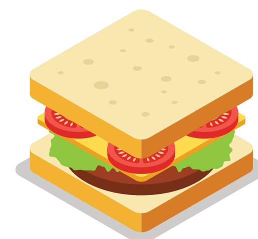
Summary
- Generation X is often referred to as the sandwich generation falling between two pension systems – DB and auto-enrolment.
- Auto-enrolment has increased pension provision but for those without any other pension savings, it has come too late.
- Some are already taking an interest in the pension freedoms, whilst others are already planning to work beyond their retirement age or use their property to help finance retirement.
- Retirement expectations look bleak, with this generation set to have less income in retirement than baby boomers and millennials.

The sandwich generation



Generation X is often referred to as the sandwich generation when it comes to pensions, but what kind of pension provision does this generation have, and is it taking an interest in retirement savings? Natalie Tuck reports

Intergenerational fairness is a term that can stir up all kinds of debate; it's a phrase that often pits baby boomers, with their gold-plated defined benefit (DB) pensions, against millennials, who have taken on all of the risk that comes with defined contribution (DC) pensions.

But what about the generation in between – the sandwich generation, forgotten generation, lost generation, the ones that fall between the cracks – officially named, generation X. Born between the early 1960s to early 1980s, this generation now spans the ages of around 38-58.

The connotations of the words used to describe the generation speak for themselves. If you look back at the pension provision on offer to generation X throughout their working lives, it's easy to see why such descriptions exist.

Pensions and Lifetime Savings Association (PLSA), policy lead for lifetime savings, George Currie, notes: "Generation X's story and its access to pension provision are really defined by three events; the decline of DB pensions, the failure of the policies in the 1990s and early 2000s – which were aimed at getting more people saving voluntarily into DC schemes – and the third surrounds auto-enrolment."

This, he says, has resulted in a "patchwork" of pension provision that generation X has had access to. Royal London director of policy, Steve Webb, describes it as "the worst of all worlds".

Some were lucky to catch the end of DB pensions – PLSA research suggests 37 per cent have some kind of DB pension – but others have "fallen between the cracks of two pension systems", notes Quietroom strategy director Rhys Williams, the other being auto-enrolment.

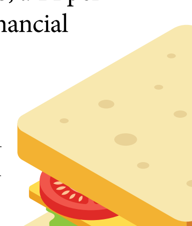
Auto-enrolment to the rescue?

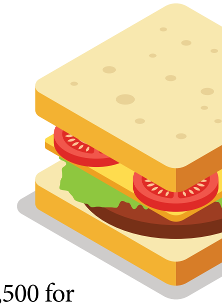
There is no doubt that auto-enrolment has been a success at increasing the numbers of people saving into a pension. For generation X, the increases are prolific. PLSA research found that since the introduction of auto-enrolment, pension participation has increased by 19 per cent to 81 per cent for those aged between 40-49.

Local Pensions Partnership (LPP) director of pensions administration, Jo Darbyshire, comments that those in generation X are more likely to engage with the reforms due to their proximity to retirement.

"They are less likely to opt-out of auto-enrolment as they understand that they have a shorter time to fund shortfalls in their pensions to provide the standard of living they would like in retirement," she says.

Statistics reveal that members of generation X are contributing the most out of any generation to their pension. A recent Freedom of Information request to HMRC by Salisbury House revealed that the cohort made 43 per cent (£3.7 billion) of total contributions in 2015/16, a 14 per cent increase on the previous financial year.





However, Resolution Foundation research director Laura Gardiner says that auto-enrolment has "come too late for them", a sentiment that Williams shares, noting that they "are too old to build up substantial DC pots". Webb also notes that auto-enrolment won't make a "meaningful difference" unless they actively contribute above statutory minimum levels.

Pension freedoms

When the pension freedoms were introduced four years ago, generation X was not able to access them, being under 55. Now however, the older generation X savers are able to access the freedoms. Currie says that currently, there is not enough data to see what decisions they are making.

However, there are some that are clearly taking an interest in their retirement and wanting to plan for the future. Figures from the government on its free guidance service, Pension Wise, show that for 2017-2018 most appointment bookers were age 55-64 (67 per cent), and for those aged 50-54 (9 per cent).

With a recent report by Foresight Factory, titled *How to target Gen X*, finding that 47 per cent of this generation believe they can teach themselves anything they want with free online tutorials, it is perhaps not surprising that this self-motivated generation are already thinking about the future. The Foresight Factory report also found that two-thirds say they shop around extensively to get the best deals.

Engagement

Williams notes that generation X is "not as engaged as they should be" when it comes to pensions, so what can the industry do about it? Highlighting that not all generation X are created equally, he says trustees should be identifying, through the use of data, cohorts that would most benefit from an intervention.

It is the same advice he would give for communicating with any generation, but because this bracket is more at risk there is more urgency. "It all comes down to data, the ability to identify who the people are, to give them a message that is going to work for them with relevant and accurate information, and to talk to people about the stuff they care about," he comments.

Lifesight head of proposition development, David Bird, adds that the industry "does not seem to have a strategic approach to communications for generation X". He says that the industry needs to communicate on a more personalised basis. Bird also believes that projects such as the pensions dashboard could make a huge difference to engagement levels.

"Generation X could benefit hugely from the pensions dashboard, and the sooner it is delivered the better. It is not good enough for providers to wait for the dashboard, they should use every member interaction as an opportunity to engage with generation X in their pension saving."

Along with the pensions dashboard, Currie says other industry initiatives could also increase engagement levels. These include the simpler annual statement, the mid-life financial health check and the PLSA's own national retirement income targets – designed to make it easier for people to understand what they need to save for an minimum, modest or comfortable retirement.

Retirement expectations

Unfortunately for generation X, statistics suggest a bleak outlook. Modelling by the Resolution Foundation found a U-shape in terms of retirement income, with generation X "doing noticeably worse than the current baby boomers retiring at the moment in terms of replacement rates or incomes", Gardiner explains.

There are also stark differences between genders when it comes to retirement income expectations, and the income disparities between the generations are only really noticed when looking at men. Resolution Foundation modelling found that based on current earnings, and combined state and private pension provision, average annual income for a woman in all three generations was around £12,000. For a baby boomer man the figure is £16,000, which drops to £14,500 for a generation X man and picks back up to just under £16,000 for a millennial man.

Quoting PLSA research, Currie notes that around 51 per cent of generation X are more likely to reach their target replacement rate, which he says is positive, but adds that the majority of this group have some DB pension accrual.

For those that aren't lucky enough to have any DB provision, Currie says that they will have to look to other means of financing later life. This could be saving more in the short term, working for longer, or using other assets such as their home, to downsize or purchase an equity release product. For many this reality may have already hit home. Research by the PLSA found that 47 per cent of generation X are planning on using property as a way to finance their retirement.

Furthermore, the Foresight Factory report found that two-fifths of generation X plan to work beyond their retirement age. Bird also notes that not only has the shifting pensions landscape experienced by generation X dramatically affected their long-term savings, but many members of this age group are at a point in their lives where their expenses are peaking, limiting their ability to do anything about it.

Bird states: "They are facing pressure at both ends, from the cost of caring for ageing parents and helping their children. This group has endured a quiet squeeze on the real value of pay, and have possibly suffered the most as a result of the UK real earnings standstill. They therefore have a greater need than other generations to save, yet don't necessarily have the required understanding and support. Unless that changes, they will retire with less than previous and future generations."

Written by Natalie Tuck