Nudging for retirement

Results from an experiment by the Behavioural Insights Team, in partnership with Scottish Widows

THE BEHAVIOURAL INSIGHTS TEAM

In partnership with

Cabinet Office

SCOTTISH WIDOWS

Introduction by Pete Glancy, Head of Policy at Scottish Widows

"Current pension savings rates amongst the young are lower than what's needed to secure adequate retirement income. The proportion of young people not saving anything has increased from 14% in 2019 to 17% in 2020, and only 51% of young people save an adequate amount for retirement.[1]

There is some good news for young people. Auto-enrolment has been particularly effective in helping more young people save for their future. In the private sector, the proportion of 22 to 29 year olds saving into a workplace pension increased from 24% in 2012 to 84% in 2018.[2]

However, auto-enrolment's successes mask significant challenges in ensuring young people save enough. The auto-enrolment minimum default contributions, even after the raise to 8%, fall well short of the 12% savings level required for a retirement above the poverty line. And young people are still decades away from being able to access even a part of their pension.

As economic impact of the Covid-19 pandemic is just starting to bite, with increased unemployment predicted to disproportionately affect young people the financial future for under 30s seems more fragile than it has done for years. Against that backdrop the challenge intensifies - how do we engage young people with their pensions? To answer that question, we recognised the need to test new and different approaches. That's why we teamed up with the Behavioural Insights Team for this research project, to help us understand what would truly motivate and encourage more young people to save for their future retirement. We are sharing the results openly with industry bodies and policy-makers so we collectively use them to help make a difference."

[1] *Retirement Report 2020*, Scottish Widows

[2] https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/more-young-people-saving-thanks-to-automatic-enrolment

What we did

To find out how to increase engagement, we conducted an online experiment. Our experiment involved 2,822 young people across the UK aged 22 to 29 years old. Each respondent was shown a vignette about a hypothetical friend of theirs, 25 year old ('Alex'), who had a representative income and default pension contributions. They were then randomised to see one of four communications, presented as information aimed at Alex that came from Alex's pension provider. This information conveyed the importance of pensions, and encouraged 'Alex' to take action to contribute more to their pension.

Once they had seen this information, they were asked:

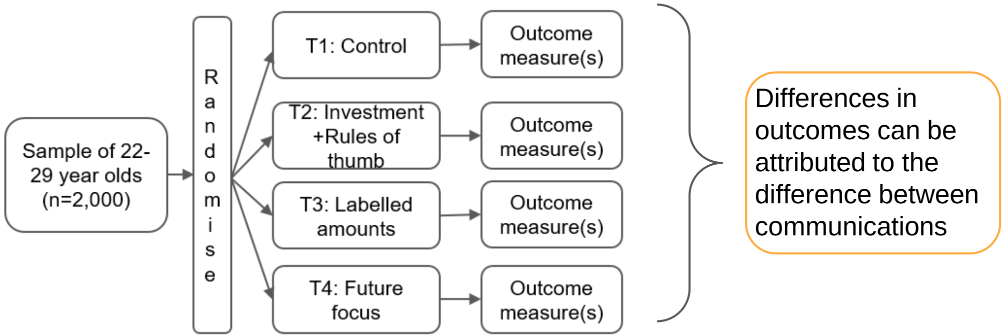
- Whether they thought Alex's 8% contribution was too low/high/about right.
- Whether they thought Alex should change contributions, and if so, by how much?
- Whether the participant thought they should increase *their own* contributions.

Finally, we asked some additional questions about respondents' views on pensions, and some financial literacy questions.

The science behind the experiment

Our online experiment was conducted as a randomised controlled trial (RCT - see right), the gold standard for studying causality. In an RCT, our total sample is randomly divided into groups, each of which sees a different treatment or intervention - in this case, a different form of communications. Because we randomly allocate people to groups, we can be confident that any difference in outcomes is due to the difference in communications and nothing else.

The four versions of communications are described below, and a full version of each is included in the appendix.



