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Engaging young adults through social investment in pensions

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Engaging through social investment

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- What is engagement?
- What role does automatic enrolment play in engaging younger people?
- What are the benefits of social investment?
- What are the risks of social investment?

What is engagement?

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- Engagement is not the same as participation
- Young people are not currently "engaged" with pension saving on the whole
  - Generally low levels of financial confidence and capability - due to a lack of experience with financial products and decision-making (lower among women and students)
  - Around 70% have financial goals but the vast majority only relate to the next 5 years or so
  - Behavioural barriers: inertia, prioritising the present
  - Structural barriers: lack of knowledge, lack of funds, competing priorities (freedom and travel vs. career and settling down), choice overload

Participation has increased

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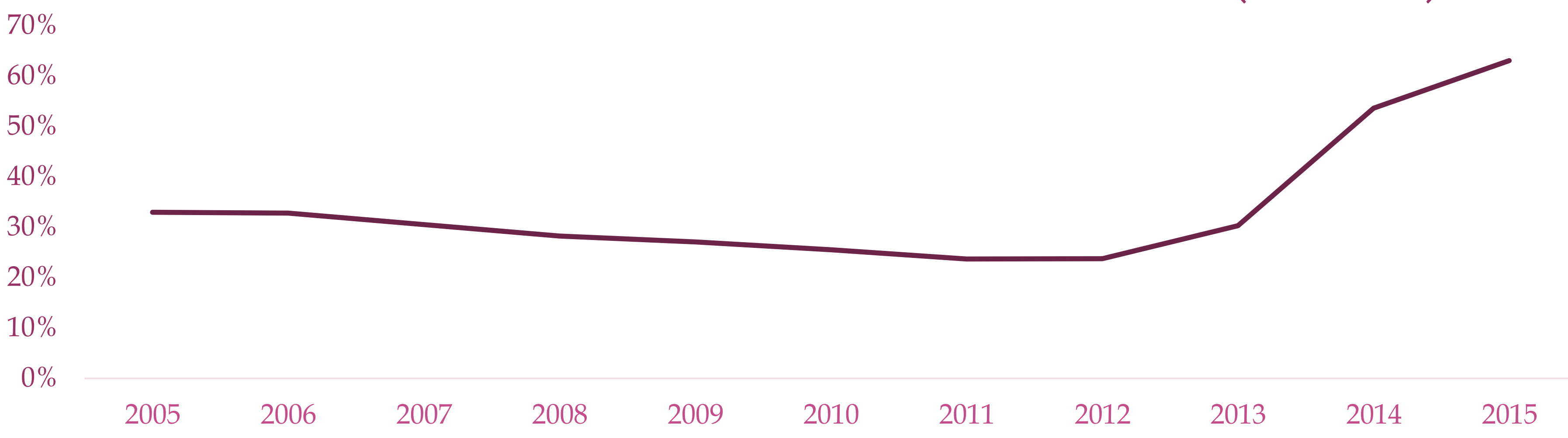
- Though automatic enrolment is resulting in higher numbers of young people saving (participation)
- In the private sector, pension participation among 22 to 29 years olds has grown from 24% to 63% between 2012 and 2015 (DWP)



Engagement can be positive

- However, “engagement” could be positive in terms of increasing contribution levels, retaining members, or attracting hard to reach young people
- Contributions are currently averaged at minimum levels for those automatically enrolled

Median employee contribution rates in DC schemes are decreasing

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Median employee contribution rates to DC pensions by year

Engagement can be positive

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- Contributing at 8% of band earnings from age 22 gives you 50% change of achieving adequate replacement rate (assuming triple-lock in place)
- Self-employed, part time and casual workers not all reached by automatic enrolment

Engagement might not always be positive?

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- "Engagement" is not necessarily always positive among young people – esp. the target group for automatic enrolment
- Low levels of financial capability and confidence could result in poor decision-making – decisions complex even for those with higher levels of capability
- NEST work shows target group more likely to be reactive to turbulence in funds

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Automatic enrolment tackles behavioural barriers

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- Automatic enrolment tackles inertia and limits the need for higher levels of financial confidence, capability and decision-making
- Automatic enrolment doesn't lead directly to "engagement" but may over time lead to a savings culture and higher levels of engagement

Automatic enrolment tackles behavioural barriers

- Automatic enrolment is intended to help future pensioners top up state pension income with income from private pensions
- Policy goals: adequacy, sustainability, avoidance of poverty, reduction of state burdens
- Not all these goals are met through engagement

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What are the benefits of social investment?

