

FINANCIAL LITERACY

Getting the message

Across Europe, a lack of understanding of pensions could create significant financial difficulty in future, for individuals and for national governments. David Adams looks at how this problem, a symptom of low financial literacy in general, is being addressed across Europe



In 2023 only 42 per cent of EU consumers were confident they would have enough money to live comfortably throughout their retirement, according to the European Insurance and Occupational Pension Authority's (EIOPA) 2023 Eurobarometer, which surveyed 29,000 consumers across the 27 EU member states.

A 2022 UK government survey into engagement with pensions among workplace pension scheme members found attitudes to pensions “were characterised by detachment, complacency and fear”.

A lack of pensions knowledge also reflects a wider problem with financial literacy. Many governments and pensions industry bodies now run extensive publicity programmes to improve financial literacy and engagement with pensions. Examples include 7 Jahre länger (Seven Years Longer) in Germany, which uses the fact that most people underestimate life expectancy to make them think about how much money they might need in old age.

Messaging may focus on specific national issues. In the Netherlands, changes to the pensions system mean that while most workers are members of a second pillar

occupational scheme, most of those schemes will become defined contribution (DC)-based. Wijzer in geldzaken (Money Wise), a platform backed by the government, financial services providers, and industry bodies, provides Dutch citizens information on many financial topics, including pensions. The organisation also works on the Pension3Days, an awareness-raising initiative that has been running since 2011, with participation from employers, pension providers and other financial services companies.

Wijzer in geldzaken spokesperson, Jelle Strikwerda, says one of the most important issues it tries to address is raising awareness around the wide variation in contributions to occupational pensions arranged by employers. “Not enough people are aware of this,” he says. “People just think, ‘my company is responsible for getting me a good pension.’”

Wijzer in geldzaken's own research shows that overall understanding of and engagement with pensions in the Netherlands has improved during the past decade; and that individuals engaged by these campaigns are almost twice as likely to engage more actively with their pensions.

Reality check

But awareness-raising campaigns are one thing. Arguably the best way to link these issues to peoples' own circumstances is to let them use a pensions dashboard, or pension tracking service, to see (ideally) any defined benefit (DB) and/or DC entitlements or savings from all three pillars of the pensions system.

Examples include Mijn Pensioen Overzicht (My Pension Overview), in the Netherlands, which is backed by the pensions and insurance industry and the Dutch national insurance scheme. In Norway, Norsk Pensjon, a not-for-profit company owned by seven insurance companies also offers consumers a view of pension entitlements from all three pillars.

The organisation also works closely with schools and universities to help improve general financial literacy in the country. Yet despite this, Norsk Pensjon CEO, Trond Tørstadd, admits that “pensions are a low interest issue in Norway, like in other countries”.

“I think maybe it's because Norway has quite a good economy, so you don't have to worry about pensions so much as in other countries,” he says. “And you get quite a lot from the first pillar.”

However, recent reforms in Norway have increased the state pension age, with younger people now likely to have to wait until they are in their 70s to receive a first pillar pension; and the system is making more use of DC arrangements.

In Italy there is a need to encourage more saving in the second pillar. Historically, the country had a DB-based state pension but with the first pillar now DC-based, participation in the additional, voluntary occupational system has become more important.

This change is not yet widely understood, Mefop member of the department of economics and finance, Antonello Motroni, says. Participation in occupational schemes is still relatively low, at around 30 per cent in 2022, according to EIOPA, and is often linked to trade union membership.

Mefop runs online services called Sono Previdente (I'm farsighted) to improve understanding of the pensions and welfare systems in Italy. The Italian government has recently passed new legislation to introduce

more financial education, including retirement planning, to schools. Each October in Italy is also dedicated to financial education, with financial services providers and other institutions involved in campaigns and publicity activities across the country.

Another government-backed online tool, Quello Che Conta (What Matters) offers tools and resources to help people understand the pensions system and make long-term financial plans, while a social security dashboard provides a projection of an individual's likely retirement income from the first pillar.

Cutting through

In Sweden, online access to retirement income projections, via the minPension platform, has had a noticeable, positive impact, says Swedish Pensions Agency research director, Ole Settergren. By 2022, 59 per cent of all pension savers in Sweden knew how to find out what their future pension income might be, with that percentage rising to 73 per cent of those aged 55 to 65,

according to the agency's figures.

Sweden's system is relatively generous, because the first pillar has several different DB and DC-based components and there is very broad coverage through occupational pensions (about 90 per cent of eligible workers in 2023).

"In general, the compulsory savings through the public pension plan and the occupational pension plans that are semi-compulsory make pensions sufficient," says Settergren. "However, what's true on a general level is not necessarily true on an individual level."

These issues also become more urgent at specific moments during peoples' lives, such as when someone needs to choose how to use DC savings. For many consumers it may be difficult to access or afford expert financial advice. But there is evidence that free or affordable financial guidance services can have positive results. Recent research in the UK by Standard Life found that more than six out of ten people who had accessed free guidance agreed this had helped them to make better financial decisions and understand complex financial issues.

Pensions Policy Institute (PPI) senior policy researcher, Lauren Wilkinson, believes employers have an important role to play too, possibly through financial wellbeing services for employees. She also likes the concept of a pension

champions in the workplace: a member of staff who undertakes training with the employees' pension scheme provider, then becomes "the first port of call for other employees".

In the end, says Settergren, whatever effort is put into the financial education of pension savers, policymakers and providers must stay focused on achieving the best outcomes for members.

