consumer attitudes towards their retirement of the future. Our survey found that retirement is among the top three reasons for people to save. It follows emergencies and a major trip or holiday, with more than a quarter of people saying that they are saving for retirement. But among young people, actually, this stat is much lower, with only 12% of people under 25 saying that they're saving for retirement.

Farah Baldock 05:44

Right, and I guess that's not that surprising, like we've said already, retirement is probably going to seem very far away, especially if you are among that younger age group, and I'm sure other savings priorities will be far more at the top of their mind.

Irene Salazar 05:59

Yes, that's right, you're absolutely right. But it may be that they simply don't realise that they are already saving for retirement. Because again, like if they are enrolled in a workplace pension, they might not have had much to do with that, they may not be that engaged with it. But this, again, shows us that people are not necessarily actively planning and engaged with their retirement savings.

Farah Baldock 06:24

And I guess when we talk about the 'retirement of tomorrow', like we've said already, that retirement is going to be much closer for some people compared to others, depending on their age, which may well impact their attitudes towards planning and saving for it. What else can you tell us about what this survey showed on young people's attitudes towards the 'retirement of tomorrow' and how that might differ from older generations?

Irene Salazar 06:49

Yes, that's a very good question, Farah. So, one key area where we found that views differ quite a lot between age groups was people's expectations of what their retirement that they're saving for might look like. So, we asked people how their retirement will compare to that of their parents' generation. And one of the key differences that we found was that those aged under 25 are generally more optimistic than older working adults, with about 44% of them believing that their future retirement will be better than that of their parents' generation. Another group that was quite optimistic was those people who are hoping to retire early, so before state pension age, and are a bit more than half of them believe that their retirement will be better overall than that of their parents.

Farah Baldock 07:45

And who were the least optimistic?

Irene Salazar 07:47

Well, people getting closer to state pension age. So, those between 55 and 65, are slightly less optimistic than the youngest age group, with around 38% of them expecting their retirement to be better than their parents' generation. But the least optimistic group, were those aged 35 to 44, many of whom will be at the midpoint of their working lives. And less than a third of them, so only 30% of them believe that their retirement will be better than that of their parents' generation.

Farah Baldock 08:23

Well, it's good to see that young people are so optimistic about their future retirement. Can you tell us what they're so optimistic about?

Irene Salazar 08:31

They're primarily optimistic about the quality of lifestyle that they will enjoy in retirement. So, many of them expect to have better opportunities to enjoy themselves, to travel. They expect to have access to better care in retirement, and also access to helpful technology. And they also expect their physical and mental health to be better in retirement than their parents' generation.

Farah Baldock 08:58

I'm going to make a bit of an assumption and just say that it's probably continuous improvements in technology and also greater awareness that people have in how to maintain and promote physical and mental wellbeing that's having a bit of an impact on all of these perceptions as well. And I know that there's also going to be improvements in access to appropriate healthcare too, and I'm sure that plays a part. So, it seems quite reasonable that younger people in particular might expect these areas to improve by the time they reach retirement age. However, when we're talking about opportunities to

travel, and also improved technology and healthcare, none of that sounds cheap. Is this youthful optimism really realistic?

Irene Salazar 09:40

Well, actually, although people expect their overall quality of lifestyle to be better than their parents' generation, you are right, and we did identify areas where people are much less optimistic. These tend to involve concerns around personal finances in retirement. So, areas such as their ability to fund a retirement, or to live debt free, or their available housing options. People have a much more negative view of how their future retirement will compare to that of their parents' generation in those areas. And when we ask people across all age groups what concerns them about saving for retirement, the top concern they gave us was not having enough money to last the duration of their retirement. So yes, this shows us that there is a mismatch between people's expectations of a better retirement, especially when compared to the previous generation, with the reality of how they expect to pay for this better quality of life.

Farah Baldock 10:43

What's driving these concerns?

Irene Salazar 10:45

Well, the current economic climate is likely having an impact. The rising cost of living, the rising housing costs are among the key reasons that people tell us it makes them concerned that their money will not go far enough in retirement. More than half of them worry that their standard of living will drop in retirement. Around half, a bit less than half, worry about how they will cover their housing costs past retirement age. And in fact, for those who told us that they expect to continue working past state pension age, around half of them tell us that an inability to afford retirement is a key reason to continue working once they reach state pension age.