Control:
Uses existing wording commonly used by Scottish Widows in its existing marketing , and warns that the minimum amounts may not be enough for a comfortable retirement. Focuses on pensions as a savings vehicle.

Investments/ rules of thumb:
Pensions are framed as an investment, rather than saving. Includes rules of thumb about the power of saving early - e.g., 'a pound saved at age 25 could be worth 4 times as much as a pound saved at age 55'. Includes the financial impacts of increasing contributions to 12% or 15%.
Insight: rules of thumb have been shown to improve understanding of financial concepts.

Labelled amounts:
Explains that 12% is needed to stay above the poverty line, and most will need 15% for a comfortable retirement. The calls to contribute 12% and 15% are labelled the 'minimum' and 'comfortable' amounts, respectively.
Insight: labelling the different amounts makes the future impact of present decisions more salient.

Future focus:
Prior to starting the survey, people were asked to pause and reflect about their life after work.
The communication itself also asks the reader to pause and think about the future, and notes an extra £80 a month now may mean they have up to £150 a month more in retirement.
Insight: reflecting on our life after work helps us connect with our future self, and may increase our intentions to increase pensions contributions.

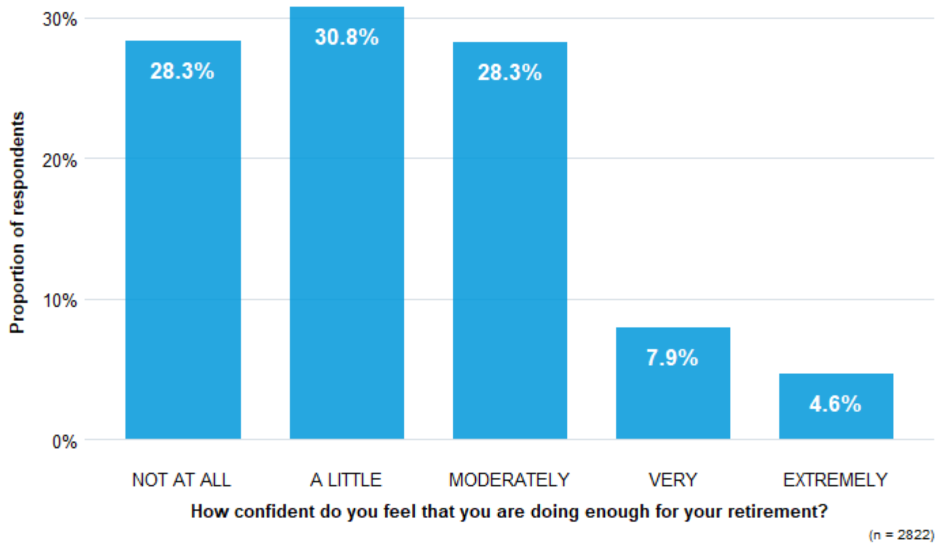
What we learned about the problem

Young people are not confident they are doing enough for retirement….

Nearly 90% stated that they were either not at all confident, a little confident, or moderately confident that they were doing enough for their retirement. Conversely, just 1 in 8 (12.5%) were very or extremely confident.

This may be driven by a number of factors, and exacerbated under the current economic climate which has impacted young people especially hard.

How confident do you feel that you are doing enough for your retirement?

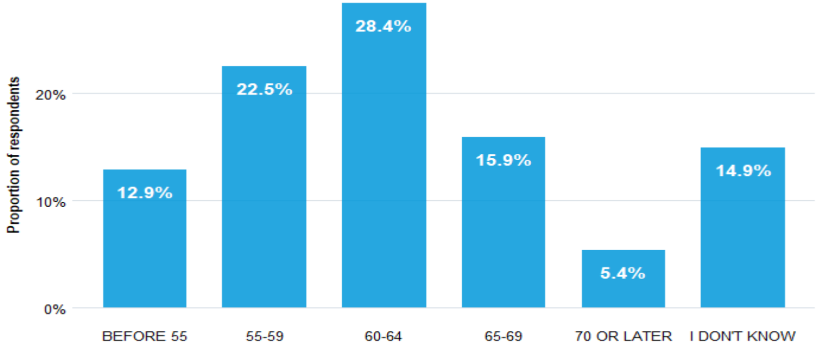


… pessimistic about their retirement prospects...

