Is visualisation the key to encouraging earlier retirement saving?

The behavioural science technique could adjust the short-term bias that younger people naturally have in relation to their finances

AMANDA NEWMAN SMITH

Visualisation techniques, used as a way of motivating yourself to achieve something, pop up in various contexts. Sports professionals often visualise themselves rehearsing a skill or routine to prime their body for success. Visitors to health spas are taught to relax by visualising themselves in a beautiful summer garden.

In financial planning, visualisation enables clients to explore their financial goals. Imagining their future self at retirement, for example, can help them understand the kind of life they want and make it easier for advisers to help them achieve it. But can this approach be used to encourage young people to start saving earlier for retirement?

Picture this

Of course, visualising the future is not enough to bring about change. As with any kind of positive thinking, it needs to be supported by action.

Oakway Wealth Management financial adviser Matt Cross says visualisation is important because demonstrating the end result is a way of getting consumers to buy in to retirement planning.

"If you put money into a pension, it isn't fun because you're putting money away that you could enjoy now. But, if you can visualise your future self, you understand why it's being put away," he says.

Paying a bit into their pension now will give young people more options when they're older, but Cross does not agree with the idea of saving every penny. Life still needs to be enjoyable today and for that you need money, he says.

According to Aegon, visualising one's future self helps young people develop a complete picture of the life they want, not just financially but where they want to be, how they want to spend their time and who they want to spend it with.

The more accurately they picture themselves in the future, the more likely it is they will change their current behaviour to meet their future needs. However, the picture needs to be realistic.

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"It's not about seeing Joe Bloggs down the road, who is going on a world cruise, and visualising that, because that might be unachievable for some people," says Aegon head of pensions Kate Smith.

"It's about taking small steps, trying to pace yourself and thinking about what you'd like to do, so you don't leave everything until the last minute."

Secondsight partner Ian Bird says auto-enrolment has helped the public to save, but most people stay in a workplace pension only because their employer has put them in it.

"They don't really understand it, or know how to get the best out of it or how to fine-tune it for their own objectives," he says.

"But, if I put £1 in a pension, it costs me 80p. If my employer matches that, I've got £2. Why wouldn't one want to do it?"

Overcoming 'present bias'

Many commentators wax lyrical about the benefits of compound interest, which saving early for retirement would attract in bucketloads.

"Compound interest has been described as the eighth wonder of the world – the multiplying power of growth times growth," says Kingswood Group investment manager Harry Merrison. "The more saved early on and the longer the time horizon, the greater the possible return. Get clients to visualise what sort of retirement they want and work backwards. There is no better time to start than now."

However, conflicting desires to spend or save – or, as Bird puts it, "the pleasure or pain of pensions saving" – do throw a spanner in the works. Many commentators refer to 'present bias' – a term used in behavioural finance to describe the way immediate needs often take priority over future ones.

Some believe this is why the visualisation approach is unlikely to make a significant difference to young people; especially given the economic impact of Covid-19, as many younger workers have been furloughed or made redundant, making retirement saving even more difficult.

"Younger workers naturally have a short-term bias when it comes to their finances, meaning retirement saving is a lower priority than things such as saving for a house deposit – which has never been more difficult than with today's record-low interest rates," says Arlo International head of investments Ben Barratt.

Barratt believes there must be a more paternalistic approach to encouraging younger workers to save for retirement.

"Already auto-enrolment has made a huge difference in encouraging people to save," he says, "but the default option needs to go further, such as removing the 'opt-out' option. Increased mandatory contributions, even by just 1 per cent, from employers and employees could also make a huge difference over the long term."

Video and gamification

Generations that have grown up in the digital age can find the old-fashioned methods of communication, which are prevalent in the pensions industry, uninspiring.

Personalised video platform Idomoo's director of partnerships, Mike Stone, says that, to engage young people, information must grab and hold their attention – which happens if you personalise that information – but he questions whether pension providers are doing this effectively.

"Pension firms are guilty of writing to consumers with pages of legal information, but young people are more visual," he says. "Video is a great tool to provide information. Historically, it used to be an expensive tool for companies to use to scale one-to-one content, but that is not the case now."

Personalised engagement with pensions can also be achieved in other ways, such as gamification. Employee benefits communication specialist Gallagher's managing director, Roger Hattam, says this draws on young people's desire to socialise and their competitive nature.

"Rewards such as being number one, getting to the next level, visual congratulations and status symbols all play a part in creating situations and outcomes where the person is learning through osmosis," he says.

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Hattam adds that finding relevance in how pension investments can affect their lives or the things they care about, such as the impact of their fund on environmental, ethical or social factors, can also provide a way in to retirement saving.

Net zero pension provider Cushon's founder, Ben Pollard, believes the connection between saving and issues that young people care about, such as climate change, can have a powerful impact on retirement savings.

"We talk about a virtuous circle because, if you create that connection, people can see the positive impact it can have and that encourages engagement, which leads to more saving and investing, and a greater retirement pot," he says.

Pollard also feels there needs to be a move away from the negative delivery of messages about pension saving towards something more constructive.

"It's always rammed down our throats that we're not saving enough for retirement, so we'll live in poverty. Often those messages are factually correct, but they are not very emotionally intelligent in how they drive behaviour," he says.

"If you leave people feeling rubbish about themselves, it's not very effective, so you can flip it and say, 'Look at how much more you could get from your pension.'"

ADVISER VIEW

Sheena Doherty
Senior wealth management consultant, Sovereign Wealth, Halifax

Living for now but saving a little bit for later is important for young people because the compound interest is massive.

Little and often is best. We use an image of a snowball to explain compound interest – it gets bigger as you roll it along and add more snow.

But, if all you do is talk to young people about when they're 67 – and the state retirement age will probably be 70 by then – there's a risk of them doing nothing as it's so far away. I tend to break it up and say, 'What's your five-year and 10-year plan?' That gives a feeling of empowerment and, as they start saving, they will be more receptive to doing more of it.

Ashley Hull
IFA, Beaufort Financial, Reading

Visualising their financial future really helps young people think about what they need to be doing to provide for themselves. But we live in a society where instant gratification is prevalent and pensions are ignored. If you're 25 and retirement is 40 or 45 years down the line, it's easy to say, 'Do I need to worry about that now?'

Their goals are present day, such as rent, student debt or a house deposit, but they need to understand that how they invest now will change their future.

I'm not saying they should put large sums of money into their pension, but a small amount – the money they spend on a takeaway could be going into their pension. I often say to people, 'Pay your future self first.'