

Age UK Financial Services Commission

Roundtable discussion: is it too late to save?

Thursday 5 December 2013

Roundtable discussion: is it too late to save?

There are three key challenges to overcome in assisting Generation R (ages 50 – 64) to focus on their approaching retirement, increase their savings time-horizon and take corrective action.

These challenges are:

- 1. Uncertainty and mistrust;**
- 2. Better understanding of risk; and**
- 3. Active planning.**

The following provides some general observations and suggestions of possible action to begin the discussion of these challenges in order to develop a more concrete and coordinated response to them.

Disclaimer

This document has been prepared by BlackRock for the benefit of the Age UK Financial Services Commission and is not intended to or should be relied upon as a forecast, research or investment advice and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The views that are expressed in this document do not necessarily reflect the views of BlackRock, its employees or agents. Reliance upon information in this material is at the sole discretion of the reader.

The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. There is no guarantee that any forecasts made will come to pass.

UNCERTAINTY & MISTRUST

'The only thing we have to fear is fear itself – nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance' – Franklin D Roosevelt

This call to arms was not delivered during war-time but rather as part of Roosevelt's inaugural address as US President at the depth of the great depression. There have been comparisons made between that period and the financial austerity we currently face in the aftermath of this most recent financial crisis. A period of recession creates a high degree of anxiety and necessitates leaders to encourage bold and positive steps forward.

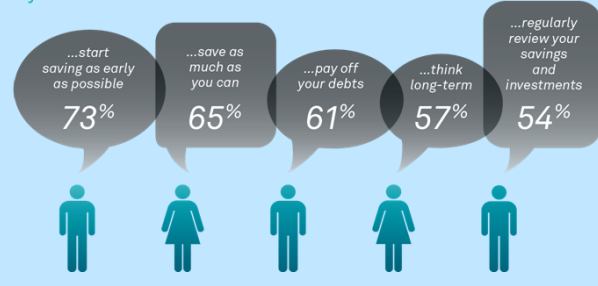
Matters for consideration

Generation R have an 'all or nothing' view of personal savings supporting them in retirement – many regard it as better to have no or very few savings and be taken care of by the state in their late retirement than continue to or start to save now.

If I had my time again.....the top 5 lessons to be learned from current retirees for the younger generation of savers

LESSONS TO BE LEARNED FROM EXISTING RETIREES...

My advice is...



Generation R have already recognised that their approaching retirement will be different to what they had imagined. For some this has meant a lowering of aspirations for the type of lifestyle they can expect their investments to cover, for a significant number an anticipation of some form of paid work beyond 65.

Advisers are generally optimistic about the outlook for financial markets over the next three years and are encouraging their clients to have greater exposure to equity markets.

Possible solutions

How can the Government generate greater confidence amongst Generation R that savings made now for their approaching retirement won't disadvantage them? As a transitional generation from DB to DC are these individuals properly prepared to take more personal responsibility for their financial futures – do they need greater incentives to do so?

On occasions, public health campaigns provide graphic detail with the intention to shock. Does Generation R need more support, education and encouragement or do they need to be shocked into action?

It is understood and accepted that publicising Enforcement actions is an important element of credible deterrence. However, is it possible for regulators and the media to provide a more balanced approach by also highlighting the good actions of industry?

What role can Age UK play in providing Generation R with messages that encourage trust, reduce anxiety about an uncertain future and promote positive actions to increase their retirement savings while there is still time to course correct?

BETTER UNDERSTANDING OF RISK

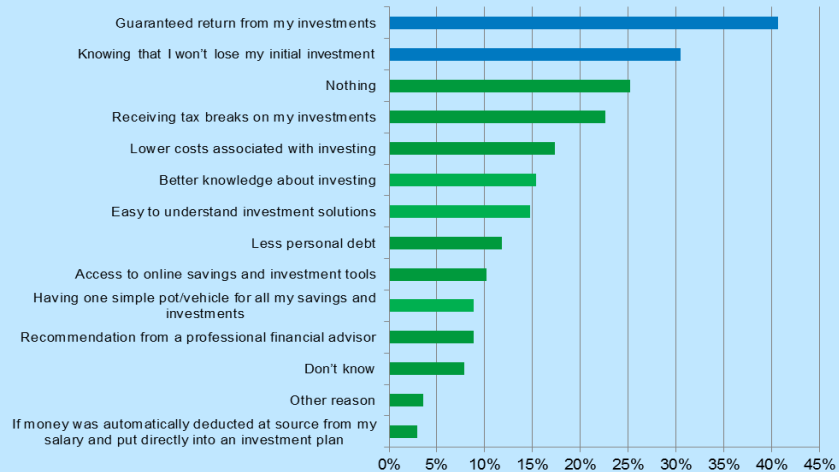
'When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other opportunity' – John F Kennedy

While the linguistic merits of this quote have been subsequently challenged, it is nevertheless much repeated as it clearly demonstrates that risk and return are conjoined twins. The issue to be discussed here is how to improve Generation R's understanding of the nature of risk. In particular, how taking a superficially less risky approach to investment (holding cash) can actually deliver a poor retirement income.