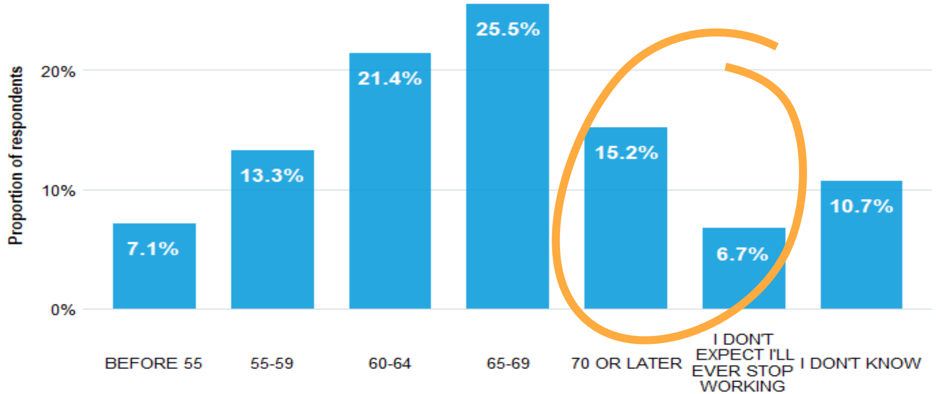
Young people generally expect to retire later than they actually want to retire. Over 1 in 5 (21.9%) expect to either retire after 70, or never actually stop working.

In addition, around 3 in 5 (61.1%) expected their retirement income to be below £20,000 per year - below the Pensions and Lifetime Savings Association (PLSA) standard for a moderate retirement.

What age do you WANT to stop working?



What age do you EXPECT to stop working?

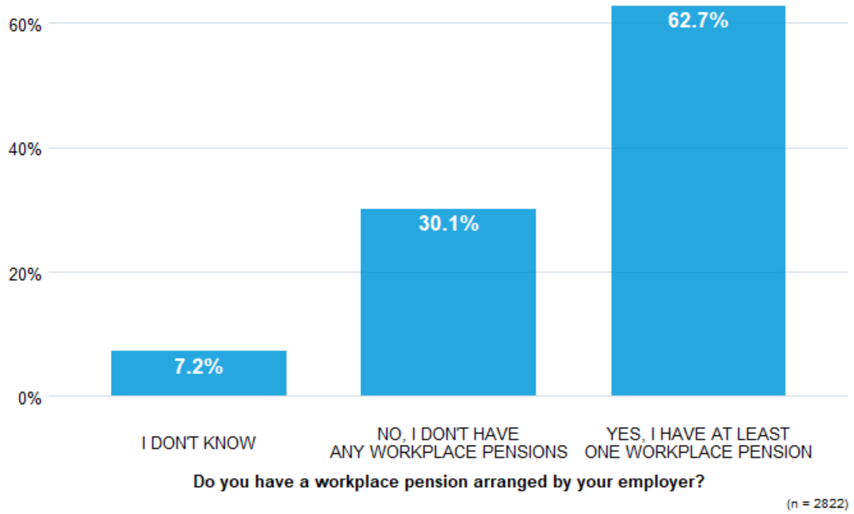


… or just complacent about the future.

A majority (62.7%) have a workplace pension - unsurprisingly, this proportion grows larger as age increases. However, even at age 29, around a quarter (27%) reported either not having a workplace pension or not knowing. This is concerning, as it means that a substantial portion of young people have already missed out on the benefits of early savings, and may speak to the increasing rates of freelance/non-traditional employment among young people.

In addition, the fact that over a third (36.9%) agreed or strongly agreed with the notion that the future will take care of itself suggests that there may be some complacency from among young people.

