

## **DEVELOPMENT OF THE PENSION SAVING MARKET: OUTLOOK OF THE GENERATION Z\***

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### **Abstract**

This article is devoted to the issues of development on the pension savings market in the Russian Federation. Prospects of pension savings market development have to do with the generation Z. The authors research factors, conditions and economic incentives which can contribute to the development of the Russian market of pension savings. The conditions on the pension savings market shapes the state. The article presents some statistical data regarding the key indicators of the Russian pension savings market and separate survey results demonstrating the attitude of the generation Z to the pension savings market. According to the analysis of the statistical data, the number of institutional participants on the pension savings market has decreases, which can be explained by objective and subjective factors, and the aggravation of the conditions in which participants perform their activities on the market. The results of the conducted study allow us to reveal that people of the generation Z won't develop a demand for the services of non-state pension savings funds, unless certain factors, impetuses and conditions are present. The government should take into consideration the behavioral aspect the generation Z for the purposes of developing the pension savings market.

**Key words:** pension saving, pension saving market, state regulation, generation Z

**JEL Code:** G02, G28, J32

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### **Introduction**

The problem of development of the pension savings market is relevant for Russia. The main reasons for this are the ageing of the population and the fact it is impossible to maintain the pay-as-you-go pension scheme in the same format.

The state is the authority that determines the conditions for the functioning participants on the pension savings market. The pension reform of 2002 supplemented the 'pay-as-you-go'

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principle by the accumulative principle. The people were able to save their pensions both as components of the state pensions savings system and as 'non-state' components.

The development of the pension savings market in Russia occurs in unstable, and often changing conditions. In this situation, the working age includes generation Z. The study of the attitude of the young population to the pension savings market is significant, as the results can be used to adjust the state policy in the field of the pension savings market.

## 1 Pension savings market: results of pension reform in Russia

Non-state funds in Russia perform two functions. First, they accumulate pension savings as required by the system of compulsory pension insurance. Savings are formed at the expense of employers' fund, and the accumulated portion of pension is paid to insured persons from these savings. Secondly, non-state pension funds accumulate pension reserves, which are created at the expense of participants on a voluntary basis. Non-state pension is paid from these savings.

The key points in the development of the Russian pension system and the pension savings market should be as follows:

- 2014 (a moratorium on the formation of pension savings within the framework of compulsory pension insurance is imposed);
- 2015 (the components of pensions, the conditions for the receipt of a pension and pension calculation formula are changed);
- 2018 (retirement age is changed: for women the retirement age was raised from 55 to 60 years, for men — from 60 to 65 years).

### 1.1 Non-state pension funds and the state of the pension savings market in Russia

The pension savings market in Russia is characterized by the data presented in table 1.

**Tab. 1: Key indicators of the pension savings market in Russia**

Indicators	Years					
	2012	2013	2014	2015	2016	2017
Number of non-state pension funds, units	133	118	120	102	74	66
Pension savings in the system of compulsory pension insurance, in non-state pension funds, bln RUB.	669.3	1,088.4	1,132.4	1,719.5	2,129.9	2,435.0
Number of insured persons under compulsory pension insurance, mln people.	16.57	22.19	22.07	27.03	29.84	34.32

Pension reserves (savings) in the system of voluntary non-state pension provision, bln RUB.	758.1	831.6	900.1	991.6	1,096.8	1,184.1
The number of non-state pension funds members, mln people.	6.78	6.77	6.37	5.81	5.28	6.01
Reference:						
Able-bodied population, mln people.	87.1	86.1	85.2	85.4	84.2	83.2