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- Increased social benefits – reroutes pension savings from private sector investments to social investment domestically and internationally
- Infrastructure is a useful way of hedging through diversification
- Social investment could appeal to young adults who are more socially aware than older age-groups

Millennials support social investment

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- 73% of global Millennials are willing to pay more for sustainable brands (HM Gov 2016) up from 50% in 2014
- Millennials more likely to feel responsible for their investments, autonomous, "authentic" and less likely to discriminate

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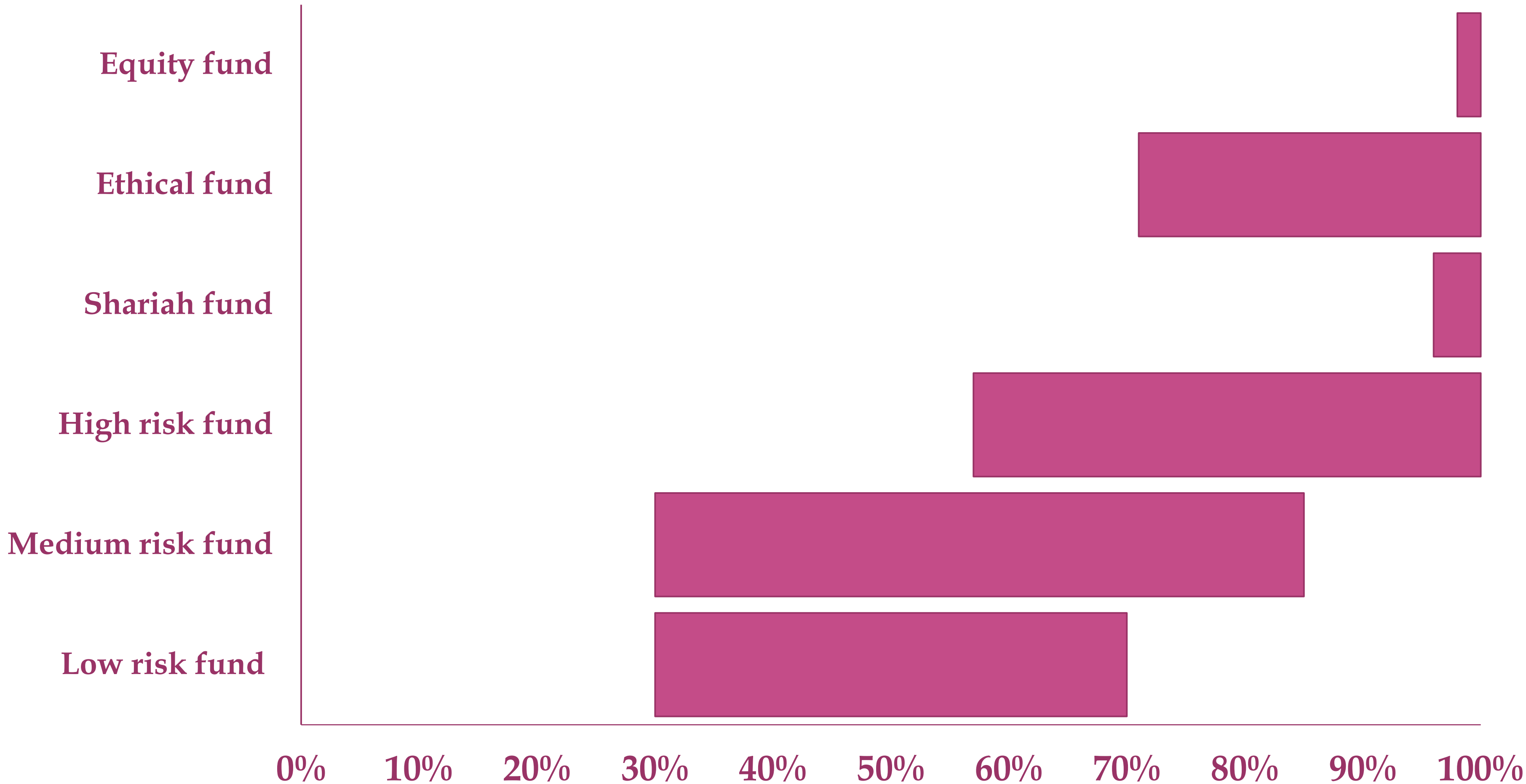
What are the risks of social investment?

- Small funds could find infrastructure investment tricky (duration and amount required) unless they join larger funds
- Ethical funds tend to have lower returns – could this lead to disengagement and/or lower pension incomes?
- Higher risk – majority of ethical funds currently invested 70% to 100% in equities – more infrastructure investment could help shift the balance

Equity, ethical, shariah and high-risk non-default funds have up to 100% of assets invested in equities

Range of assets invested in equities by fund type, 2016



Further research

- Is the group of millennials interested in social investment the same group that needs more engagement?
- Are there risks of dis-engagement or lower returns resulting?
- Can social investment deliver good returns?