Proportion with/without a workplace pension



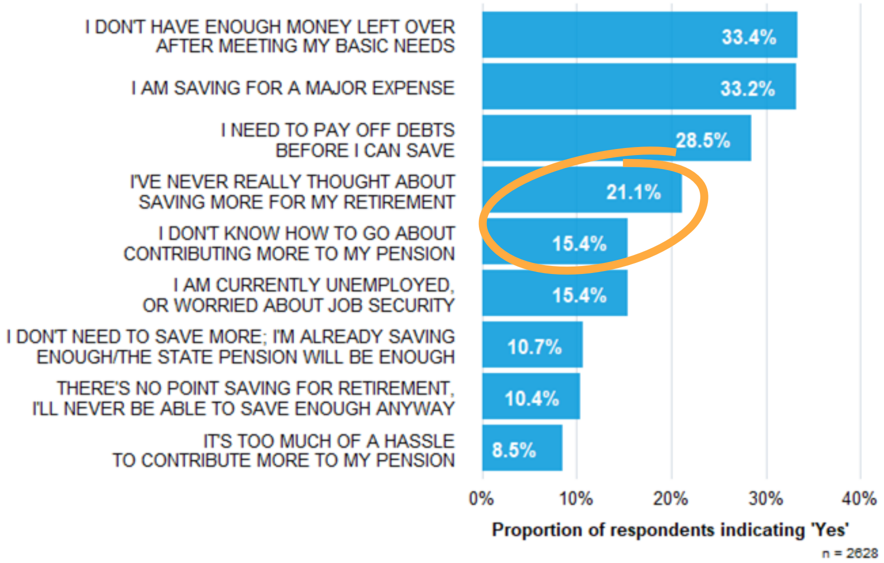
But there are opportunities to increase engagement

When asked what barriers prevented them saving more for retirement, some of the most common barriers are unsurprising and hard to overcome (for example, a lack of disposable income, saving for major expenses, and paying off debts).

But the next most common barriers relate less to fundamental structural issues, and instead are simpler barriers that could be more easily overcome. 21.1% cited never even thinking about saving more for retirement, whilst 15.4% stated they didn't even know how to go about contributing more to their pension.

And, another question found that a third (33%) hadn't even thought about the role that a private pension would play in their retirement.

Proportion citing each factor as a barrier to saving more for retirement



How we can increase engagement

Results of the online experiment

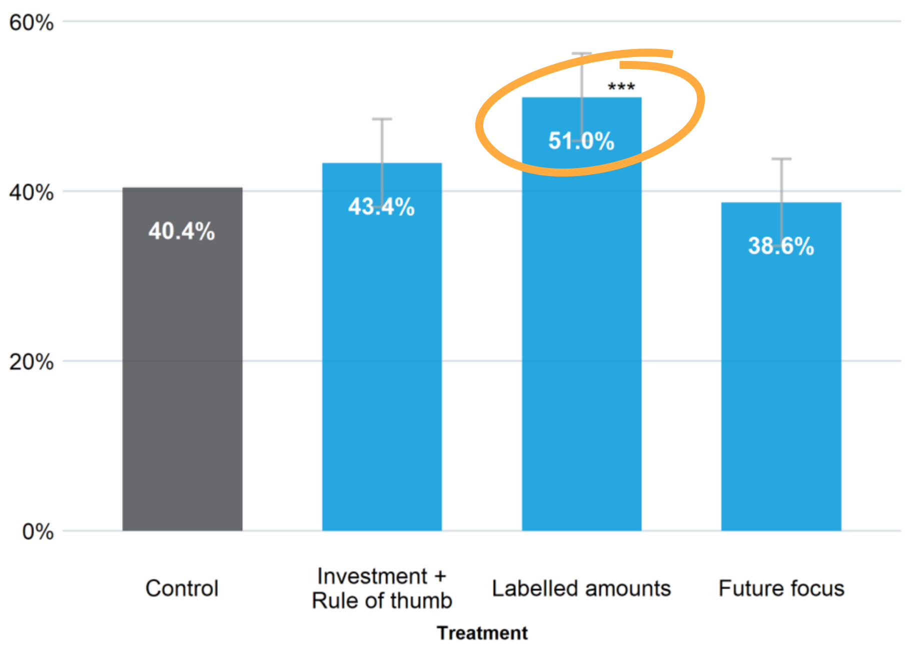
Labelling contribution amounts to reflect retirement impacts makes it clear the default is too low

