



# The Factor 55 study:

Evolving attitudes and emerging  
opportunities in a changed  
pensions landscape

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## Introduction

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An interest in pensions isn't often attributed to the young. But brand new research reveals that younger employees – particularly those under 35 – have a budding interest in saving and providing for the future.

Willis Towers Watson commissioned an independent study on UK workers' attitudes to pensions to coincide with the arrival of new pension laws. It shows that many young employees are as shrewd and switched on as other age groups when it comes to personal finances and saving.

The findings are not as surprising as they initially appear – especially given younger generations are more likely to rely on defined contribution pensions to fund their retirements rather than older, more generous final salary schemes. As defined contribution pension schemes place investment and longevity risks on the individual, younger employees are more likely to be worried about the potential shortfall that these pensions will leave them with at retirement. With this trend set to continue, staff will increasingly look to their employers and advisers to provide them with pension guidance and advice.

Although many people are aware of the new pension flexibilities that came into effect on 6 April this year, they need more guidance on how these reforms will affect them. Again, this provides an opportunity for employers to take the lead in providing staff with suitable information, guidance and support.

Importantly the appetite for more pension education remains. This appears to be partly rooted in fears and uncertainty about future pension incomes. But there is also an emerging desire to benefit from the new flexibilities.

Employees are increasingly expecting transparency, insightful advice and scheme flexibility from their employers. The longstanding culture of passivity around pensions in the workplace is beginning to shift. This paper will examine the key findings and trends unveiled by the research and discuss what they mean for employers in terms of supporting staff while also protecting their reputations.

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## Pension awareness

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Overall, the research reveals a basic level of awareness around pensions. Most people surveyed (88%) have at least some understanding of the recent pension changes that allow over-55s greater power over their pension pots.

Broken down, this equates to 38% of respondents who know exactly how they will be affected by the new rules, and a further 50% with awareness of the pension changes but uncertainty around what this means for them personally. The study also shows that the remaining 12% surveyed are totally oblivious to the new rules.

The relatively low level of awareness of the impact of the reforms, combined with a demand from younger generations for more information, provides a great opportunity for employers and pension advisors. Those organisations that are quick to respond to this demand are likely to reap significant benefits in the future - retaining talented staff, reducing risk to their brand and enhancing their reputations.

Unsurprisingly, the research shows young people emerge as the group with the least understanding of how the new pension legislation will affect them. Just over half (51%) of 18-24 year olds and 35% of 25-34 year olds admit they don't know how the changes will affect their retirement planning. This compares with an average of 31% across all age groups.

The numbers show good general awareness but significant knowledge gaps. It's telling that when

it comes to savings options, people feel more adequately informed on savings accounts (42%), ISAs (37%) and mortgages (34%) than they do on pensions (27%).

Since there are serious consequences to failing to save for a pension, it's particularly worrying that 43% of 55-64 year olds do not feel financially prepared for retirement. Our research shows that employees are saving, on average, £1,640 less of their salary annually than they think they should. Combine this with the finding that 62 is the average age at which people expect to cease pension contributions and stop working, it soon becomes clear that many will have to continue in employment for longer than anticipated.

What does all this mean for employers? Aside from the potential benefits touched upon earlier, there are also risks for those that choose to do nothing. If we look into the future, our survey suggests that many people will reach retirement and find a less comfortable retirement lies ahead than they anticipated. As a consequence, employers may share some responsibility for failing to provide sufficient guidance and support to staff on pensions. It also will mean many will delay retirement, which will affect the age balance of the workforce. Similarly a raft of complaints from those employees that are close to retirement could have a significant negative impact on a company's brand and reputation.

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## A desire to learn

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In light of the knowledge gaps revealed by the report, it's no surprise to note there is a real hunger for education among the British public on how to manage their pensions. A sizeable 77% of respondents believe that pensions and retirement planning should be discussed more. Young people share this view too, with 71% of those aged 18-24 and 74% of those in the 24-34 bracket agreeing.

The recent pension changes have been instrumental in heightening interest and galvanising debate around the topic. Around a third of employees have spoken to friends, family or co-workers about the new pension rules. And well over half (56%) think the recent changes have made saving into pensions schemes look more attractive. It's clear that people are engaging with the issue – and that they want to find out *more*.

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## A role for employers

The current state of public opinion and understanding around pensions presents a real opportunity for companies to take the lead in educating and guiding their employees.

Many respondents rely on their companies to inform them on pensions and decisions relating to life savings. Employers are considered the most important source of information and come before friends and family, pension providers, and financial blogs or financial websites in this respect (see figure 1).

Employers are also among the top three bodies considered responsible for informing people about pension changes (alongside the government and pension providers). Our research shows that people expect the government to take the lead on providing information to the public on pension reforms. However, with the low levels of understanding of the impact of the reforms, the study suggests that Government initiatives such as Pension Wise, which aim to educate people on the reforms will only get us so far. As a result, people are increasingly likely to turn to employers and pension providers to plug the information gap in the future.

