

**Generation Lost:
Engaging Millennials
with retirement saving.**

In association with



BNY MELLON

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About the Research

The Generation Lost research was delivered in three stages.

- A 30-question survey was published online and open for responses between July – September 2015. Over 1200 Millennials responded from the UK, USA, Japan, Australia, Brazil and the Netherlands.
- Interviews were carried out with a number of Millennials from each of the 6 countries via telephone or video call. Their reflections on the survey findings are included in this report.
- A number of finance professionals and academics from around the world were invited to reflect on the survey results and to consider their views on the future direction of the insurance industry.



90%
of Millennials
admit they were
guessing what
size their pension
pot should be.

1 Forewords

Millennials face considerably greater challenges than their parents when it comes to providing for their retirement. But this group, which comprises those born between 1980 and the turn of the millennium, are not being told about the scale of the savings mountain they must climb.

Financial services providers such as life insurers, banks and asset managers are losing the battle to engage with this generation of potential new customers. Senior executives within these organisations are guilty of the same short-sightedness towards the long-term health of the businesses they run as Millennials are towards their retirement saving.

Root and branch reform of financial education is needed to equip future generations to bear the increasing burden they will personally have to carry in providing for their retirement. Social Finance offers financial services providers a way to speak to Millennials in a way traditional investments do not. Financial services providers can better connect with Millennials by being more honest about the challenges they face. New ways of thinking are required if undersaving Millennials are not to become Generation Lost.

Helping future generations to tackle the demographic, cultural and macro-economic challenges of retirement provision is as important to BNY Mellon as it is to our many partners in the world of life insurance.

I am delighted to present this white paper, which comprises both qualitative and quantitative research carried out by Millennials amongst Millennials, from six nations around the world – Australia, Brazil, Japan, the Netherlands, the UK and the US – as well as contributions from life insurance representatives from these very different countries and other experts from both within and outside the financial services sector.

Particular thanks are due to the team from the University of Cambridge Judge Business School that brought their insights, both as Millennials and as researchers, to the formulation of this report, the insurers, academics and colleagues who have contributed to it and the many Millennials who responded to the survey featured in it.

Here are some of the findings from the research that I have found particularly insightful:

1. Millennials have little understanding of just how big a task they face in providing for their retirement. This lack of knowledge is not due to a lack of interest. Rather they feel they have not been told the reality of their situation.
2. Most Millennials want financial services providers to be brutally honest with them about the bleak future they will face if they do nothing to build an adequate

retirement income. They want financial services providers to use more shocking messaging and to speak to them in language they understand.

3. Social Finance has a very strong appeal to Millennials, yet they do not feel that adequate impact oriented investment options are accessible. By engaging with Social Finance products and promoting existing SRI options, financial services providers can connect with Millennials and potentially help the Social Finance market achieve critical mass.
4. Millennials feel today's financial services products are not tailored to their needs. They want new products that dovetail with the paths their lives are likely to take, not those of their parents.

These findings paint a picture of a generation that is ignorant of financial matters because it is being ignored. It is a generation that wants financial services providers to tell it the truth, but whose needs the insurance industry is failing to meet, even though it needs its services more than ever. If financial services providers do not connect with tomorrow's customers they will either desert the insurance industry in favour of channels that speak their language or ignore saving altogether.

Without a new approach we face a real risk that the millennial generation will become Generation Lost – lost both to the insurance industry and in terms of its own retirement readiness.

This research leads me to believe insurers and other financial services providers can achieve engagement with Millennials by:

- Engaging with Social Finance products and putting their existing socially responsible investment offerings at the forefront.
- Promoting financial education for young people.
- Speaking to Millennials in language they understand, with more honest, confrontational and shocking messages around retirement readiness.
- Working to shape policy and design products that meet the changing needs of today's young people.

Paul Traynor,
International Head, Insurance Client Segment, London,
BNY Mellon

Foreword from the research team

Each generation faces challenges different from the last. Demographic changes and a trend away from state support for pensions means the cost of retirement provision is rising. High student debt, low job certainty and a low-growth global economy mean Millennials have a completely different set of financial challenges from those of Baby Boomers and Generation X.

It is therefore crucial that financial services providers understand how they can better empower Millennials to save for their retirement. We have undertaken this research with that purpose in mind.

Being Millennials ourselves, it has been a fascinating experience to reflect on efforts we have made towards saving for our retirement and the nudges and prompts we have received to encourage us to do so. A few thoughts were quite striking:

- We were surprised to realise how little financial education we had received from the financial services industry and our years of schooling. In particular, most of our knowledge was obtained through our university finance studies.

- We were shocked at how little we had thought about the amount we need for our retirement.
- We were struck by the magnitude of the challenge of balancing the conflicting demands of a house deposit, material wants and student debt with saving for our retirement.

Consequently, when speaking with fellow Millennials, we were not surprised to hear they are also grappling with similar issues. Unfortunately, many don't know where to start. So we were delighted to take up the opportunity to be part of this research into what Millennials expect from their financial services providers and how these expectations can be met.

We hope you find this report informative and meaningful. We hope it encourages insurers and other financial services providers to think carefully about how they empower Millennials to save for their retirement.

Paul Kelly and Shreetama Datta

University of Cambridge Judge Business School
(2014-15)

Our definition of Social Finance for the purposes of this report

Social Finance involves investing for a financial return and a social/environmental impact. One of the many tracks within Social Finance is socially responsible investing (SRI), which can take the form of:

- **Positive screening:** selecting firms with overall positive socially responsible performance ratings or involved in positive social activity, such as green energy, food security, human rights, helping growth in lesser developing countries.
- **Avoidance screening:** avoiding firms with negative socially responsible performance ratings or involved in “socially damaging” activities in areas such as fossil fuels, gambling, adult entertainment or tobacco products, weapon manufacture, child labour, animal testing.

2 Executive summary and key findings

Millennials in developed countries face a less comfortable retirement than their parents and their grandparents as a result of unstoppable demographic, political and macro-economic factors. Yet they are unaware of the future that awaits them.

Their understanding of financial matters is low, but that is as much as a result of their not being told as not being interested. They want to know the truth about what lies ahead, however negative it is.

46% of Millennials do not get any information on financial matters through their workplace or educational establishment

Understanding of key concepts such as compounding and tax-advantaged savings is low. Millennials massively underestimate the amount they will need to save to fund their retirement. An overwhelming 90% estimate the amount they will need in retirement by taking a blind or educated guess rather than base it on industry data. They want engagement in financial matters at key points through their lives, starting at school, across a variety of media, including face-to-face and digital channels.

