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Are Baby Boomers Really the Generation That Has it All? Stark Realities for Resilience in Retirement

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Summary

- Baby boomers are thought of as a gilded generation that is rich in property and reaped the benefits of a generous state. However, BlackRock's Investor Pulse survey paints a surprisingly bleak picture of the 49–68 year olds in the UK. It found that 46% of this group have scarcely started to save for their retirement.
- Other findings suggest that adults in their late 40s–60s are saddled with almost as much debt as young people aged 20–30. Fewer than half own their own home, only a fraction enjoy an income from rental property; and more than 30% fear they will outlive their savings in old age. People are also struggling to take the right steps financially, with nearly 40% spending more time planning holidays than reviewing their savings.
- Equally important is selecting investments enabling long-term growth of retirement pots. One in three baby boomers believe stockpiling cash is the best way to generate an income, and 29% would use the same strategy to grow their savings, neglecting the impact of inflation and low interest rates.
- Another avenue to engage with savers is to revamp the way they are served. There is also a confusion and frustration with the constant government tinkering with tax and savings rules. Steps should be taken to depoliticise this agenda.
- Professional financial advice can also play a role. The survey suggests that customers are satisfied with the advice they received, and more importantly that it made them feel more optimistic and in control of their financial future. Asset managers should work with the wider industry to capture these savers and promote the role that advisers can have in growing investors' wealth.

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CII Introduction: in late 2013 and into 2014, CII Chief Executive Dr Alexander Scott has been co-chairing a roundtable with Age UK entitled the Financial Services Commission, focusing on the financial resilience of people approaching, at, and well past retirement.[1] While much of the public policy debate about savings and pensions on the back of the Turner Commission has focused on getting adults aged under age 50 to save, the group about ten years away from retirement is often overlooked. With all the housing equity that they are perceived to have, baby boomers are often the last to be considered in discussions on financial resilience. However as Tony Stenning, Head of UK Retail at BlackRock, points out in this Thinkpiece (based in part on his presentation to the Financial Services Commission), baby boomers may not be as "asset-heavy" as is typically thought.

Baby boomers are thought of as a gilded generation that is rich in property and reaped the benefits of a generous state. But 49–68 year olds in the UK have painted a surprisingly bleak picture of their financial future.

According to BlackRock's Investor Pulse survey, 46% of baby boomers—individuals born in the two decades that followed the Second World War—have scarcely started to save for their retirement.[2]

Words like 'nervous', 'concerned' and 'depressed' were used when baby boomers described their financial future, and adding to these worries the survey discovered:

- People in their late forties through to their sixties are saddled with almost as much debt as younger adults in their twenties and thirties;
- Fewer than half own their own home;
- Only a fraction enjoy an income from rental property; and
- More than 30% fear they will outlive their savings in old age.

It is clear baby boomers' gloomy assessment of their finances has little to do with being naïve about the importance of retirement planning—baby boomers said being comfortable in old age was their top financial priority.

Yet the survey found that people are struggling to take the right steps to achieve this ambition, with close to 40% spending more time planning holidays than reviewing their savings.

Lost generation?

But while close to half of those questioned said they had not specifically started saving for old age, 49–68 year olds with limited pensions should not be written off as a lost generation. People are living longer, and it is not too late even for this generation to use increased longevity to its advantage. However, selecting the right type of investments to enable retirement pots to grow over the longer term is equally important.

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Unfortunately, Investor Pulse discovered one in three baby boomers believe stockpiling cash is the best way to generate an income, and 29% would use the same strategy to grow their savings, neglecting the impact of inflation and low interest rates. In fact, although the headline rates are much lower, for boomers pursuing this strategy the impact to the purchasing power of their nest eggs would be as bad today as it was in the dark days of the 1970s.

To reverse these misconceptions, education could prove a powerful tool. There also needs to be a dialogue around the ways savers can make their money work harder, as six out of ten said they were unwilling to take any risks with their money and just 16% said they would take on more risk in exchange for higher returns.

Simpler solutions

Another avenue to engage with savers is to revamp the way they are served. The increased cost of living and short-term financial demands were two of the most widely-cited reasons why many have disengaged with planning for their future, and compounding this, the existing savings regime does not appear to be speaking their language.

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[1] For more information on this grouping, see Age UK Financial Services Commission, Dec 2013.

[2] The BlackRock Investor Pulse survey was conducted between 24 Aug and 27 Sep 2013, and involved 17,600 respondents aged 25-74 from 12 countries: the UK, Germany, Italy, France, Netherlands, Switzerland, Belgium, US, Canada, Hong Kong, Taiwan and Australia. For more information, see BlackRock UK Investor Pulse Survey 2013: What Investors are Thinking

There is plenty of evidence to back this up; 20% of baby boomers said solutions that were easy to understand would encourage them to invest. 17% have no savings and investments whatsoever and it is not until later in life – when people preparing for retirement are asked to pass on a piece of advice to the younger generation – do they highlight the importance of putting money aside sooner, thinking long-term and regularly reviewing investments.

Breaking the link with politics

Elsewhere, efforts could be made to break the link between politics and investments. Across age groups people know they need to take more action to fulfil their financial ambitions but there is a perception that the government of the day will shift the goalposts by tinkering with tax and saving rules to suit its own agenda.

This adds to investors' confusion and frustration, because as well as being baffled by the many layers of the existing saving regime, they fear the political cycle could interfere with their investments every four or five years.

The benefits of introducing a stable, depoliticised system could be significant and although it would involve a commitment around saving legislation for several years, there are a number of countries where saving and investing enjoys a degree of separation from the political agenda.

Investors who took advice also felt more optimistic and in control of their financial future. Advisers should be proud of this record and not be afraid to shout about it because it could help draw in savers

Since the early 1990s, savers in Australia have happily set aside minimum retirement provisions under Superannuation in Australia. For more than two decades the pension scheme has transcended shifts in the country's political leadership.

Promoting the benefits of advice

Lastly, close to 100% of people who took part in Investor Pulse and had used financial advice said they were satisfied with the service they received, the financial plan they had been helped to put in place and the investments selected as a result.

Investors who took advice also felt more optimistic and in control of their financial future. Advisers should be proud of this record and not be afraid to shout about it because it could help draw in savers who said professional recommendations and better knowledge would encourage them to invest.

Asset managers could work with the wider industry to capture these savers and promote the role that advisers can have in growing investors' wealth

There was also a significant proportion—43%—who said they would be willing to invest more if they earned an extra £100 a month. Asset managers should work with the wider industry to capture these savers and promote the role that advisers can have in growing investors' wealth, and helping them to meet financial goals such as growing savings for the longer term and funding a comfortable retirement.

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Learning Objectives

Having read this Thinkpiece, readers will be able to:

- Better understand some of the financial resilience issues confronting people aged 49–68, especially those approaching retirement.
- Identify ways in which savers at this stage in life can be encouraged to improve their financial resilience.

Reflective Questions

1. In what ways do the common perceptions of baby boomers' personal finances differ from reality? Describe some examples of aspects of personal finances that are less resilient than commonly thought. For these differences, why do you think this the case? In what ways do these differences play out in your own experiences?

2. The author describes the findings of recent research, and gives examples of how consumers in this age group experience difficulties in saving for and planning retirement. In what way are these issues unique to that particular age group?

3. The later section of the *Thinkpiece* sargues for the need to "depoliticise" pension savings, and describes the shortcomings of evolving government policy in relation to pensions. Do you agree with these views? Can you provide examples of how consumers could be discouraged from saving as a result of changes to pension policy?

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