THE IN-BETWEENERS
A GENERATION BETWEEN PENSION REGIMES
Understanding the world around us is imperative for us to deliver on our purpose, particularly as we live in fast-moving times shaped by geopolitical instability, an uncertain economic outlook and changing customer needs. The UK is in the process of a huge structural transition from an era where employers and the state were responsible for funding an individual’s retirement to an era where the individual must take full responsibility for their own financial future. As with any change of this magnitude there are of course winners and losers.

As a wealth manager we are naturally eager to understand, first-hand, how particular groups are being impacted by this policy transition. We therefore commissioned a nationally representative consumer survey of the group of people who are most likely to be most affected by the change in pension regimes: those retiring in around twenty years’ time.

This generation are at a huge risk of under-saving for retirement because of their positioning between pension regimes and for this reason we call them the ‘In-Betweeners’. The generation before them are mostly well-catered for through a combination of funded pension provision and owning their own home, and the generation after them were introduced to auto-enrolment from a younger age, which should help to ensure that their income in retirement is at least adequate. Furthermore, legacy defined benefit pension promises are, at times, hindering the amount employers can contribute to auto-enrolment schemes.

We found a worrying picture. Despite recognising the importance of saving for the future, this group are delaying financial planning and most blame the lack of disposable income for their low levels of long-term saving. We also found that many In-Betweeners only have small sums saved which are often earmarked for short-term expenditure, such as holidays, or for property-related goals. The majority of this group say they will rely, either in full or in part, on the state pension, even though they believe the allowance will become less generous over time.

Our research reveals that many In-Betweeners feel unprepared for their financial future and worry about not being able to support their families, or afford a decent standard of living in retirement. Back in the present it’s clear that financial security plays a key role in life satisfaction for this group; they are most satisfied with their family life and least satisfied with their financial situation.

At Old Mutual Wealth we believe that full face-to-face advice leads to the best outcomes for people. There is a desperate need to increase the capacity of advice and also to provide generic guidance so the In-Betweeners receive as much help as possible to manage their money effectively.

Indeed, our research shows the picture is less bleak amongst those who are proactive and prepared. Confidence and satisfaction levels increase substantially for those people who have a financial plan in place; so it seems that financial planning is not only good for your wealth, but also your wellbeing.

We conclude our report with policy solutions that we believe could make a positive difference for the generation between pension regimes. We encourage policy makers and the investment industry to consider how we can address the issues raised by this research and welcome dialogue with all stakeholders on how we can help create prosperity for the generations of both today and tomorrow.
INTRODUCTION

While many baby boomers are enjoying a prosperous retirement the generation coming behind them may fare less well.

ALEXANDRA MOUSAVIZADEH
DIRECTOR OF THE PROSPERITY INDEX FOR THE LEGATUM INSTITUTE

“Prosperity is not just about the material wealth and wellbeing we enjoy in the present, but it is also about the prospect of an even better life in the future. This is true for individuals as well as nations. The Prosperity Index shows that countries with the right foundations can grow their prosperity quickly. As with the In-Betweeners, this requires countries to focus on longer-term gains.”

With the transition from final salary to defined contribution pension schemes, and only the relatively recent introduction of auto-enrolment pension schemes, coupled with slow income growth in recent times, those retiring from around 2035 may be seriously under-funded for retirement and face a less than prosperous future.

To find out more about this section of society we surveyed a nationally representative sample of 3,000 adults aged 30 to 45 (straddling Generations X and Y), who will be amongst the first to retire after the 2035 tipping point. We call this group the ‘In-Betweeners’. The survey asked about their saving habits, how they will fund retirement, what financial plans they have in place and how they feel about their financial future.

Our findings echo the work of the Legatum Institute, which is a leading international think-tank and educational charity focused on promoting prosperity. In their study measuring prosperity across the UK, they found the distribution of prosperity not solely driven by financial wealth, but is more about what is done with that wealth. Similarly, our research showed how having a financial plan, along with positive and realistic associations of retirement is crucial to prosperity.

Drawing from the findings of the research we conclude the paper with some recommendations which we believe could help this group start a journey towards a prosperous retirement.

THE IN-BETWEENERS

- **83%** are working.
- **71%** are in a relationship.
- **5%** support elderly relatives financially.
- **37%** rely on friends, family and the internet for financial advice.
- **67%** live with their partner or spouse.
- **62%** of those who are married or cohabiting couples make financial decisions jointly.
- **45%** have children living at home.