77% want to be told the stark reality of their post-retirement finances and health, demanding more shocking messaging from insurers and other financial services providers

They want to be told the truth about just how poor in retirement they will be if they do not start saving for retirement early. They have grown up in a more protective environment than previous generations, and have overoptimistic expectations as a result. But they want to be treated like adults with more confrontational, honest and realistic messages about the challenges they face in providing for their retirement.

This demand for knowledge, which is clearly evident in each of the six countries across which this research was conducted, presents insurers and other financial services providers with both a duty and an opportunity – a duty to play their part in ensuring future generations do not sleepwalk into poverty in retirement and an opportunity to become Millennials' partners in helping them transition into financially-literate, engaged savers.

Millennials would allocate an average of 42% of their portfolio to Social Finance products

Social Finance has a strong appeal to Millennials. Yet it is an option that is virtually inaccessible through today's mainstream retirement savings products, which also fail to put the SRI options that are available at the front of the shop window. The research shows 95% of Millennials feel that pension funds and insurers only provide limited, poor or no options for investing in Social Finance products. Attitudes to Social Finance vary from country to country, but across the world this growing area offers a unique opportunity for financial services providers to connect with Millennials.

63% of Millennials would save more if their pension account allowed multiple withdrawals throughout their lifetime

As was shown in last year's report, Millennials want products that offer support to more immediate needs as well as retirement funding. The most important life events for which Millennials would want access to cash through a multi lifetime withdrawal product are placing a house deposit (49%) or experiencing a major illness (48%).

3 Recommendations

This report suggests Millennials are not ignorant of the retirement saving challenges they face because they are not interested, but because they are not being told. But even if they were being told about products available today, interest would be suppressed because these do not meet their requirements for Social Finance or flexibility, and because they are not being marketed in ways they understand.

It is of course difficult for long-term savings products to compete with things that offer younger consumers more immediate gratification. But the research in this report contains a number of pointers towards new ways of reaching out to Millennials.

Recommendations:

- **Financial services providers need to do more to promote financial education by partnering with grassroots financial education providers, engaging with schools and universities and lobbying national governments for change.** Young people need regular engagement through multiple channels if they are to be equipped to deal with the challenges they face and provide for their own retirement.
- **Financial services providers should engage with Social Finance organisations and FinTech start-ups to develop their social investment credentials.** This will involve financial services providers stepping outside their normal way of thinking, but is essential if they are to reposition themselves for the next generation of customers.
- **Existing SRI propositions should be revamped and put at the front of financial services providers' offerings.** SRI should be more actively marketed to Millennials. Just because existing SRI take-up may have been low until very recently does not mean this investment approach does not have potential, rather that it has not been correctly positioned in the market.
- **Financial services providers should make it easy for Millennials to allocate a percentage of their retirement savings to Social Finance investments.** Percentage allocation of portfolios to Social Finance remains very far from being a mainstream activity.
- **Financial services providers should consider more shocking marketing campaigns to achieve cut-through with Millennials.** Millennials' unease that they are not being told the truth about their potential future poverty offers financial services providers the opportunity to be the bearers of useful information and assistance.
- **Retirement savings products that give access for life events need to be developed.** Financial services providers should not only create them but also lobby their national governments to facilitate their development.

42%

of pension portfolios
would be allocated
to social finance.



4 Educating Generation Lost

A bleak retirement ahead?

Demographic, political and macro-economic indicators suggest Generation X will be the first generation to experience a lower standard of living in retirement than their parents. We see nothing to suggest this trend reversing in time to save the millennial generation. Increasing longevity, the withdrawal of state support, the declining influence of developed economies on the world stage – confront Millennials just as much as Generation X, arguably even more so.

At the same time, despite this negative outlook for their long-term financial wellbeing, Millennials

report they are spending today on non-essential, discretionary and luxury items they will be unlikely to be able to afford when they retire. This demonstrates a disconnect between Millennials' spending habits and their understanding of the financial challenges that face them, an issue that financial services providers are well-placed to help them understand.

- The average spend for someone attending a UK music festival over a long weekend is £565¹. That is 53% more than the £368 a month median private pension received by UK retirees².

Gross replacement rates, male%/average earnings USD/Retirement income (OECD2013)

	UK	Japan	US	Australia	Brazil	Netherlands
Gross replacement rates, male%	32.60%	35.60%	38.30%	52.30%	57.5%*	90.70%
Average earnings USD	\$58,300.00	\$55,300.00	\$47,600.00	\$76,400.00	\$10,200.00	\$61,200.00
Retirement income (OECD2013)	\$17,900.00	\$19,700.00	\$18,200.00	\$40,000.00	\$5,900.00	\$59,400.00

*Different OECD source.

Gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

The extent to which different countries within the survey currently provide for retirees varies widely. In the Netherlands retirees can expect to retire on over 90% of average pre-retirement earnings. That compares to levels well below 40% in the UK, Japan and US. Brazil has a high replacement rate, but it is relative to a very low average salary.

Steps are being taken...

Some countries are taking measures to address pension adequacy – the UK's policy of automatic enrolment of workers into a workplace pension scheme is one example, although some Generation Lost workers will not be fully enrolled into the scheme until they are 38 years old.

...but will they be enough?

Other macro factors point to continued pressure on retirement provision that only private saving can redress.

- In the US the percentage of employees offered a pension plan by their employer fell from 61% in 1999 to 53% in 2011, according to research by the Schwarz Center for Economic Policy Analysis. In 2011, 68% of the working age population in the US did not participate in an employer-sponsored retirement plan because their employer did not offer one, they did not participate or were not working. Younger workers (25 to 44) experienced a 14 percent decline in participation, suggesting that the downward trend will continue as the population ages³.
- In the UK, Millennials will have to pick up the tab for £6 trillion of debt and unfunded pension and benefit liabilities, equating to £221,000 per household, meaning current pension promises are unaffordable and unrealistic, according to research from the Centre for Policy Studies⁴.

1 UK Music.

2 Pensions Policy Institute.

3 Schwarz Center for Economic Policy Analysis report – Are US Workers Ready For Retirement?

4 CPS Report – Who Will Care For Generation Y?

- In Japan basic state pension already equates to just 16% of average earnings, yet it faces the greatest challenge in providing for its ageing population. Japan has the highest proportion of over-65s in the world, with 26% of the population over 65, compared to 18% in the Netherlands, 17% in the U.K., 15% in Australia, 14% in the US, and 8% in Brazil⁵.