When we labelled potential contribution amounts to reflect the fact that most people would need 12% contributions for a minimum standard of retirement, and 15% for a comfortable retirement, we saw a very significant increase in people recognising that the default contribution is too low.

Labelling makes the long-term impacts of current decisions clearer

This results suggests that many people struggle to connect present decisions to retirement outcomes in a concrete way, and clearly labelling current options makes the impact that contribution decisions today can have on retirement outcomes in the future more salient.

Proportion recognising that the default contribution level is too low



*** p < 0.001; ** p < 0.01; * p < 0.05; + p < 0.1

Recommendation: Label the impacts of different contribution amounts at key points

Warn people when they first join a pension

Workplaces and pension providers should think about ways to label different options for contribution levels when workers first join a workplace pension.

This might mean rather than just providing information about joining a pension, workers might be asked to ‘confirm’ their choice to contribute 8%, and given options to increase to 12% or 15%.

These options should be labelled to note that they are the amounts most will require to stay above the poverty line (12%) or for a comfortable retirement (15%).

Remind people with tailored information

Pension providers should ensure that annual statements show not only the existing balances, but also what these might lead to in terms of retirement lifestyles - and what levels of contributions are required to achieve a minimum and comfortable retirement.

This will vary depending on a worker’s age, income and existing savings - but will make the information more meaningful and relevant to workers.

Include contribution amounts where these labels already exist

For example, the PLSA Retirement Living Standards are an excellent resource for understanding income levels and their associated lifestyles in retirement, and already use labels (minimum, moderate, and comfortable).

But it’s not clear what people need to do *now* to achieve those outcomes - including information on current contributions required to achieve the different labelled income levels will help people ‘connect the dots’ between decisions they can take now, and retirement outcomes they can expect later on.

Getting people to focus on the future encourages them to increase their own contributions

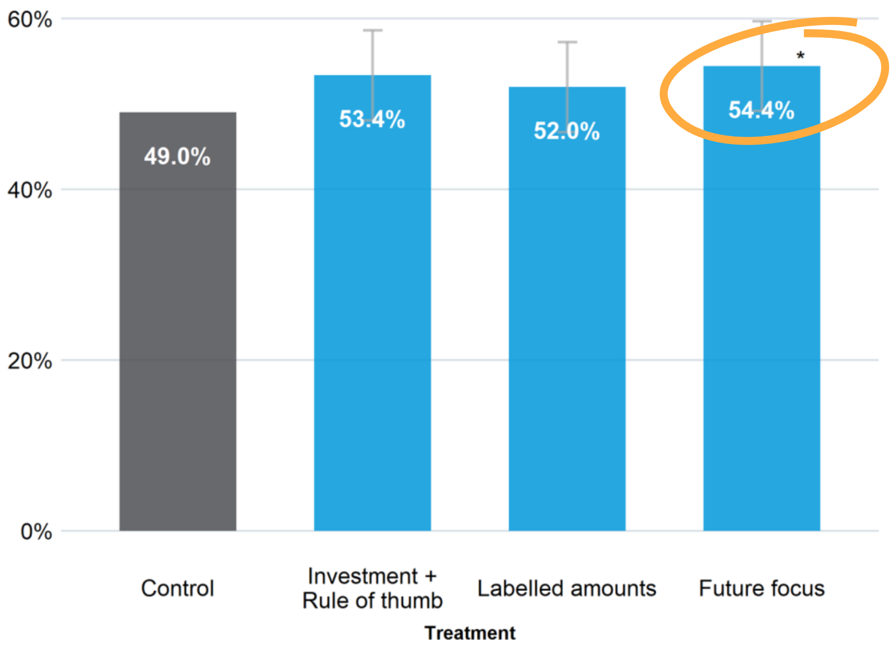
Interestingly, when asked to pause and think about *their own* future, respondents were 11.2% more likely to say they should increase their own contributions, a statistically significant difference.