1Research from Tax Incentivised Savings Association
Almost nine out of 10 of those surveyed agree it is important to invest for their future. However, 22% save less than £100 per month aside from their pension contributions.

For those who do save, the amounts are generally modest and are typically focused on short-term expenditure. Almost 40% have less than £5,000 saved and this tends to be earmarked for holidays, weddings or new cars. Property related expenditure is also important for this age group, with almost a third either saving to buy their first home or saving for a property investment. With the rising cost of living and low income growth, lack of disposable income appears to be the key barrier for those not currently saving. Just under 80% of those not saving said it was because they couldn’t afford to.

A LOW LEVEL OF SAVINGS

WHICH REGION OF THE UK SAVES THE MOST?

When considering regions of the UK our research echoes the Legatum Institute’s findings in the UK Prosperity Index. Those in London are the most prosperous. Our research shows they save or invest (excluding pension contributions) about £351.36 per month. While those in the Midlands and Wales save just £176.90 and £177.32 per month respectively.
DOUBLE-HIT SELF-EMPLOYED

The Resolution Foundation recently found there has been a 45% increase* in people deemed to be working for themselves since 2001, but they are earning £60-a-week less than their employed peers. This is reflected in savings habits, with even lower levels of saving amongst those aged 30-45 who are self-employed.

While 86% of employees have a personal pension, this falls to just 50% amongst those who are self-employed.

The self-employed are also saving less per month than their peers. Employees save close to £400 per month in total, while the self-employed save about £290 per month.

Self-employed people feel less prepared for their financial future than their employed counterparts. 58% of self-employed people say they’re not sufficiently prepared compared to 45% of the employed people.

84% of the self-employed aged 30 to 45 say they aren’t saving or investing because they can’t afford it, compared with 74% of all the In-Betweener surveyed.

* Resolution Foundation Earnings Outlook, October 2016
Since many In-Betweeners are currently struggling to save, two thirds of this generation are banking on their state pension to fund at least part of their retirement.

Despite this, almost half of those asked (44%) believe that the state pension allowance will fall by the time they reach retirement age and only a third know roughly how much the state pension amount currently is.

Over half (55%) say they’ll use income from a company based pension scheme, and a similar number (49%) will use savings and/or ISAs. However, this group is realistic about their retirement, with many planning an active or only partial retirement once they turn 67. Indeed, 16% plan to rely on income from part-time work.

When asked what would encourage them to save or invest more, some felt that there weren’t strong enough incentives to save; for example over a fifth (21%) said they’d save more if the Government created a greater incentive and almost a third (30%) said they’d save more if interest rates were higher.

<table>
<thead>
<tr>
<th>Expected Sources of Retirement Income</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>State pension</td>
<td>60%</td>
</tr>
<tr>
<td>Company pension</td>
<td>50%</td>
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<tr>
<td>Savings accounts</td>
<td>40%</td>
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<tr>
<td>ISAs</td>
<td>30%</td>
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<tr>
<td>Work</td>
<td>20%</td>
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<tr>
<td>Inheritance</td>
<td>15%</td>
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<tr>
<td>Home - downsize</td>
<td>10%</td>
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<td>BTL income</td>
<td>5%</td>
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<tr>
<td>Other investments</td>
<td>5%</td>
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<tr>
<td>Home - equity release</td>
<td>2%</td>
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**Bricks and Mortar to the Rescue?**

Many of the In-Betweeners have wealth tied up in their property. However, our research shows only 5% plan to access it through equity release for their retirement and just 13% will downsize.

However, this picture is likely to change in the coming years. Separate research by Old Mutual Wealth and the Tax Incentivised Savings Association (TISA) showed that over the next 15 years over 10 million people in the UK will enter retirement and they will be relying on two assets to fund the period: their pension and their home.

When asked if the home should play a role in financial planning, 68% of the 1,000 surveyed said “yes”. For the 45% of people aged 50-75 worried they haven’t made sufficient provisions for their retirement, housing wealth could offer some solace. Their money that has been safely locked away in the shape of bricks and mortar needs to be considered as part of their overall wealth and play a part in their planning.
Part of the problem is the In-Betweeners keep putting off planning. On average, the survey found that this population expect to delay financial planning for retirement by around eight years.