“Most people won’t have enough Super (pension) by 80, because they don’t have enough by 60.”

KATHERINE ASHBY, BT FINANCIAL

Time for a more direct approach

Millennials are ignorant of the challenge they face in funding their retirement, not because they are uninterested, but because they are not being told.

As a group, Millennials are very conscious of money. They have a sense of entitlement and are more likely than older generations to think themselves above average on a number of measures, including educational attainment and likely future earning power. Yet demographic, political and macro-economic factors mean there is a genuine risk they face a poorer retirement than their parents.

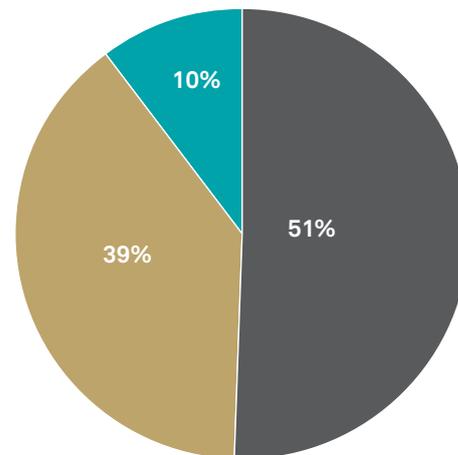
Most have no concept of how much they will need in retirement or how to go about saving for it. They wish they had received more information on retirement when they were at school and university. Now they are getting older they want stronger messages from government and the insurance industry as to the challenges they face. But at the same time they are increasingly disengaged from financial services providers and view them as lacking relevancy.

Blind to their future needs

- 90% of millennial respondents to our survey estimate the amount they will need in retirement by taking a blind or educated guess.

A majority of Millennials are guessing how much they will need rather than referring to figures from a reliable industry source. Over half of respondents think they will need a pot of three to five times their final salary to fund a comfortable retirement, less than half the 10 times final salary widely considered sufficient.

How Millennials calculate their retirement needs

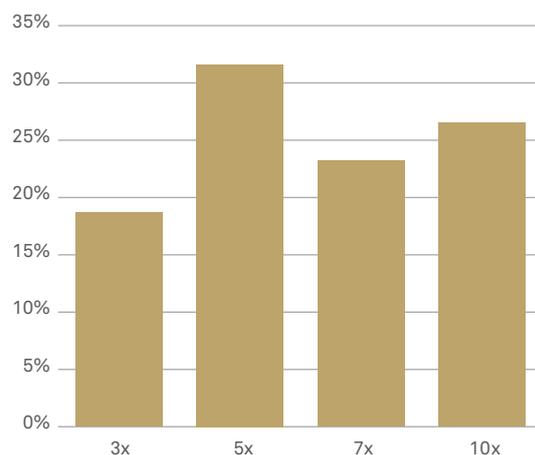


■ A blind guess ■ An educated guess ■ Based on calculations

“The one thing I really want is more information on what percentage of my salary I will need in retirement and how much I need to save to achieve that”

US millennial

How many times your final salary will you need to fund your retirement?

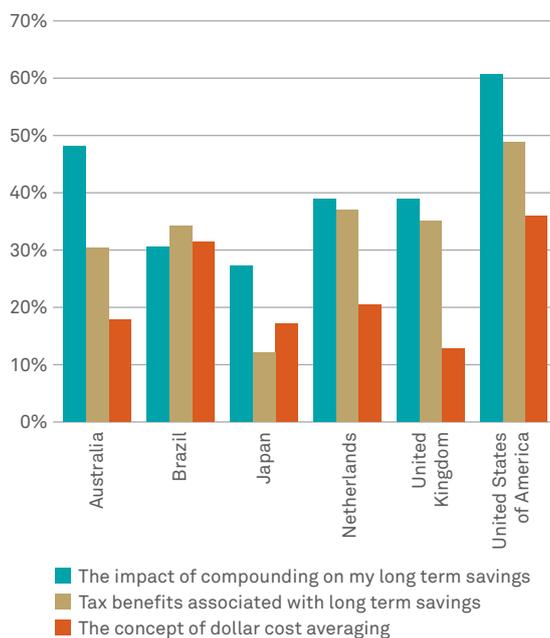


Understanding of key concepts that support the idea of long-term saving for retirement is low. For example, just 27% of Japanese Millennials have a good or strong understanding of the powerful and motivating effect of compounding on long-term saving, compared to 61% in the US. The US scores highest on all the financial education metrics measured in the survey and is the only country within the sample where more than half of Millennials understand the effect of compounding.

Understanding of tax benefits is below 50 per cent in all six countries, with just 12% of Millennials in Japan understanding it, although tax relief plays a smaller role within the Japanese system.

Understanding of dollar/cost averaging, the term that describes the way regular savings contributions dampens volatility is particularly low across Millennials in all countries.

To what extent do you understand the following concepts?



“Schools and work don’t provide any information on financial education”

HUMBERTO SARDENBERG, GRUPO ICATU

“Financial advisors should go into schools to teach kids. Maths doesn’t meet the base needs of financial education”

Australian millennial

A thirst for more knowledge

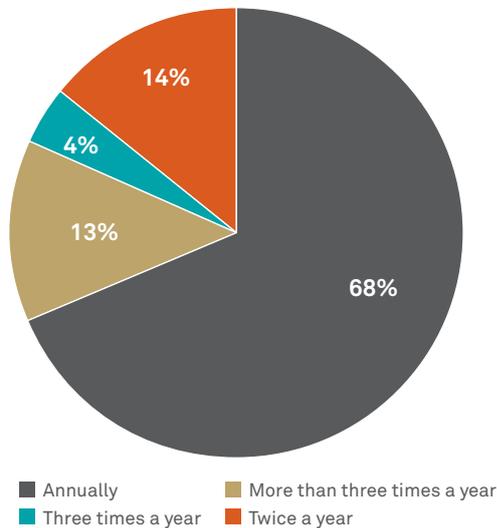
Millennials believe a lack of meaningful engagement with insurers and other financial services providers is a contributing factor to their poor financial understanding.

