Summary
- Sufficient education must be seen as a follow up to auto-enrolment.
- The pensions industry must recognise the risk low-levels of financial literacy can pose.
- The industry must step up to encourage informed choices.
- Responsibility must be shared, but the pensions industry is set to benefit the most from a well-informed public.

The education challenge facing pensions

With auto-enrolment resulting in millions of new pension scheme members, ensuring that the public has the basic skills and confidence to manage their pension is a responsibility for educators and the industry alike

With over half of Britons not looking for any pensions information, the need to build the foundations for life-long financial literacy is stronger than ever, according to industry experts.

"As a society, we are painfully unaware of the huge benefit that pensions will have for us later on," says PensionBee CEO, Romi Savova, as the area is "viewed as one of the least interesting financial products to engage with, and often thought of as complicated and boring".

Yet for a record number of people, getting to grips with their pension, how it works, and how to engage with it is a challenge that many do not have the knowledge to do.

A bigger problem than ever

Over 10.2 million more people are now saving for retirement on the back of auto-enrolment. While this has been heralded as a huge success by the government, the 'set and forget' mechanisms have resulted in automatically enrolled savers tending to have lower levels of engagement with their pension than those who actively signed up themselves, according to Nest Insight.

The challenge now for the industry, according to experts, is to find ways to establish the building blocks of financial literacy. It is hoped this will give members the knowledge and confidence to engage with their pension and make effective decisions throughout their retirement planning journey.

In the Great British Financial Literacy Test, conducted by Freetrade, 48 per cent of respondents could not answer basic questions about personal finance, while 80 per cent struggled to answer questions about retirement.

The root cause is "systemic" according to Pension Playpen CEO, Steve Goddard, and is related to a "lack of education on financial products generally at schools, colleges and universities, combined with families being unable or unwilling to disclose what they do know, or do not know, about their pension savings to their kids."

In an Ipsos Mori survey, 90 per cent of people in England admitted to learning 'nothing at all' or 'not very much' about finance during their school education.

Savova says that poor levels of financial literacy undoubtedly translates into low levels of engagement in pensions.

"This can have disastrous consequences, as if a saver is disconnected from their pension, unsure how it works or how it may benefit them in the future, it's impossible for them to know how much they should be saving for later life," she says.

"More concerningly, this may lead to savers opting to keep their money for 'now' and not contributing to a pension at all."

Moreover, research points towards the fact that people feel disengaged from their pension at an early age – a behaviour that perpetuates into adulthood. Research by Infinite Global and YouGov found that among 18-24 year-olds, 71 per cent of people are not looking for any information about pensions. The rate is even higher, at 83 per cent, for those in full-time education.

The result of this is a "lack of understanding of the pension system", Savova says, and can leave savers at greater risk of being tripped up.

"Whether this be by hidden fees, complicated transfer processes or excessive exit fees, not only can this eat into a savers' pension balance over time but it may prevent them from taking action to achieve better retirement outcomes," she adds.

Industry to bear the brunt

All of this points towards a scenario that the pensions industry should be concerned about, says Premier Pensions head of DC consulting and technology, Sue Pemberton. She says that there are "so many reasons" why the pensions industry needs to take action to address the consequences of low levels of financial literacy.

Royal London consumer finance specialist, Sarah Pennells, echoes this sentiment, saying that without a basic understanding of what a pension is and how it works, it is "difficult for savers to make informed choices and they may struggle to achieve the best outcome for themselves" – a scenario detrimental for savers and the industry alike.

She continues: "We also know from our own research that a quarter of men and over a third (37 per cent) of women do not know the value of their pension savings. If you do not know how much you have in your pension, it makes it harder to work out whether you are paying in enough to give you a good standard of living in retirement. As an industry, we need to improve peoples' understanding and get across the powerful impact their pension can have both in terms of their own standard of living and the world they will retire into."

This lack of understanding can manifest into actions that can prove costly for savers, says Pemberton.

"A significant proportion of people are taking their tax-free cash before retiring, putting it in the bank where they do not use it and wasting the opportunity for growth. Years' worth of growth is being wiped out by poor decisions being made at retirement and greater understanding could avoid much of this," she says.

Conversely, Pemberton points towards the fact that people are more likely to be able to disseminate between legitimate and fraudulent information. As a result, she says they will be more likely to "see through a scam if they are financially aware". It's a vital skill to have, she says, as scammers are "becoming more and more sophisticated".

Pemberton adds that by reverting to a focus on financial literacy and education, the pensions industry, as a whole, can benefit.

"People always hit out at the pensions industry or government when things go wrong, and in some cases, they are justified. However, in many cases, problems stem from a lack of engagement with material that the industry has done its best to make clear and often the reason for this is a lack of confidence.

"The pensions industry has attempted to simplify communications and improve access to help, but people still need to read the material, use the technology or speak to someone and many people do not have the confidence to do this," she says.

Taking responsibility

It is evident that there is not a quick fix for the issue of financial literacy, and neither is there a simple way to establish the building blocks for life-long education. As such, promoting financial literacy requires a joint effort, says Poise Financial Planning director, Graeme Inglis, with schools, the government, the FCA and the pensions industry all having their part to play.

Finding ways to improve engagement and understanding of the pensions industry amongst young people is also crucial. The plot of Netflix's *Squid Game* was a lesson in how not to manage long-term finances, yet the streaming platform can play a role in setting the agenda for financial literacy, says Goddard. Alongside public service broadcasting, there is a need to find innovative ways to "inform a wider audience and break down barriers" through educational content, he says.

Pemberton adds that a uniformed and cohesive approach to educating young people is needed, with the approach of life-long learning manifesting throughout an individual's career.

She says that financial literacy education needs to "start with schools, and where possible parents, but continue with government awareness programmes, the industry and employers – more needs to be done at every stage to prepare and equip people for the decisions ahead".

But above all else, there is an industry-wide duty to inform and educate.

Pemberton says: "It's in the industry's best interests to actively encourage and support savers in understanding and prioritising their pension savings, with experienced teams on hand to help when needed.

"Only by doing this can we build up a sense of ownership over one's pension, resulting in savers making more informed financial decisions, and tackling the chronic under-provisioning that currently exists in pensions."

Written by Tom Higgins, a freelance journalist