Matters for consideration

Ignoring one's own home, the size of cash holdings relative to other forms of investment underlines a very short-term investment horizon. The low-interest rate environment that followed the financial crisis is now into a fifth year and inflation has had a materially detrimental impact on the value of that cash:
£50,000 five years ago is today only worth £42,320.

Industry refers to the stock-piling of cash as a risk-aversion response. Notwithstanding that holders of cash may underestimate the level of risk that inflation poses to the future value of their cash savings, when asked what if anything would encourage a shift from cash investments to other types of investment, guarantees feature prominently.



Auto-enrolment has the potential to provide some savings top-up for Generation R but given attitudes to cash versus investment risk, will they tend to opt-out?

Possible solutions

How do we ensure that Generation R understand the impact that inflation has on the future spending power of their cash investments now and when they are in retirement?

While living longer means that savings need to cover a longer retirement, how do we teach Generation R to use that longevity to their advantage by developing a longer investment horizon?

Is it possible to create simple banking products that help Generation R downsize or unlock the value of owning their home to invest in other ways to generate retirement income?

The current framing of disclaimers in investment product marketing (e.g. 'past performance is no guide to future performance', 'the value of investments can go down as well as up' etc.) will tend to support continued risk aversion. How can regulators ensure truth in advertising but help to achieve a more mature understanding of risk and reward?

Can industry, Government and regulators work together to develop investment products to include simple to understand guarantees (e.g. principal protection, above inflation returns, minimum income over a future period) that would help to give confidence to Generation R that there is a viable alternative to keeping such a high (and increasing) percentage of their investments in cash?

What are the critical educational pieces around risk that regulators, government and industry need to do to help Generation R understand risk?

ACTIVE PLANNING

'If you fail to plan, you are planning to fail' – Benjamin Franklin

Preparing for retirement is a journey. As with any journey, knowing where you want to go and where you are today are critical reference points; this allows you to plan how to get there.

The Retail Distribution Review (RDR) delivered cleaner pricing of services and more stringent continuing education requirements for advisers. However, the number of consumers choosing to use a financial adviser is still very low. In an environment where it is now transparent what you must pay for advice – how do you shift people that are paralysed with fear about losing what they have today towards seeking advice that will help them make better decisions for the years ahead?

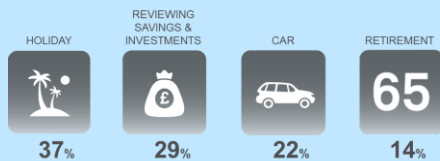
Matters for consideration

Given their proximity to retirement, unsurprisingly Generation R are the most earnest segment of society about the need for financial planning. However, the methods used tend to be more informal and much more reliant on their own experiences or that of friends rather than seeking professional advice.



While uptake of professional advice is only about 14% in the UK, those that do use an advisor feel more positive, in control of their financial future and confident about their savings and investment decisions.

The average Brit is more likely to spend time planning a holiday than reviewing their retirement plan.



Many individuals in Generation R will still have the benefit of employer provided DB pension schemes but around 25% expect a state pension to be their primary source of income in retirement. More worrying for the topic of 'too late to save' is that the squeeze on disposable income means that 25% also feel that they cannot afford to save for retirement.

Possible solutions

Can industry provide simple, easily accessible tools to help Generation R better understand their individual destination (what their current savings will likely deliver in retirement income) or how much they need to grow their savings to achieve the desired level of retirement income?

Could the Government provide taxation or other financial incentives to encourage Generation R to seek professional advice?

Regulators have been looking at behavioural economics more. Does this provide any clues as to how to generate a more positive approach by Generation R to accessing professional planning advice?

Does industry do enough working together to deliver low cost workshops or other events direct to Generation R that can empower them to take action without providing them with individual investment advice?

Can Government or regulators do more to promote the benefits of increased professionalism and value for money delivered by the implementation of the RDR?