- 46% do not get any information at school or in the workplace. Of those who do, 68% are only engaged annually. Beyond their annual statement, they receive no information.
- 43% report they have to seek out information on retirement provision for themselves.
- The internet and financial provider websites are the key sources of information for 60% of Millennials. But our conversations with Millennials revealed a preference for face-to-face advice.
- 73% of Millennials wish they had been engaged on financial matters at their workplace, school or university, but only 41% actually have.

“At school, we teach road safety – why can’t we do the same for pensions saving. From 15 years old, students need to be taught about old age and what you need to know.”

An Australian millennial

How frequently do Millennials receive retirement information at school or in the workplace?



“The information we receive is often irrelevant to our circumstances – investment newsletters featuring millionaire home-owning retirees mean very little to us at our stage in life.”

A UK millennial

Changing the conversation

Many Millennials have missed out on financial education in school in the UK because it wasn't widely available 10 years ago. In recent years, things have significantly improved – it is now part of the national curriculum for maintained secondary schools in the UK, the Youth Financial Capability Group was formed bringing together all the main financial education organisations and the Money Advice Service Financial Capability strategy has a focus on children and young people. It is however, just the start of a long journey to ensuring all young people receive effective financial education and benefit from a better life.

Organisations like MyBnk bring a dull topic such as money management to life by using sport, games and role play to make it a memorable learning experience and to reach young people just in time for some of their big money interfaces from their first credit card to their first pay cheque. PFEG (Personal Finance Education Group) focus on teacher training, the IFS (Institute of Financial Services) allow students to do GCSEs in personal finance, the Money Charity work across age groups.

FinTech companies are increasingly speaking to young people in the language they understand. Prepaid card apps for kids like Osper and Go Henry offer a controlled way for children to spend and budget.

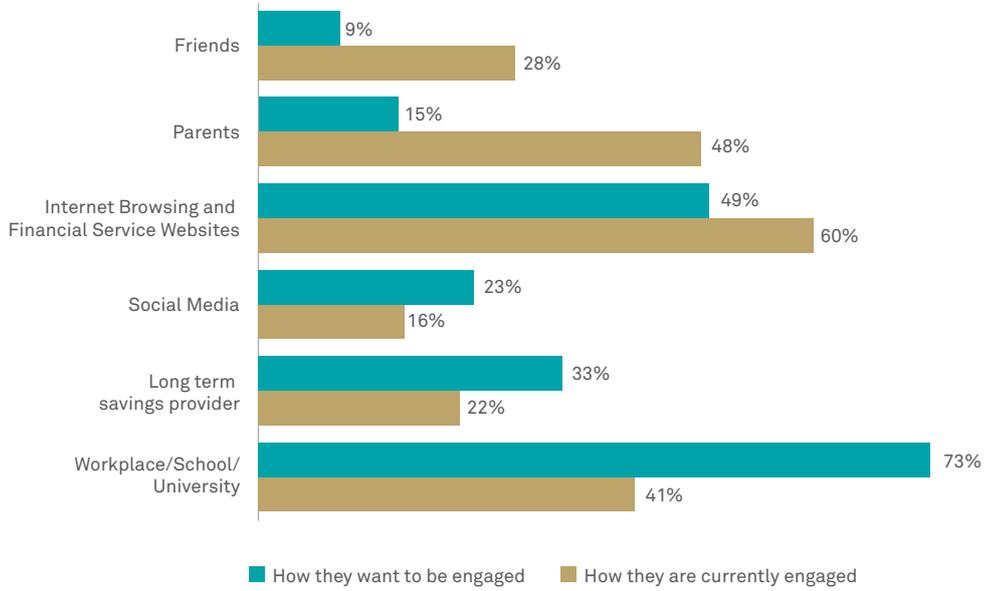
By linking up with financial education providers and FinTech startups, insurers can use their scale to make a real difference for their existing and future customers.

Lily Lapenna,
CEO and founder,
MyBnk

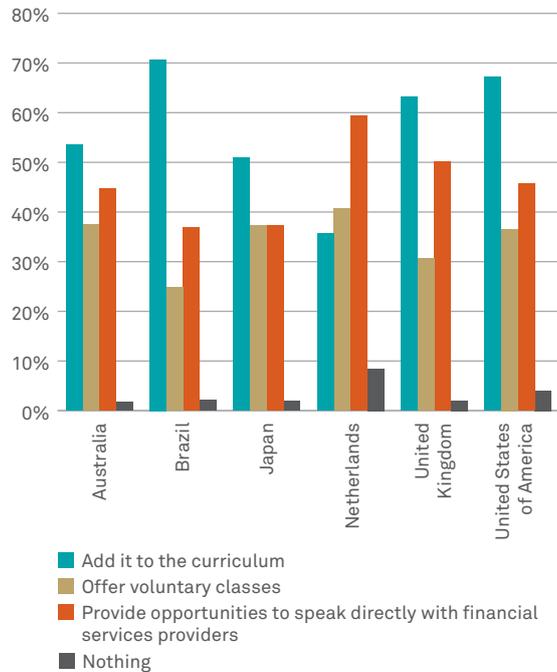
“Most people get overwhelmed by the sheer volume of information in the ‘wake-up’ packs and need to be provided with the right tools to interpret the information.”

LISA DILLEY, STANDARD LIFE

How Millennials Want to Be Engaged versus How They are Currently Engaged



Which of the following options would Millennials find helpful to improving long-term savings education?



“I’m single, don’t have children and just want to live life now and deal with saving for my retirement at a later point.”

A US millennial

“We need to engage customers in a new way, in a digital way, and help them to take small steps towards their goals”

LISA DILLEY, STANDARD LIFE

From Generation Me to Generation Lost

Millennials – call them Generation Me – are different. Born after 1980, they are the kids who got a trophy just for showing up. Their lives have been shaped by overprotective parents, cell phones, social media, and the Great Recession. So how, exactly, are they different? It’s important to answer that question with the right type of data, preferably studies done over time so we know that any differences are due to generation and not to age.

In the over-time data, Generation Me is very interested in money. The number who say that “being very well-off financially” is important reached an all-time high in 2014 at 82%, much higher than the 42% of Boomers who agreed in 1966.

GenMe is also more likely to say that “having lots of money” is important, and are more likely to want to own more than their parents.

They think more highly of themselves and their abilities than previous generations. They live in a bubble of high expectations of how much money they will earn, the sort of job they will get and the level of education they will achieve.

Millennials’ general psychological profile is to be over-optimistic, and it seems likely they are applying that over-optimism to their retirement provision requirements too.