Those aged 30 predicted, on average, that it would take them almost 10 years to start planning. As they move through their mid-thirties, people are delaying even more, until at age 40 the projected delay reduces to just under six years. Worse still, the research shows that just 13% of 44 and 45 years olds reported to have actually put a plan in place.

Through their mid-30s, people are even more inclined to procrastinate about saving, with the projected delay until starting retirement planning only falling below an average of eight years from age 40.
FINANCIAL PLANNING

Failure to make financial plans in good time puts the 30–45 year old age group at risk of being under-funded in retirement.

For example, research* with those aged 50-75 found that those retirees who had a plan and saw an adviser regularly received a retirement income which was 41% higher than those who never visited an adviser.

Given the procrastinating tendency we asked what is likely to make the In-Betweeners start saving. Life events, such as getting married or starting a family, are often seen as triggers, but our research shows this group doesn’t necessarily agree. Lack of affordability appears to be the main barrier to saving; half of the respondents said having more disposable income would prompt them to make a financial plan.

Given the retirement headwinds the In-Betweeners face, coupled with the lack of saving, financial planning plays a vital role in achieving financial security. However, while nine out of 10 say that saving and investing for the future is important, the same number do not have a financial plan** in place for retirement.

Failure to make financial plans in good time puts the 30–45 year old age group at risk of being under-funded in retirement.

INHERITANCE ILLUSION

The In-Betweeners are at risk of grossly overestimating their future inheritance. With people living increasingly longer and the cost of care rising rapidly, the windfall is likely to be substantially less than they were expecting.

- Almost half of those surveyed expect to receive an inheritance.
- More than one in three (34%) think they’ll inherit over £100,000, with the average expected to be £128,000.
- However, they may be overestimating their inheritance windfalls. Our recent research of 50-75 year olds found that only 29% had received or expected to receive an inheritance, and ONS data shows that in reality only one in ten inherit £125,000 or more.

TRIGGERS FOR FINANCIAL PLANNING

- More disposable income 32%
- Don’t know 20%
- Received inheritance 15%
- New job 6%
- Had children 6%
- Auto-enrolled into a company pension scheme 5%
- Bought a house 6%
- Got married 4%
- Advised to do so by a friend, family member or colleague 3%
- Got divorced 3%

*Old Mutual Wealth Retirement Income Uncovered, 2016
**A financial plan means having a clear understanding of how you will fund your retirement, and having the right financial products and assets in place in order to achieve your overall financial goal.
The In-Betweeners are worried about their financial future. Almost two thirds are concerned they won’t be able to afford a decent standard of living in retirement, and they also fear they won’t be able to afford health or social care or be able to support their families.

These concerns are clearly affecting the wellbeing of this generation. When asked to choose just one word to describe how they felt about their financial security in retirement, the level of concern and lack of confidence is apparent.

Over half of those surveyed said they feel concerned, pessimistic, confused, or frustrated. Meanwhile, the level of optimism was minimal, with less than a quarter being confident, satisfied, calm, or optimistic about their financial future.

However, it seems that having a financial plan in place has a significant positive impact on sentiment, with 63% citing positive descriptors.

Given this generation’s lack of savings and financial plans, it’s understandable that only a quarter feel sufficiently financially prepared for their retirement and are confident they’re saving and investing enough.

Almost two thirds are concerned they won’t be able to afford a decent standard of living in retirement

Less than a quarter are confident, satisfied, calm or optimistic about their financial future

PLANNING’S POSITIVE IMPACT

How do you feel about your financial security in retirement?

Almost 64% of those with a plan feel positive about their financial security in retirement, compared to 23% of those without a plan.

6% Uninterested/don’t know

17% Uninterested/don’t know

23% positive

30% negative

60% negative
Humans tend to give disproportionate weight to the present, with stronger preference for immediate, rather than longer-term gain. Our research supports this bias, as it shows the In-Betweeners are overly focused on their present prosperity at the expense of their future prosperity. That’s unsurprising as retirement often feels like a distant event in the future.

Our research shows that between childcare costs, student debts, rent or mortgage payments, a large proportion of In-Betweeners simply don’t have enough money left at the end of the month to save regularly. As such retirement planning falls to their ‘to-do’ list and they hope that tomorrow will be better and they will be able to make up the difference. Unfortunately, that might not be possible for many, and trying to rapidly top-up your pension after years of under-saving is likely to end up more expensive over the long-term.