Many young people haven't even thought about the future - a future focus prompt may overcome this

A substantial portion of young people we surveyed *hadn't even considered* contributing more to their workplace pensions. Whilst there may be other barriers, clearly an important first step is just getting people to consider additional contributions as an option.

This result shows that getting young people to actively think about their future and their retirement appears to lead to an increased appreciation of the importance of retirement. This may be particularly relevant as retirement is especially distant for young people, and they likely have not experienced many life events that might give them pause to consider the long-term future. This finding reflects wider academic research that we often fail to relate to future selves, making it difficult to make long-term decisions.

Proportion stating they thought they should increase their own contributions



*** p < 0.001; ** p < 0.01; * p < 0.05; + p < 0.1

Recommendation: Prompt workers, especially younger workers, to think about the future

Integrate prompts to think about the future into regular communications

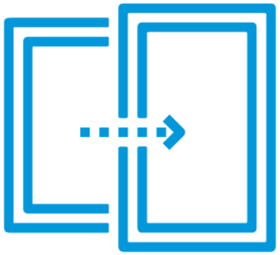
Pension providers can start to include prompts to think about the future - this might work best for those who persist with the default contribution amount.

This might mean annual updates include a letter or flyer that asks people to think about their life after work - what activities they want to do, who they want to spend it with, and what sort of impact they want to have on other people. It could even include a short worksheet or survey, designed to guide people through the process of thinking about these issues.

Interactive tools could be redesigned to get people to think about the future

Existing tools are almost entirely financially focused - asking for information about income amounts, pension pots, and desired target incomes.

Instead, these could be redesigned to first ask people to nominate the sorts of things they want to do in retirement - holidays, eating out, etc. - and how often they want to do them. This information could then be used to generate a target income, and from that workers could be shown what they need to do now to achieve it.



‘Moments of change’ are an excellent opportunity for future-focused prompts

Pension providers may be able to detect when workers change jobs or recieve pay rises, as incoming contributions will change. These moments are often great opportunities to prompt people to make changes and take advantage of the ‘fresh start’ effect.

When pension providers detect a change in contributions that suggest a change in employment or pay, they could contact workers proactively and prompt them to think about their future outcomes and goals. This could be followed up with a prompt for the worker to take action now, by increasing contributions.

Broader recommendations: We need to think about innovative ways of engaging young people

Find ways to reach those who don't have a traditional job

We found that even among those aged 29, around a quarter either didn't have or didn't know if they had a workplace pension. This might be due to the increase in freelancing and participation in the gig economy, meaning that many young people will not be automatically enrolled into a workplace pension.

For example, gig economy platforms might reach out to young people and encourage them to 'invest in pensions to invest in themselves'. Or, the government could use tax return data to identify young people with incomes but without pensions, and encourage them to take out a pension.

Employers should prompt workers with simple illustrations of the power of additional pensions contributions

Evidence suggests that people are more likely to make large contributions for retirement when they receive a windfall, such as an annual bonus. Similarly, employees are more likely to agree to invest a part of *future* pay rises.

Hence, employers could prompt workers when they receive their annual bonus or a pay increase, and encourage greater contributions using some of the concepts outlined above.

Test different communications in the real world

The trial results show that different messages had different impacts - some were more effective at making it clear the default was too low, whilst others encouraged higher contributions.

Pension providers should take these insights into the field, and test out different ways of framing messages with real consumers. This might involve using existing touchpoints such as annual statements, sign-up forms or regular communications, and reframing them around the themes tested in the experiment.