Jean M. Twenge,
author of *Generation Me: Why Today’s Young Americans Are More Confident, Assertive, Entitled--and More Miserable Than Ever Before*, and a Professor of Psychology at San Diego State University

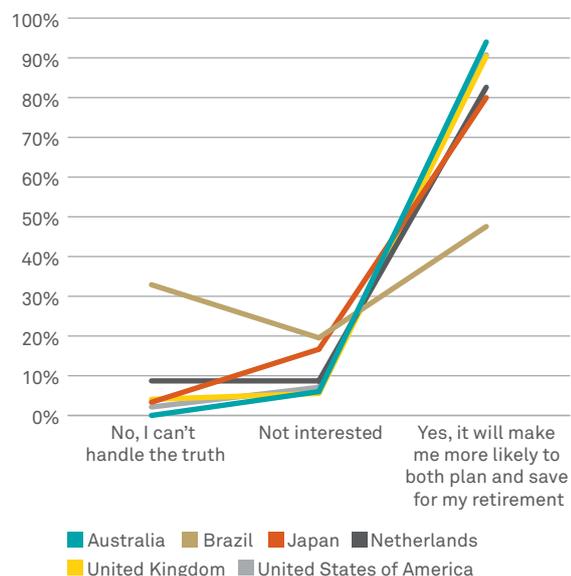
Pricking Generation Lost’s bubble

Millennials’ unrealistic expectations of their future financial wellbeing offer financial services providers a unique opportunity to engage with this increasingly economically-important cohort. Financial services providers can be the bearers of important information, striking at the growing sense of unease Millennials feel as they get further from education into the economic realities of the world of work.

Financial services providers should consider more negative messaging when they engage with Millennials, most of whom want to hear a brutally honest and truthful version of their economic plight.

- Across all countries in the sample, 77% want to be told the stark reality of their post-retirement finances and health.
- But attitudes vary widely from country to country. Only 48% of Brazilian Millennials want to know the stark truth, with 33% indicating they ‘can’t handle the truth’, compared to 12% overall.
- Australians and the Dutch want to know everything – fewer than 10% expressed disinterest in their future financial state, and not a single Australian millennial suggested they weren’t ready to hear the honest truth.

Should insurers or long term savings providers share the stark realities of post-retirement health and finances with Millennials?



5 Social Finance: opportunity to engage

Financial services providers need to do more to raise awareness of Social Finance investment options

Social Finance, and specifically the subset of socially responsible investment, carries a strong appeal for Millennials. The emotional power of Social Finance – which taps into the goodwill of people who want to invest in projects that serve social ends as well as generate positive returns – makes it better able to make an impression on Millennials than mainstream investment approaches. But they feel accessing Social Finance options is not straightforward.

Insurers and other financial services providers might accuse Millennials of saying one thing and doing another. They might cite untouched ethical and SRI options within existing product ranges as evidence that when it comes to the crunch, the vast majority are only interested in returns. SRI options are available, but we believe many financial services providers and other providers have not placed them squarely at the front of their offerings.

Financial services providers need to step out of their comfort zone when thinking about how to engage Millennials with Social Finance, particularly SRI, as it offers a unique option for connecting with Generation Lost.

- Millennials surveyed would allocate an average of 42% of their portfolio to Social Finance products.
- 47% would exclude pension providers who do not give them the option of avoiding negative social investments.
- 38% would exclude a pension provider if it made no positive social investments available.
- 95% of Millennials feel that pension funds/ insurers only provide limited, poor or no options for investing in Social Finance products.

Grassroots credentials

Millennials clearly see Social Finance as something new, fashionable and speaking to them in language they understand. It speaks of a return to grassroots solutions, of bottom-up, tech-based financial innovations such as crowdsourcing and peer-to-peer lending.

They are clear that given the choice, they will choose the provider with Social Finance credentials over the one without. They also feel providers are blocking their access to Social Finance products. It is also interesting that they suggest investing a proportion of their portfolio in Social Finance projects. In the world of workplace pensions, many SRI opportunities adopt an ‘all-or-nothing’ approach, where the investor takes the option for their entire portfolio. This segmented approach is worthy of further investigation by insurers and other financial services providers, not least given the capacity constraints in the Social Finance sector. Further detail on Millennials’ preferences for Social Finance investment is contained in Chapter 3.

It will be a very long time before the average pension portfolio carries a 42% weighting to Social Finance products. But we do see an opportunity for financial services providers to partner with fully-fledged Social Finance organisations, to position their more scalable SRI propositions alongside them. Social Finance could offer financial services providers an almost limitless supply of positive, emotional stories with which to construct a new narrative with Millennials. But financial services providers will need to step outside of their normal way of thinking if they are to bask in the glow of Social Finance.

“Insurers which position themselves in the market as socially responsible can help millennials to understand that Social Finance investments are available and that their investments can have a positive impact on society.”

JOHAN VAN EGMOND,
ACHMEA INVESTMENT MANAGEMENT

“Millennials have the luxury of time, so can be more adventurous and experimental. They are also attuned to social issues. So, Social Finance would appeal to them.”

JAMES NICHOLS, VOYA FINANCIAL

The power of Social Finance

Social Finance has a unique appeal because it enables people to invest in products that aim to generate positive social returns as well as economic ones. We see all the time people who have not been interested in business or investment matters get very excited when they realise they can engage with organisations that are making a difference.

Social Finance can connect with people who have previously had no interest in financial services products because, unlike mainstream investments, it touches them emotionally. Our ventures cover a wide range of areas where creative and innovative entrepreneurs, many of them Millennials, are developing businesses for profit, but also because they want to do something that will make the world a better place.

My organisation is involved with agri-tech firms helping developing economies, biotech startups in the health sector, clean water providers, green energy businesses and social housing projects all of which need finance to grow, and are good fits for Social Finance. There is also the growing social impact bond sector, which provides funds third sector organisations with returns paid by the UK government if socially

beneficial targets are met. These are operating in the fields of rehabilitating criminals and keeping children out of care amongst others. The positive stories generated by these projects and many more like them strike an emotional chord with people in a way mainstream investments never can. As this research shows, ask Millennials what they want from investments and a big part of the answer is Social Finance.

But the risk aversion and conservative attitudes of the mainstream financial services sector are holding it back, making it very difficult for Millennials to get any exposure to Social Finance investments due to a shortage of experienced advisers and a paucity of accessible retail products.

Of course we have to be realistic about how big a role Social Finance could play as there are currently not enough investable projects out there to meet demand if a large proportion of savers were to get involved. But this is a problem which we are a long way from at the moment.