However, this is not entirely their fault. This generation, aged 30 to 45, are trapped in a huge shift in the pensions landscape moving from generous ‘gold-plated’ final salary schemes to a world of personal responsibility and auto-enrolment.

All this means the In-Betweeners generation is likely to retire on much lower incomes than their parents. This is not, however, the beginning of a never-ending decline in savings; it is a symptom of the In-Betweeners’ unique position in pension policy. Some may consider the situation as an inevitable outcome of the policy shift, but policymakers should consider how they can help them to make up ground before it is too late.

The issue has not gone unnoticed by the Government, who has placed intergenerational inequality on their agenda, however so far it has mostly been talk and when challenged to make changes, the Government has not heeded the call.

In November 2016 the work and pensions committee issued its third report on intergenerational fairness and made recommendations to the Government on policies to tackle the imbalances, including replacing the triple lock and the scrapping of universal benefits. However, in their response to the paper, the Government reiterated that they are committed to the triple lock for the length of parliament. Plus, in response to the committee recommendation to undertake a forward-looking assessment of the intergenerational distribution of income and wealth, the Government responded that they did not think this would be the best use of their resources.

Despite the Government’s response, we agree with some of the work and pension committee recommendations, including replacing the triple lock and the review of universal pensioner benefits. These changes, along with increasing auto-enrolment contributions and improving access to advice should be more prominent on the policy agenda in order to swiftly rebalance the intergenerational contract.

**CONCLUSION**

**WE NEED TO REDEFINE RETIREMENT FOR THE IN-BETWEENERS**

**REPLACE THE TRIPLE LOCK AND UNIVERSAL PENSIONER BENEFITS**

The triple lock was introduced to remove pensioner poverty and it has been successful in that endeavour. However, now that it has succeeded, we believe it can be replaced. The issue with the triple lock is that regardless of what is happening to people’s earnings generally or the state of the economy, the state pension will ‘ratchet’ up by at least 2.5%. This ratchet effect has been key to rectifying the relative decline in the state pension that occurred between the 80’s to the 00’s.

However, the scenario has changed and policy needs to reflect that. There are some options that could ensure the social contract remains in place. For instance, now that the relative decline in the state pension has reversed, the triple lock should be reviewed from 2020 and replaced with an earnings link. In times when earnings fall behind the price of inflation, an above earnings increase could kick in until real earnings growth resumes.
We’re not alone in this view. Indeed, in 2016 the Chancellor of the Exchequer noted the triple lock needed to be reviewed in light of “evolving fiscal policy”.

The Government should also consider future policy on universal pensioner benefits. Targeting these benefits more efficiently to those who most need help could allow policymakers to help younger generations such as the In-Betweeners.

**INCREASED AUTO-ENROLMENT CONTRIBUTIONS**

To help this generation make up ground more quickly auto-enrolment contributions should be increased. The Government could consider an age-related approach to maximum auto-enrolment contributions and the adoption of ‘nudge’ techniques to minimise opt-outs. This would help In-Betweeners save at a level that will deliver adequate retirement income.

**MORE GUIDANCE NEEDED**

With nine out of 10 of the In-Betweeners saying they do not have a financial plan in place for retirement, while also agreeing it is important to save/invest for the future, it is clear they need more help. Planning ahead for retirement is not easy. It is difficult to plan objectively for tomorrow, because we are hard-wired to focus on the here and now. Planning what financial resources you will need in the future is tough and plotting a path to reach your goals requires real discipline.

There is a need to increase the capacity to provide generic guidance so the In-Betweeners develop greater confidence to manage their money effectively. There also needs to be greater availability and consistency of guidance and advice, and we hope the Financial Advice Market Review delivers on its stated intent to provide affordable and accessible financial advice and guidance.

**A CALL FOR ACTION**

This research shows that the future prosperity of the In-Between generation is at risk and is having a detrimental impact on current wellbeing. As such this report serves as a contribution to a much needed debate and action on intergenerational inequality that needs policy intervention. We know that implementing policy changes to help the In-Betweeners will not be straightforward; it requires consensus across the political spectrum and a long-term view. There is no hiding place from the demographic realities this report presents, but there is an opportunity for policymakers and the savings and investment industry to enact changes to help this generation before it is too late.

Being stuck in-between is an uncomfortable position, but it can be made easier with the hope of a way out.

For more information please contact kathleen.gallagher@omwealth.com
The values of investments and the income from them, as used in income drawdown, may go down as well as up, and you may not get back what you put in.

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