Source: pfrf.ru, cbr.ru, gks.ru

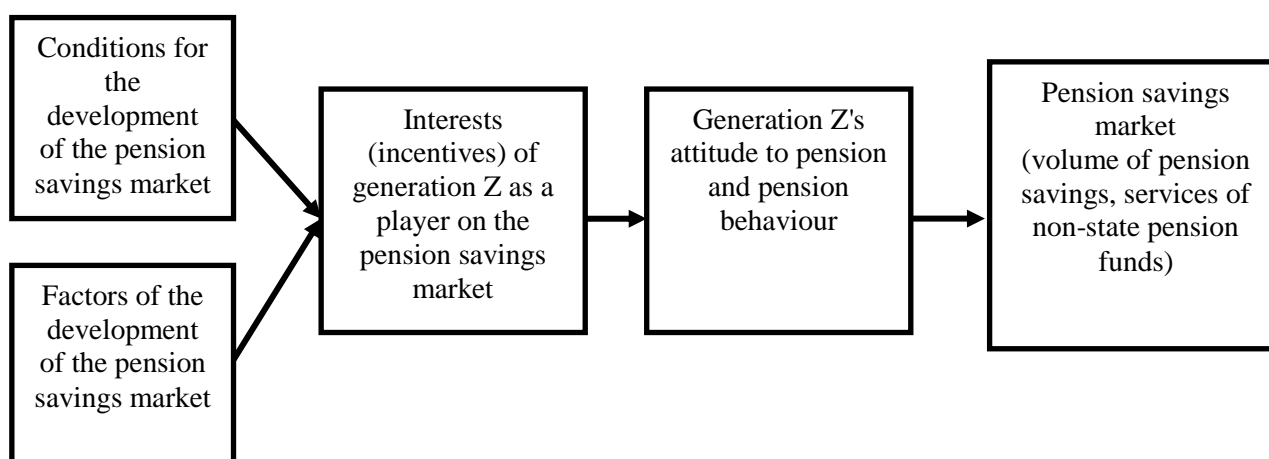
The analysis of the statistical data for 2012-2017 shows a reduction in the number of non-state pension funds by 50.4%, which is caused by their consolidation aimed at the reduction of costs and by intensified supervision by the Bank of Russia. The number of non-state pension funds members was decreasing in 2014 - 2016 due to the cancellation of licences from more than 20 non-state pension funds. 2017 saw an increase of 13.8% in the number of members as compared to 2016. From 2012 to 2017, pension reserves increased by 1.56 times. The share of the able-bodied population participating in the compulsory pension insurance system increased from 19.0% to 41.25% against the background of a decrease in the number of the able-bodied population and an increase in the number of people older than working age. Thus, non-state pension funds in Russia position themselves as entities of the compulsory pension insurance system. Services of non-state pension funds for the formation of voluntary non-state pensions in Russia remain in little demand. All this indicates the necessity and possibility of development of the pension savings market in Russia. Many countries recognise the need to encourage participation among their citizens in pension provision, which would secure their retirement. Identifying potential groups to join pension schemes will help governments develop strategies on raising awareness of pensions and participation in pension savings (Balasuriya, 2019). The potential for the development of the Russian pension savings market is associated with the younger generation, which is just beginning to realize their attitudes towards pensions savings and show their pension-savings behaviours.

## 1.2 Generation Z as a prospective player on the pension savings market

As generations change, the priorities and mechanisms of the pension system change as well. It happens also due to the effect of qualitative factors such as globalization, digitalization, the development of social networks and improvement of the quality of life. A new generation is entering the working age — the so called generation Z, a generation that actively uses multimedia technologies and receives information online. They are confident in their views, which are not always correct, and individual in their preferences (Sapa, 2014). There is an

opinion that they think fragmentarily (Carr, 2008), their behaviour is determined by the virtualization factor and, therefore, they are more prone to unnecessary risks (Greenfield, 2012; Wells, 2018). Meanwhile, researchers define this generation as a generation of experienced consumers and a rapidly maturing generation. New technologies are their natural environment (Tapscott, 2008; Dolot, 2018). Currently, it is generation Z that forms the vector of mass behaviour in relation to pension savings and the development of the pension savings market for the coming decades (Fig.1).