Belinda Bell,
Fellow in Social Innovation,
University of Cambridge and Director,
Social Incubator East

**Expert view – John Buckley,
Global Head of Corporate Social Responsibility,
BNY Mellon**

Large global environmental and social shifts are presenting significant risks and opportunities that have led to an increased interest in the field of Social Finance. An estimated \$30 trillion will transfer from the hands of baby boomers to those of Millennials over the next few decades. The long-term savings industry will need to adjust to the growing decision-making power of Millennials and the impending transfer of wealth to a population with a large number of socially and environmentally-conscious members.

There is great potential to engage the millennial generation in Social Finance investments, but it will require a collective effort by the savings and investment community investment community to overcome key challenges and facilitate increased participation. Engaging this group will be key to bringing Social Finance to scale.

While trying to achieve scale Social Finance has to stay faithful to the two key tenets of the sector – offering investors an opportunity to properly protect and grow their financial interests while also pursuing substantive social and environmental objectives.

This report shows Millennials around the world indicate they would allocate a significant portion of their portfolio to Social Finance

investments. We found through our own research that one of the key challenges to Social Finance reaching its full potential is an insufficient supply of scalable products that offer attractive risk-adjusted returns. The findings from this survey show that Millennials also think their Social Finance investment options are lacking. To successfully engage, the market needs to develop attractive Social Finance products.

Products need to both reflect Millennials' risk, return, and liquidity expectations, as well as have clear environmental, social, and governance impact objectives and results. Products must also be designed to engage with Millennials on platforms that fit their engagement style and are intuitive to them.

One of the other requisite conditions to bring Social Finance to scale is transparency. This condition is particularly true with younger savers who are accustomed to having access to a plethora of data points on the world around them – including the impacts of their investments. Avenues to impact investing, financing for the developing world, and environmental finance, already exist for skilled and motivated investors. For financial services providers partnering with Social Finance projects, making these avenues more readily accessible and promoting them more vigorously offers a way to connect with Generation Lost.

“The problem with SRI is it takes a lot of trouble to find where my money is invested – it’s not on the dashboard.”

An Australian millennial

**Expert view – Sandra Carlisle,
Head of Responsible Investment,
Newton Investment Management**

Historically trustees have decided the types of assets in which pension contributions are invested. The trend towards increasingly personalised defined contribution (DC) pensions means individuals will play a greater role here going forward. When Millennials realise there is nobody acting in a fiduciary capacity on their behalf they may well take matters into their own hands and move their money to providers that address their concerns over sustainability, social responsibility and ethics.

It may be the case that today Millennials' words of support for socially oriented investing are not matched by their actions. Take-up of Social Finance remains low. But that is not to say that this will always be the case. What is not front of mind for Millennials today could very well become front of mind tomorrow, and this research clearly shows these issues are on the agenda.

Capital will be more mobile in the future and that historic inertia that has helped life insurers, banks and other financial services providers in the past will no longer be as powerful. So if traditional providers do not do more, by moving their SRI propositions from the back of the offering to the front, and engaging with Social Finance, they may find they have been left behind.

Engaging with Social Finance is not straightforward for big organisations – it tends to be illiquid, can be risky and faces capacity constraints. But providers should be asking themselves questions such as how they could package a solution with some Social Finance element held within it, what sort of wrapper would be around it and what could be done to give the investor more security.

Many things that are now the norm were once very niche. Providers need to listen to what their next generation of customers is saying to them about Social Finance if they do not want to lose them. Once they are gone, it will be very hard to win them back.



95%

**feel they aren't given
the option to invest
in social finance**

6 Next-generation retirement products

The products Generation Lost really wanted

Millennials do not think today's generation of retirement savings products meet their needs. They want products that offer more flexibility, giving access to at least some cash for key life stages, that offer easy ways to invest in socially and ethically positive enterprises, and that can be accessed through new media, speaking language they understand.

- 63% of Millennials would save more if their pension account allowed multiple withdrawals throughout their lifetime. This finding is consistent with the 2014 Millennials survey.
- Funding a house deposit (49%) or providing during a major illness (48%) are the most important life events for which Millennials would want to access to cash through a multi-lifetime withdrawal product.

We believe products that give access to a proportion of a fund for certain life events will engage with Millennials in ways that today's products do not. Financial services providers should create these products within current regulatory frameworks and also lobby national governments for tax and regulatory structures that will facilitate more radical early access product design.

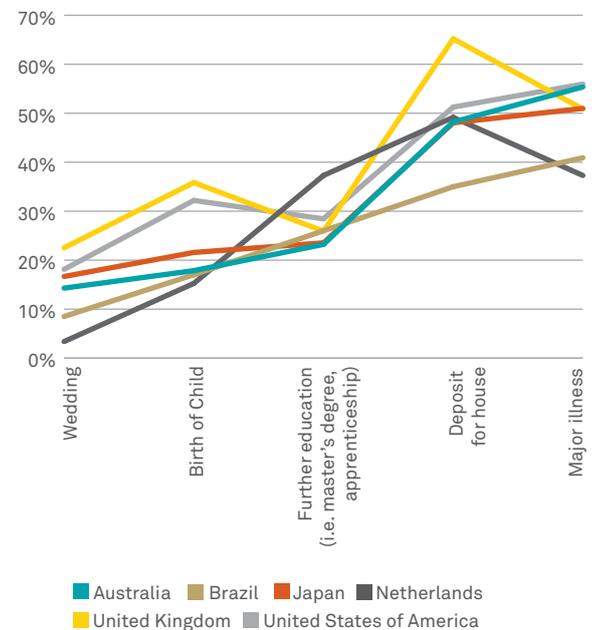
“We need to create a sense of urgency amongst millennials that they need to save more. Providing millennials with tools to see if they are falling behind can address this issue.”

JOHAN VAN EGMOND (AIM)

“Multi lifetime withdrawal products would provide a tangibility to savings, providing benefits throughout the millennial's life.”

HUMBERTO SARDENBERG, GRUPO ICATU

What types of life event would cause Millennials to want to access their long term savings/pension pot?



New ways of connecting

- 75% of Millennials would like an app that gives them information on their long term savings.
- 83% of Brazilian Millennials want a smartphone app, yet only 56% of Millennials from the Netherlands do.

