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FINNISH CENTRE FOR PENSIONS, REPORTS

EXECUTIVE SUMMARY

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Preparing for Retirement

– The Scope of Voluntary Saving

Assessing the necessity to make provisions for retirement is a challenging task. The long period between saving and retirement, often spanning several decades, makes it more difficult for people to estimate their need to save. The decision to save is influenced not only by people's own desires and needs, but also by uncertainties regarding the length of the saving and retirement periods, the risks relating to returns on saved assets and the income during retirement as provided by the statutory pension scheme.

In Finland, a significant part of retirees' economic welfare during retirement consists of pension income received based on the statutory pension scheme. Hence, the question of trust in the economic welfare provided by the statutory pension scheme is a factor that may be reflected in the scope of voluntary saving. In principle, different provisions are substitutive ways of saving for retirement. Knowledge of the features of the statutory pension scheme and other pension saving products is important, both for making appropriate pension saving decisions as well as for forming a correct notion of the risks and reliability of the various forms of saving instruments.

The statutory pension scheme ensures that everyone makes at least some provisions for their retirement. Since the need to make provisions varies between individuals, some also save voluntarily for their retirement. The needs and opportunities to make provisions are affected by peoples' stage in the life cycle and career as well as their economic abilities to save. People may decide to save due to preferences regarding the future consumption level, fears of a

sudden increase in consumption needs as a result of, for example, deterioration in health, or concerns for the reliability of the economic welfare provided by the statutory pension scheme. In some studies in the field of behavioural economics, it has been observed that not all people make sufficient provisions for their retirement. Failing to make provisions for the future may be due to poor knowledge of economics and pension issues or an unwillingness to postpone consumption opportunities to a later stage in life.

The goal of this report is to examine how common it is for Finns to make voluntary provisions for their retirement and outline savers and non-savers in terms of like sex, age, education, financial situation and their knowledge of and trust in the pension system. The data used in this survey is the Trust in pension security questionnaire data, collected by the Finnish Centre for Pensions and supplemented by register data. The questionnaire survey, conducted in 2011, investigated the respondents' understanding of their knowledge of pension issues, their financial situation and economic welfare, as well as their assessment of the future development of and their trust in the statutory pension scheme. The respondents were also asked if they have made provisions for their retirement, their views on the importance of having savings and assets of one's own, and their reasons for not making any provisions.

Two out of five 19–69-year-old Finnish citizens reported having made provisions for their retirement by saving. The significance of pension saving is often considered to be minor. Nearly half of everyone who saved evaluated the significance of their savings and assets, as part of their income during retirement, to be small or very small. It was equally common for men to save as for women. Saving was more common among those in the mid-section of the age distribution and in older age groups, as well as among those with a higher educational level and those in a more favourable financial situation. However, also those in lower income brackets and the young stated that they save or have saved earlier for their retirement. The self-employed stand out in particular, as slightly more than two out of three self-employed persons had made provisions for their retirement period by saving.

Knowledge of the statutory pension scheme is important when assessing the need for pension saving, and in issues relating to trust in the scheme. Nearly one fifth of the Finnish population felt that they know the pension scheme fairly well. Two out of five assessed that they have a poor or fairly poor knowledge of our pension system. Among those who have saved for their retirement, the level of knowledge of the pension scheme was assessed as slightly higher than average. Those who know the pension scheme better also tend to trust in the scheme more often than do those with a poorer knowledge of the system.

If mistrust in the current pension scheme were the reason behind making provisions for retirement, one would assume the higher savings frequency to be linked to a lower trust in the pension scheme. The theory of the substitutional nature of saving instruments would support this type of connection. Yet, according to the results of the present study, trust in the economic welfare guaranteed by the pension scheme is higher among those who save for their

retirement than among those who do not. In a wider aspect that takes into consideration the simultaneous impact of underlying factors, trust in a reasonable economic welfare guaranteed by the pension scheme was not linked to a higher frequency of saving. On the other hand, saving turned out to be more common among those who were suspicious of the solidity of the pension commitment. The latter result indicates that making private provisions for retirement may, to some extent, reflect a concern that the level of pensions paid in the future will not reach the levels expected based on current regulations. However, the connection between trust and saving does not unambiguously support the view that making provisions for retirement would reflect mistrust in the statutory pension scheme and the pension security it offers.

Clearly, the most common reason not to save for retirement is a financial one: more than half of those who said that they have not saved stated that they cannot afford to do so. Similar indications were made in the open questions, in which, for example, loan repayments are stated as the reason for not engaging in pension saving. The number of men not saving due to financial circumstances is as high as that of women, and there are no great differences between the age groups. Trust in the pension scheme is lower than average among those who have not made provisions for retirement due to financial circumstances.

Among those respondents who have stated that they defer saving or emphasise their current consumption, the notion of their own knowledge of the pension system does not differ significantly from the average. The fact that the young and students are strongly represented in these groups rather indicates that it is genuinely appropriate to emphasize current consumption and possibly save for the retirement period at a later stage in life. These results do not support the findings of behavioural economics, which argues that the underlying reason for not saving is a problem related to the level of knowledge. On the other hand, the group that has not made provisions for retirement, stating as the reason for not doing so that they have not thought about saving, does not seem to possess very good knowledge of our pension scheme. Among this group, there may be misconceptions about the economic welfare during retirement.

Nearly one fifth of those who stated that they have not engaged in pension saving justified their decision by arguing that they do not need to save but will manage on the assets they have acquired so far, on a future inheritance or through other means. More often than women, men believe they will manage without pension saving. The lower-than-average share of young, unemployed and self-employed persons in this group may speak of this group's notion that the income level guaranteed by the statutory pension scheme may be lower than desired for their part. The group that trusts in the level of its economic welfare without pension saving assessed its knowledge of the pension scheme to be higher than average. Their trust in the pension scheme was also on a higher-than-average level.

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