Farah Baldock 11:27

Interesting. So, your retirement may be better overall, but only if you can afford to pay for it or afford to retire at all?

Irene Salazar 11:34

Yes, that's right. So when you think about it that way, it's not such an optimistic outlook after all.

Farah Baldock 11:41

No, it's not. Are people engaging more with their retirement planning to try and tackle some of these concerns early?

Irene Salazar 11:48

Well, unfortunately, that's not what our survey found. In fact, despite all the concerns I just mentioned, and what people are telling us, when we ask them about saving for retirement, a quarter of people tell us that a lack of understanding of pensions or savings products is a concern for them. And only around 37% of people answering the survey agree that they feel confident when planning for their retirement.

Farah Baldock 12:17

This is really interesting, because at FSCS, we've always highlighted how important it is for consumers to feel confident and well informed about the financial decisions they're making. And one of the key challenges that we've identified in the past is the increasingly sophisticated financial decisions that consumers are being asked to make, particularly about their retirement savings. And with this greater complexity, there's obviously an increased risk that people will be vulnerable to financial harm. So, engaging with retirement planning, early, can potentially help them reduce that risk down the line. Does the survey tell us anything about the steps that people are taking to engage with their retirement planning?

Irene Salazar 13:00

We did ask people if they had taken any steps in relation to their retirement over the last five years, but worryingly, a high number of people, close to half of all the respondents actually, had taken none of the steps we asked about the plan for the retirement. Actually, only a quarter of people told us that they had checked the value of their savings and investments, such as a pension. So, this is quite concerning, because the vast majority of people are not even taking this fairly simple step to help them effectively start planning for their retirement. And lower still, are the numbers who have sought financial advice or guidance in relation to their retirement, whether from a free government service such as MoneyHelper or Citizens Advice, with only 8% of people answering the survey having done this, or from a regulated financial advisor, with only 7% of people telling us that they've done this in the last five years.

Farah Baldock 14:03

And I guess for some people access to good quality regulated financial advice right from the start of their financial planning journey may help them to feel confident and make well informed decisions about their future retirement. Of course, consulting a regulated financial advisor isn't the only step that people can take to help improve their retirement outcomes. Are there any other steps that you'd like to highlight to our listeners who may be thinking about their own retirement planning?

Irene Salazar 14:27

Yes, and actually, it's one of the simplest things that people can do today even, is to visit the FSCS website and use our free protection checker tools. So, we have online tools that can help them better understand FSCS protection if their financial firms fail. We also always encourage consumers to go and check that the financial firms that they're dealing with are regulated by the FCA, The UK's Financial Regulator, by checking The FCA - The Financial Conduct Authority's register. And also, they can also go and get online guidance from free government services such as the MoneyHelper website, which can also help people get started with planning for their retirement.

Farah Baldock 15:13

Thanks. And as a reminder for our listeners, you can find the FSCS online protection checker tools on our website at www.fscs.org.uk/check. So, thank you, Irene, for joining us today. This has been a really interesting discussion, and I hope it's given our audiences some useful things to think about wherever they are in their work and future retirement journeys. But before we wrap up, those of you familiar with our podcast will know that we always ask our new guests a closing question. So, here's a final question

for you Irene, before we let you go. FSCS is all about protecting your money, but which toy would have had you breaking open your piggy bank as a child?

Irene Salazar 15:56

Oh, wow, that's a good question, Farah. I've always loved board games, I have a lot of cousins, so we used to play a lot of board games growing up during the holidays and Christmas. But I only have one sister, so most games were not as fun between just the two of us. So, I remember saving up and buying that Guess Who? board game, which is for just two players and yes, that was a lot of fun. That was very nice.

Farah Baldock 16:22

I love that game. I remember playing that as a child myself and I also play that with my two kids too. So, thanks again, Irene, and a final thanks to our listeners. We hope that you've enjoyed our podcast today, and that this episode has helped you to discover a bit more about FSCS protection. You can find all our podcasts on the FSCS website at www.fscs.org.uk, as well as all the usual places you would find your podcasts. Thanks for listening!

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