Financial services apps are already commonplace. We wanted to understand how different types of app were connecting with Millennials around the world, and what features they would like to see in future. Clear and easy access to funds and functionality that demonstrates the impact of compounding are the features that Millennials want most from an app. Information on how to access funds was particularly important to Millennials in the UK and US.

“Millennials are concerned about the now, not about the future.”

A Brazilian millennial

A Brazilian perspective

Millennials in Brazil are less likely to be contacted by their employer/school regarding long-term savings than in other countries in the survey. At least half of them get no information or guidance on these issues. This presents a huge opportunity for banks, insurers and other institutions to develop financial planning and awareness locally. We see some initiatives in place, but not enough, and those that exist are not penetrating all social layers.

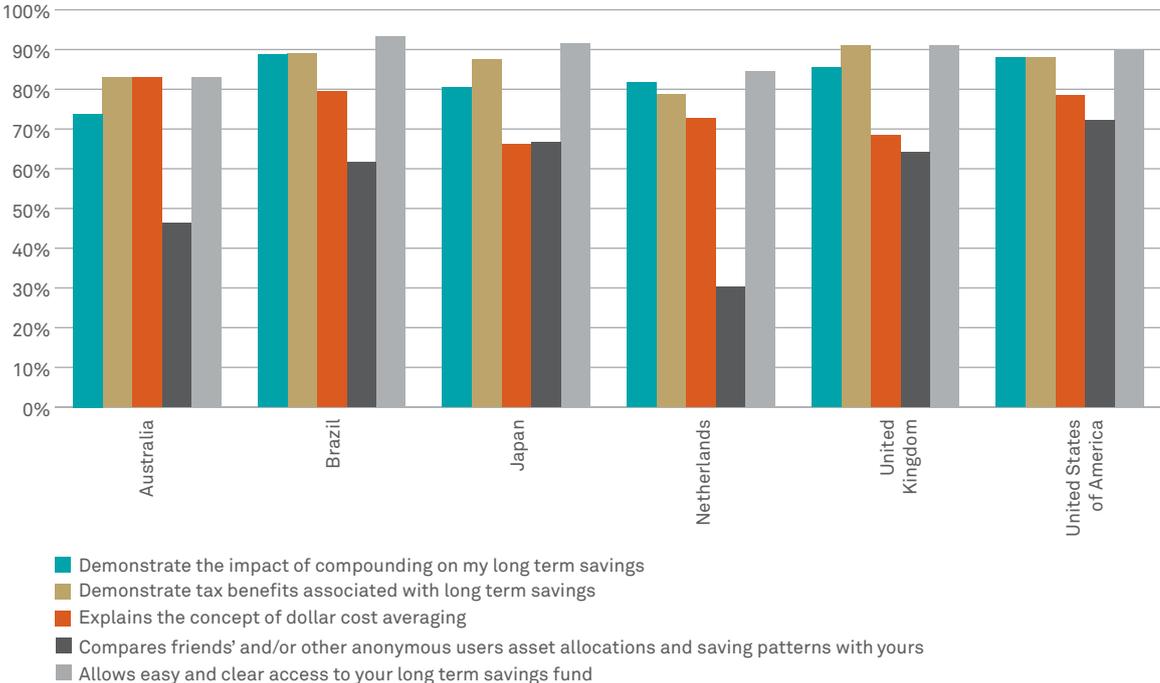
There also seems to be no nudge in Brazil towards outcomes that are better for people. Yet this generation needs these simple pushes to get them to think and act differently. Parents could be encouraged to incentivise Millennials to take a more active role in domestic financial planning. And employers could be more proactive in making joining the workplace pension scheme the default position, with the option of leaving if desired.

There are also specific factors impacting our market. Firstly, there is a strong risk aversion among investors. Brazilians are very income driven, and due to historically high local interest rates our allocation to fixed income is particularly high. Moreover, if financial products such as the traditional Brazilian PGBLs (401k-like plans) were made more attractive, people would be more interested in them. And our current market suffers from a lack of diversification, as products are mostly invested in domestic assets.

There is a great opportunity for change and numerous ways it can be achieved. Focusing on financial education and behavioural nudges can make a real difference.

Adriano Koelle,
Chairman of Latin America and Country Executive for Brazil, BNY Mellon

What do Millennials want from retirement savings apps?



Investing with a social perspective

Millennials want products that connect positive social causes with their long-term savings. They want products that facilitate investment in Social Finance.

We believe the areas of Social Finance, and specifically Socially Responsible Investment, offer genuine opportunities for engagement with Millennials.

What individuals find important within Social Finance, and within ethical investing generally, is extremely personal and subjective – one person’s sin stock is another person’s core investment. National and cultural factors play a key role in determining priorities.

The research sought to identify those areas of Social Finance that are of most interest and importance to Millennials in different countries around the world.

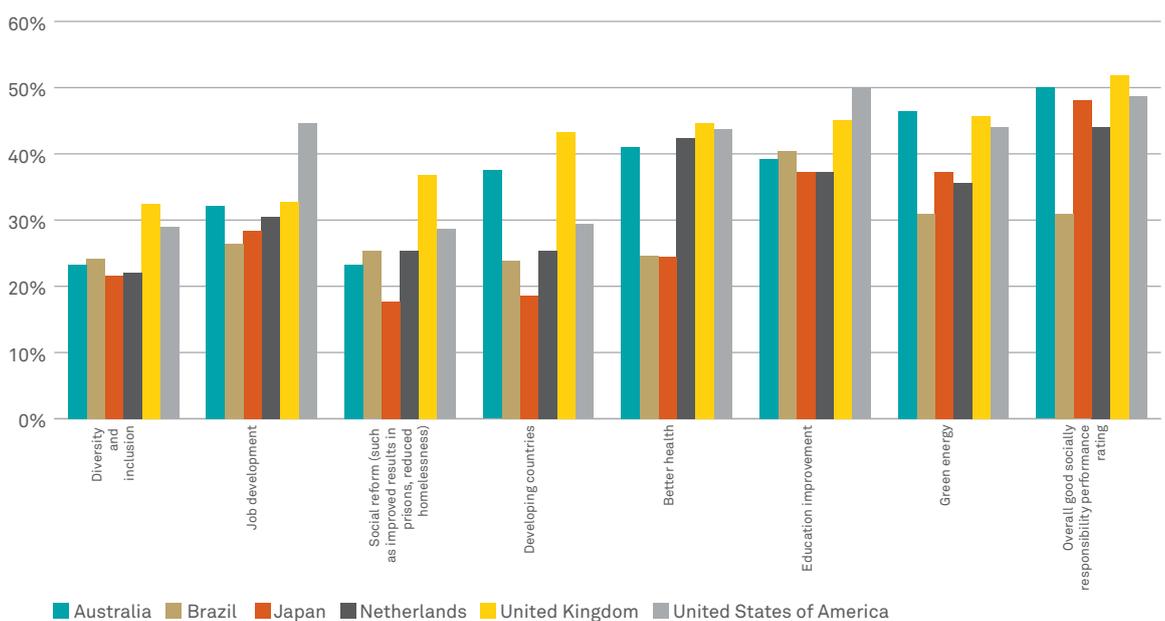
- Twice as many Japanese Millennials are interested in Social Finance projects in the field of education as those investing in developing countries.