**Fig. 1: Diagram of the influence of the generation Z on the development of the pension savings market**



Source: compiled by the authors

Factors and conditions, together with incentives, create motivation for the generation Z to save for their pensions, develop their attitudes towards pensions and their pension strategies.

## **2 Researching the attitude of generation Z to the pension savings market**

For the purposes of this study, economic, institutional and behavioural factors were identified. The economic factors include the level and sources of income, expenses, planning and record-keeping of expenses; financial services and financial products offered on the financial markets, and the level of financial literacy. Institutional factors include trends in the development of financial institutions, legal provisions, level of confidence in financial institutions, and family standards of financial behaviour. The main behavioral factors include

the life goals, the desire to make or not to make savings, the choice of financial instruments, and the method of choosing information.

## 2.1 Research methodology

Russian and foreign literature does not contain any special studies of the attitude of the younger generation to non-state pension funds and pension programmes. Russian and foreign studies are largely devoted to the analysis of factors and conditions of decision-making on individual savings and investments (Ongena, 2018; Kiraly, 2019). Some works highlight the impact of the state on the choice of pension schemes (Pastorakova, 2017; Shin, 2018).

In order to assess the attitude of the younger generation to non-state pension funds, as well as to the services and products offered by the funds, we have conducted a survey among young people aged 18 - 24.

The research methodology was based on a systematic approach to the pension savings market and a focused study of the attitude of the generation Z that was considered as the player determining the vector of development of this market. In view of this, the researchers were facing the question: "What is the attitude of the younger generation to non-state pension savings and to which extent does the younger generation use the services of non-state pension funds?". Furthermore, an attempt to establish cause and effect relationships between the factors and conditions and the opinions of potential pensioners was made. The research was asking following additional questions:

- Does the generation Z develop a pension strategy?
- Do family standards of financial behaviour influence the development of a pension strategy?
- Does financial literacy influence the development of a pension strategy?
- Do state conditions influence the development of a pension strategy?
- Do modern technologies influence the development of a pension strategy?

The objectives of the research are as follows:

1. clarifying the views of the generation Z on non-state pension funds and the pension savings market;
2. determining the level of financial literacy of the generation Z in relation to the pension savings market;
3. identifying the influence of external and internal factors (economic, institutional and behavioural) on the development of the generation Z's opinions regarding finances (pension);

4. formulating the prevailing attitude of the generation Z's towards finances (pension).

The research had suggested a hypothesis that the generation Z is unlikely to develop a demand for the services of non-state pension funds, unless there are some encouraging factors, stimuli and conditions.

This study of the generation Z's attitude towards the development of the pension savings market is based on the survey conducted in Omsk region. Omsk region ranks 25th in the Russian Federation in terms of population. The study of the attitude of the younger generation (generation Z) to the development of the pension savings market was conducted in the form of a sociological survey in January-March 2019. The survey was conducted among students of higher education institutions aged 18-24, a total of 472 people.

## 2.2 Generation Z's attitude to pension

The results of the study showed that the generation Z has a fragmented view of non-state pension funds and the pension savings market (tab. 2).

**Tab. 2: Answers to the question "Are you going to save for an additional (non-state) pension from a non-state pension fund?"**

Options	Percentage of respondents, by age group, %		
	18 – 19	20 – 21	22 – 24
Yes, I am going to save for an additional non-state pension	3.4	11.5	28.6
No, I am not going to save for any pension at all	5.9	7.7	9.0
Yes, I am going to save for a pension but with financial instruments other than non-state pension funds	9.3	13.9	12.5
I haven't thought about it yet	74.6	61.5	42.9
I'm not interested	6.8	5.4	7.1

Source: authors' calculations

The study showed a low level of financial literacy of the generation Z in relation to the pension savings market. For instance, only 26.3% of respondents gave the absolutely correct answer to the question "Why do we need non-state pension funds in Russia?", 25.7% were undecided. 51.3% of respondents gave the correct answer about the ratio of profitability and risk associated with pension savings, while 22.4% could not answer this question. This means that the financial literacy programmes should include issues related to the pension savings market; the mega-regulator must pay special attention to this problem in view of the frequent changes to the current pension system.