Appendix

Full versions of the communications

Control [T1]

Heading: You can take action now to save more for your retirement

Para 1: Your pension is a tax efficient way of saving for your retirement. The Government will give you tax relief on your contributions which will help increase the value of your pension.

Para 2: If you only pay the minimum into your pension, it may not be enough to enjoy a comfortable retirement. Topping up your pension now could help you have a lot more money when you retire.

Para 3: You can take action now to save more for your retirement. You can:

- Contribute an extra £80 a month (or 4%, taking your total contributions to 12%)
- Contribute an extra £140 a month (or 7%, taking your total contributions to 15%)
- Increase your contributions by a different amount, or make a one off contribution

Investment + rules of thumb [T2]

Heading: ***Investments in your pension are like a snowball – the longer they roll, the bigger they get***

Para 1: Your pension is a tax efficient way of investing for your retirement. The Government will give you tax relief on your contributions which can help increase the value of your pension investment.

Para 2: If you only invest the minimum into your pension, it may not be enough to enjoy a comfortable retirement. The earlier you start investing, the more you are likely to have to support you in retirement when you come to take your pension. This is because your money will be invested for longer, giving your pension pot more time to grow in value. By the time you reach State Pension Age, a pound saved at age 25 could be worth 4 times as much as a pound saved at age 55. A 25 year old saving an extra £80 a month could see their pension pot grow by £39,440 by the time they turn 65.

Para 3: You can take action now to invest more for your retirement. You can:

- Invest an extra £80 a month (which could lead to you having £39,440 more by the time you turn 65)
- Invest an extra £140 a month (which could lead to you having £69,020 more by the time you turn 65)
- Increase your investments by a different amount, or make a one off investment

Labelled amounts [T3]

Heading: Experts recommend people save 15% of their income for a comfortable retirement

Para 1: Your pension is a tax efficient way of saving for your retirement. The Government will give you tax relief on your contributions which will help increase the value of your pension.

Para 2: If you only pay the minimum into your pension, it may not be enough to enjoy a comfortable retirement. Topping up your pension now could help you have a lot more money when you retire. Experts recommend people save 12% of their income to stay above the poverty line in retirement. To ensure a comfortable retirement, many people like you would need to save 15% or more.

Para 3: You can take action now to save more for your retirement. You can:

- Contribute an extra £80 a month (or 4%, taking your total contributions to the recommended minimum of 12%)
- Contribute an extra £140 a month (or 7%, taking your total contributions to the higher amount of 15% for a comfortable retirement)
- Increase your contributions by a different amount, or make a one off contribution

Future focus Priming [only for treatment 4]

Before you start the survey, we'd like you to take a moment to think about your retirement, and your life after you stop working. Specifically, we'd like you to think about:

- What activities do you want to do (for example, holidays, hobbies, and recreation)?
- Who do you want to spend it with?
- What sort of impact do you want to have on other people? For example, ways in which you will have a positive impact on other people, skills or knowledge you will teach others, or aspects of your personality that you would like to be remembered for.

Take a moment now to reflect on these questions, and when you're done, press next to go the next question.

Future focus [T4]

Heading: ***Take a moment to think about your future lifestyle***

Para 1: Your pension is a tax efficient way of saving for your **future**. The Government will give you tax relief on your contributions which will help increase the value of your pension.

Para 2: If you only pay the minimum into your pension, it may not be enough to enjoy a comfortable life after work. Topping up your pension now could help you have a lot more money when you retire. Take a moment to think about when you will stop working - what sort of lifestyle do you want? Putting aside an extra £80 a month now may mean you have up to £150 a month more to go on overseas holidays and eat out at restaurants regularly when you stop working.

Para 3: You can take action now to save more for your future. You can:

- Contribute an extra £80 a month (or 4%, taking your total contributions to 12%)
- Contribute an extra £140 a month (or 7%, taking your total contributions to 15%)
- Increase your contributions by a different amount, or make a one off contribution