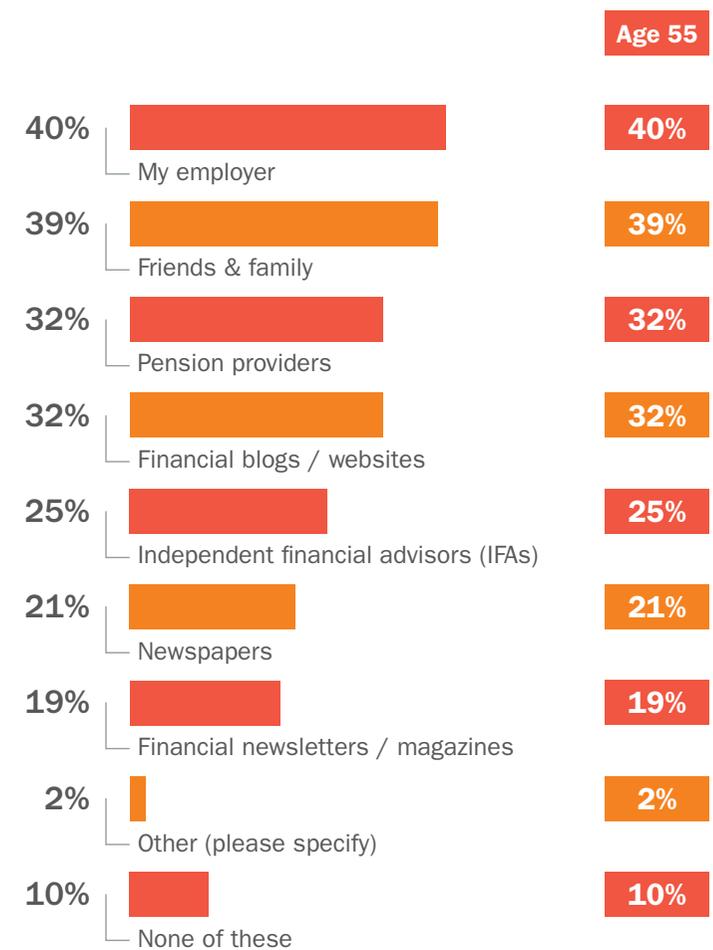


Figure 1. Which of the following sources of information do you use to help inform your decisions on life savings / pensions?

Base Total = 5004

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## Saving for the future

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Although many people state they prioritise saving, the majority of them think they're simply not saving enough. On average, employees managed to put away 9.5% of their salary last year. Interestingly, they believe that they should have saved around 5% more.

Those aged between 18-24 saved 10.9% in the last year, and felt they should have saved 16.9% – far higher than other age groups' saving aspirations (see figure 2).

It's a telling statistic. While younger generations are typically characterised as care-free and economically reckless, the numbers suggest a different reality. It might be argued that the recent financial crash – and its effect on the job prospects of millions of young people – has bred a generation of young workers cannily mindful of finances and saving.

	18-24 yrs	25-34 yrs	35-44 yrs	45-55 yrs	55-65 yrs	*55 yrs*
% saved	10.9	9.2	9.0	9.3	10.2	9.9
% should have saved	16.9	14.0	14.3	13.7	14.1	12.7

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## Financial priorities

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Researchers asked what respondents thought their financial priorities would be at age 55. Some 43% say they will be frugal to ensure they can enjoy their retirement. Another 34% want to be careful about what they spend so they can support family. That's a majority of 77% who plan to save and spend their retirement money wisely.

### Respondents were categorised into four personas according to their imagined fiscal attitudes at age 55:

- **Frugal Fred (43%)** saves for the future and is frugal to ensure that they can personally enjoy their retirement
- **Family Fiona (41%)** supports family / dependents by ensuring they have enough money saved
- **Funtime Fraser (12%)** lives for the moment and enjoys all the money at their disposal
- **Frittering Fran (11%)** prioritises purchases they have always wanted but could never afford

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## Flexibility and choice

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The research shows people possess varying attitudes to savings and pensions.

This results in a significant desire for pension flexibility and choice. For example, some employees are prepared to work longer to grow their pot while others put a higher priority on retiring at a certain age, even if they have a lower income.

In general, young people seem to be prepared to work longer. Some 69% of those aged 18-24 put a higher priority on income even if it delays retirement. For over 45s this level drops to 52%. Of course, it might be argued this difference is indicative of young naivety over the stresses and strains of working long-term.

Age seems to have a big impact on pension preferences across the board, with 60% of 18-24 year-olds and 45% of 25-34 year-olds wanting to personally choose how their pension is invested. This compares with the average of 43%.

Overall the research suggests that the younger age groups require more flexible pension schemes than their older counterparts. The findings suggest that defined contribution pension schemes of the future will need to allow for younger people wanting to work longer and potentially offer wider investment choices.



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## Opportunities for all

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It seems the noise and press discussion around pension freedom has filtered down to the public in as far as there is a general awareness of the existence of pension flexibility, and this creates an opportunity to reach out to people.

Employers need to prepare themselves for the ever-more savings conscious and economically discerning employee. Equipped with the right tools, companies will be able to support this concerned workforce, allaying fears and helping people plan for the future they want. Companies that lead the way on supporting their staff on pensions will reap significant benefits in terms of staff retention, recruitment and reputation.

From young people to the nearly retired, the research shows people know how important it is to save for retirement. But, especially for the young, this can be difficult given the modern-day economic climate. It is an era of booming property prices and restricted wage growth. Every age group needs help to find paths that will enable them to enjoy a prosperous retirement.

The consequences of not acting on employees' behalf are considerable. The research indicates retirement expectations seem to be out of line with reality. Some employees are sleepwalking to a much later retirement age than they expect. This will have an impact for employers and HR professionals that

need to manage an ageing workforce in the future. Furthermore, the risks to brand and reputation for companies that fail to support their people is also a concern.

Employees are looking to employers to help. The buzz created by the new pension flexibilities gives organisations a unique opportunity to enhance their employer brand by educating employees about their options and providing them with the support they need to improve their futures.

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