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FINNISH CENTRE FOR PENSIONS, STUDIES

SUMMARY

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Financial preparation for retirement

Questionnaire survey on views relating to pensions

Saving for retirement is a multifaceted question that reflects not only the interest in contemplating one's future income but also one's financial resources for saving. Based on a questionnaire study, we examine how prevalent saving for retirement is. We also investigate what savings are used for, the reasons for not saving, assessments on economic welfare in retirement and the role savings play in that context. In addition, we compare the current prevalence of saving to that in the early 2010s and explore the connection between pension knowledge and trust in pensions to saving.

Saving increasingly prevalent among men

Nearly half (47%) of the Finns have saved for retirement. The individual's socioeconomic status and financial situation are reflected in the prevalence of saving. Particularly men, people aged 55–64 years, those with a tertiary-level education and the self-employed stated more often than others that they have prepared for retirement by saving. Saving was also more common among those in a better financial situation, that is, those who belong to the highest income decile and those who found it easy to cover their expenses.

Saving for retirement has become more common compared to the early 2010s. In previous surveys, around 40 per cent of the respondents stated that they have saved for retirement. Saving has become more common among men, those aged 45–64 years and those with a lower tertiary-level education.

Savings for everyday consumption

In general, the respondents assessed that they would use their savings to cover everyday consumption. More than half of the respondents made this assessment. It was equally frequent in all population groups. Nearly as prevalent was the assessment that savings are needed to cover unexpected expenses. An ample third listed care and nursing services as reasons for saving.

Other reasons included hobbies, travels, supporting next-of-kin and the possibility of early retirement. An ample one third of the respondents stated that they would use their savings for hobbies and vacations. Around one fifth stated that they would use their savings to support next-of-kin or to retire early.

Financial reasons most common for not saving

In this study, the reasons for not saving were divided into three groups: financial limitations, emphasis on current consumption and no need to save for retirement.

Financial limitations were the most common reason for not saving. Three out of five respondents stated that they lack the financial ability to save. This reason was stated more often than average by women, the unemployed and those in a weaker financial position. Financial limitations was stated as the most prevalent reason for not saving also in the surveys conducted in the early 2010s.

Reasons that point to an emphasis on current consumption were the intent to start saving later, the desire to use the money for current consumption and simply not having thought about saving for retirement. Nearly half of those who have not saved stated at least one reason that seems to emphasise current consumption. This was most common among men, the under 45-year-olds and those who find it easy to cover expenses. Reasons that emphasise current consumption have become more prevalent compared to previous surveys.

Respondents who did not feel the need to save for retirement believed that they will get by in retirement without saving, that they will get an inheritance or that they already have wealth. Nearly one fifth of those who did not save stated at least one of the above as the reason for not saving for retirement. Particularly the 55–64-year-olds, those with a tertiary-level education and retirees were among them.

Assessments of retirement income improved

One quarter (26%) of the respondents assessed that they will get by well or fairly well in retirement, but equally many assessed that they will get by fairly poorly or poorly. A greater number of respondents assessed their economic welfare to be better than was the case in the surveys conducted in the early 2010s.

Two out of five (41%) of those who have saved for retirement and one out of eight (13%) of those who have not saved for retirement assessed that they will get by well or fairly well in retirement. A tertiary-level education and finding it easy to cover expenses was associated with a better assessment of one’s economic welfare in retirement both for those who have saved and those who have not. Gender and age, on the other hand, were reflected differently in the assessment of economic welfare of those who have saved and those who have not saved. Men who have saved assessed that they will get by better in retirement, but age was not reflected in the assessments. There was no gender gap among those who did not save, but both those under 35 and those over 55 assessed their economic welfare in retirement to be more positive than those of the age groups in between.

Own savings assessed to be more significant than before

We measured how common preparing for retirement is by asking questions about saving for retirement but not about the saved amounts. However, the respondents were asked to assess the significance of their own savings and wealth for their economic welfare in retirement. More than one fifth of those who have prepared for retirement by saving assessed that their savings and wealth are of considerable significance for their economic welfare in retirement.

According to the current survey, the significance of savings and wealth for economic welfare in retirement has grown compared to the 2011 survey. No equivalent change can be observed for those who have not saved. Of those who have saved for retirement, particularly the young, the self-employed and those in a favourable financial situation stand out as groups that assess their savings to be of more significance.

Subjective rather than factual pension knowledge associated with saving

Knowing the pension system and one's own future pension is one of the factors that affect the assessment of the need for pension saving. It may reflect on saving for retirement. In this study, pension knowledge was measured through both subjective and factual knowledge of pension provision.

The respondents' subjective knowledge of pension matters was emphasised in the connection between pension knowledge and savings. Those who assessed that they have at least a fairly good knowledge of pension provision more often saved for retirement than did those who assessed that their pension knowledge was poor. Objectively measured factual pension knowledge was not reflected in the prevalence of saving, but the notion of knowing one's pension amount was associated with saving. Those who provided an assessment of the size of their pension contribution, regardless of whether the assessment was correct or not, had more often saved for retirement.

Trust in pension system associated with saving in manyfold ways

In this study, the trust in pensions and its link to saving was examined from the points of view of a general trust in the pension system, more detailed views of the operations of the pension system and worries relating to the pension system. Views relating to the reliability of the pension system's operations were not straightforwardly associated with saving. Some of the factors that depicted trust increased saving while others reduced it. Some of the factors did not affect saving in any way.

Saving was more prevalent among those who were positive about pensions securing a reasonable income for present-day retirees and who thought that pension assets are managed reliably. On the other hand, also a lesser general trust in the pension system, concern about the payment burden of the young and concerns about an ageing population and the financial situation were linked to more prevalent saving.

Saving was less common among those who were worried about the economic welfare of low-income retirees and the risks of pension asset investments. On the other hand, views relating to the future, such as worries about whether one's economic welfare in retirement will be secured, whether pensions will be paid also in the future, what decisions relating to pension policy will be made and whether social and health services will be available, are not reflected in saving.

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