Understanding 'Generation DC'

David Whitehair explains how harnessing the power of emotions and their ethical concerns can encourage millennials to invest in their pensions

How can we persuade millennials to invest more in their pensions? Encouraging this age group, currently aged 22-38, has historically been difficult. But new research suggests that addressing their emotions and ethical concerns could be the key to unlocking greater contributions.

For many savers in what we call Generation DC, those who don't have defined benefit plans, current contribution levels are insufficient to reach the accepted target of two-thirds of income in retirement. This is despite the introduction of auto-pension enrolment and minimum contribution levels.

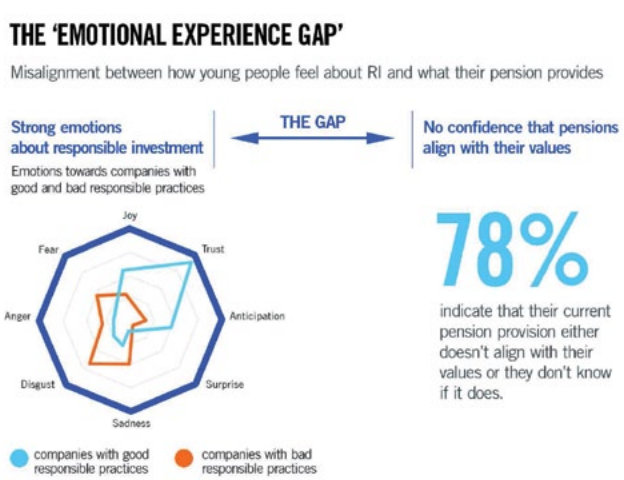
Responsible investing as a catalyst

Generation DC has strong feelings about responsible investment. In a UK survey of 2,700 employees commissioned by Franklin Templeton, a surprisingly high proportion – 45 per cent – said they would pay more into their pension plans if these incorporated responsible investment strategies; 70 per cent of these said they would contribute 1-3 per cent extra per month.

Generation DC ranked responsible investment second in importance in a list of attributes for their pension plan – ahead of fees and investment choice – with only the level of their employer's contribution seen as more important.

But there is a problem. Only 22 per cent of Generation DC felt their current pension reflected their values. This 'emotional experience gap' highlights the disparity between what Generation DC employees want from their pension scheme and what is currently on offer.

Those surveyed expressed particularly strong negative emotions when they felt that their pension savings were not contributing positively to society. But we did find clear alignment between the issues that Generation DC cares about and those that many in the fund-management industry focus on when they adopt responsible investment strategies, such as climate change, animal welfare and packaging.



View savers as people, not statistics

If the findings of the research were acted upon, our calculations show that Generation DC employees alone would be willing to pay £1.2 billion in additional contributions annually. This would represent an increase of close to 20 per cent on the amount currently contributed by all employees into workplace DC schemes.

To make this happen, Franklin Templeton believes we need to move past viewing DC savers as statistics and better understand them as people. We carried out this study with Adoreboard, a world leader in the use of artificial intelligence to measure emotional responses, because we recognise that emotions can drive decision making and actions.

The report shows the way forward: pension scheme operators, sponsors, advisors, investment managers and regulators should develop better ways to understand pension scheme members and their opinions, and respond to Generation DC's wishes for clearer information on where their money is invested and the impact it is having. There is a clear role for everyone involved, but it will require fresh thinking and a wide-ranging conversation.

The full report can be downloaded at franklintempleton.co.uk/generation-dc

Written by Franklin Templeton director of defined contribution strategy, David Whitehair

In association with

FRANKLIN TEMPLETON