- US Millennials are far more interested in Social Finance targeting job development than those in other countries.
- UK Millennials have the strongest interest in social reform issues such as tackling prisoners’ reoffending and homelessness.
- Brazilian Millennials are overall the least interested in the Social Finance performance rating of their long-term savings providers.
- 37% of Millennials in the Netherlands support the idea of Social Finance projects targeting education.
- Australian Millennials are most likely to support green energy initiatives through Social Finance.

“I seem to be able to switch my investments between different sectors – but Social Finance doesn’t seem to be one of them”

A US millennial

Which Social Finance issues are important to Millennials?



Threats to financial services providers

Financial services providers are arguably guilty of the same hyperbolic discounting and shortsightedness as those Millennials putting their head in the sand about saving for their retirement. Millennials are tomorrow’s high earners – the

oldest in the cohort are already 35. While their pot sizes will be smaller, financial services providers that engage with them now can hope to hold onto their business for longer. A short-termist approach today threatens share valuations in the future.

Challenges facing Millennials in Asia

For many countries in Asia, Millennials have grown up in a period of strong relative growth where regional economies have prospered economically and a general optimism about the future has grown.

Their expectations and aspirations are therefore very different to those of previous generations. In Asia, Millennials today are better educated and more technologically capable than previous generations. This technological focus means Millennials expect transparent fee structures, competitive product offerings and ease of access via digital channels.

But traditional family values remain strong. Previous generations are expected to continue

to be the primary source of information concerning savings, wealth, and insurance products. Savings rates among Millennials in Asia remain high. And Asian Millennials recognize that businesses must assist with social issues and that governments alone cannot solve issues impacting their futures.

These factors present a strong opportunity for insurance companies in Asia to both meet the needs of Millennials while seeking regulatory change to create effective and attractive savings products.

Greg Roath,
Asia-Pacific Head of Global Client Management, Singapore, BNY Mellon

Pension assets are growing steadily in all countries in the study except Japan

Size of pension market and 10-year growth rate⁶

	UK	Japan	US	Australia	Brazil	Netherlands
Total Pension Assets (US\$bn)	\$3,309.00	\$2,862.00	\$22,117.00	\$1,675.00	\$268.00	\$1,457.00
% GDP	116%	60%	127%	113%	12%	166%
10-year CAGR	6.5	-0.3	6.6	11.7	9.7	7

Reconnecting with future customers

Financial services providers need to play a long-term game if they are to ensure Millennials do not become Generation Lost in terms of their future customers.

The threats to established financial services providers are disruptors, not other established financial services providers. Yet there is the opportunity to develop products and propositions that link up with potential disruptors – from Social Finance enterprises to FinTech startups – to allow established financial services providers to reconnect with Millennials in innovative ways.

Generation Lost can be recovered and turned into clients for the next 50 years. Lose them forever and they will go somewhere else or worse still, not bother.

“The financial industry in Japan has not paid much attention to the younger generation. Financial services providers are keener on the older generation as they have more money.”

SATOSHI OKUMOTO,
FUKOKU CAPITAL MANAGEMENT INC.

6 Source – Towers Watson Global Pension Assets Study 2015.



77%
said they
want the truth
about saving
for retirement.

“Take the word ‘retirement’ out of the mix, that word does not resonate for millennials.”

JAMES NICHOLS, VOYA FINANCIAL

How pensions are evolving

There is no shortage of conferences, research and policy statements in both developed and developing economics that speak to the retirement and retirement savings challenges facing our global society. The recent global financial crisis and the passage of time have moved these issues from a concern that was over the horizon and for discussion at a later time to one that is front and centre in all areas of local and national government, in corporate boardrooms and in homes around the world.

The world of defined benefit (DB) pensions is effectively closed to Millennials in the private sector. The defined contribution (DC) landscape is complex and challenging.

DC market structure and product offerings vary from country to country because they have been moulded by the nature of different nations’ state provision, political and fiscal drivers and the structure of the labour market.

Thus individually led approaches in the US and UK create different challenges to those experienced in countries such as Sweden, Denmark and the Netherlands where collective DC arrangements exist.

In both cases, engagement and education remain critical since parents in defined benefit schemes may not be the best mentors for their children in this area. In particular, as this generation has so much more competition for their savings, the proposition for retirement savings must be compelling since planning for life in 40 years’ time is an understandably low priority item to most. Clearly, we know that those who save early can significantly increase the probability of their retirement readiness due to the benefits of compounding – there is no more significant variable than time. So, reaching this cohort early on is vital.

It is also likely that there will need to be continued structural changes to the workplace to accommodate more part time, higher skilled, work in retirement to allow more people to have rewarding employment into their 70s when their savings prove inadequate.

Vince Pacilio,
Global Head, Insurance Client Segment,
New York, BNY Mellon

7 Conclusion

The research contained in this report highlights just how different Millennials are in their attitudes to and understanding of retirement saving when compared to earlier generations. An overwhelming majority – 77% want to be told the stark truth about the challenges they face, yet 46% get no information through their workplace or educational establishment. They are demanding new products, that offer early withdrawal for key life events and they want to invest in a more ethical, socially engaged way, being prepared to allocate on average 42% of their portfolio to Social Finance projects.

This report proposes a number of ways in which financial services providers should change their approach to tomorrow's high earners – a radically improved approach to financial education at all ages, a more honest dialogue with young people about the financial challenges they will face in later life, a new emphasis on investments that benefit the wider community and a fresh approach to product design that includes early access.

Implementing them will not be straightforward, but those financial services providers that adapt to their changing customer base can be sure they will be best positioned to thrive in future markets and continue to drive shareholder value.

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About the Researchers

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