The data on the assessment of the adequacy of the future pension are somewhat pessimistic. The share of respondents who believe that the amount of their insurance pension in future will be enough for life is 0.7%. The share of respondents who believe that they would have to use additional savings sources is 61.5%. At the same time, only 11.8% of respondents are going to save for their pension with a non-state pension fund, 63.2% have not thought about it yet.

One can compare these data with the results of other studies. According to a study conducted by the High School of Economics, National Research University (2011), the proportion of respondents aged 18-25 who believed that a pension would be sufficient for their life was 6%, and the share of those who believed that the pension would not be enough (most likely not enough) was 49% (Kuzina, 2012). We believe that the pessimism of the generation Z in our study can be explained by the lack of permanent sources of income among younger people, the instability of the legal framework and the fragmentary ideas about the pension savings market.

### **2.3 Influence of conditions and factors on the development of the generation Z's attitude to pension**

We have tried to identify the influence of conditions and factors on development of the generation Z's attitude towards pension. Based on the answers given by the respondents, we can make following assumptions and conclusions:

1. The state creates conditions for the functioning of the pension savings market, regulates the types of pensions, pension schemes and programmes. However, the frequent change of "pension rules" in Russia leads to their poor understanding by the generation Z. For instance, only 45.7% of respondents know that contributions for non-state pensions can be made not only by citizens themselves, but also by their employers; 26.3% of respondents have an idea of the functions of Russian non-state pension funds.

2. The family has a significant impact on the development of the generation Z's opinions towards pension. In 37.5% of families, issues related to pensions and non-state pension funds are never discussed. 50.1% of youngsters from such families have not yet thought about their pension savings. In families that discuss issues related to the pension system, 32% of the respondents are going to form for their non-state pensions. This category of families actively uses a variety of financial instruments and financial services (including services of non-state pension funds). In those families that never discuss issues related to the

pension system the most popular financial instruments are bank loans (65.5% of answers), insurance services (30.1% of answers), deposits (26% of answers).

3. There is a lack of awareness of the government's plans for the development of the pension savings market among the respondents. Only 26.3% of the respondents know that the individual pension capital is going to be introduced in Russia. However, 48% of the respondents believe that they do not need additional information about non-state pension funds. In our opinion, this indicates the immaturity of the generation Z in terms of development of their pension behaviour. Nevertheless, the fact that 23.7% of respondents would like to receive qualified consultations on issues regarding non-state pension funds, and 62.5% may eventually seek such consultations, means that the opinions of the young people on pension are developing.

4. The answers to the questions related to the respondents' goals are interesting. 42.4% of respondents can clearly define their life goals, 42.1 % have current goals, 5% have not thought about their life goals, and 10.5% of respondents do not have a life goal. The respondent's portrait of a group that does not have life goals can be described as follows: this is a young woman aged 18-19; the main source of income is the help of relatives and close people; she is not going to save for her pension with a non-state pension fund, has a low level of financial literacy, shows a tendency to save money in the form of savings deposits. In the group of the respondents who have goals in life, 50.4% are aged 20-21 and 18.1% - 22-24. The main sources of their income are the help of relatives and close people (31% of the respondents) and permanent wages (29.1% of respondents). 52% of the respondents in said group would save money in the form of savings deposits, 30.1% would save money in the form of securities and individual investment accounts. Thus, the older the respondents are, the clearer and more thought-through their plans on pensions become.

5. The generation Z understands that the pension savings market in Russia is not developed enough. The young generation sees the lack of extra money available for pension savings as the main reason for the underdevelopment of the pension savings market. 28% of the respondents think that the population does not have enough information about non-state pension funds. When asked about the sources of reliable information on existing pension funds and pension programmes, respondents aged 18-19 indicated sources that can be found by key words online and on social networks as the most reliable sources; whereas respondents aged 20 and older indicated the website of the Bank of Russia and information agencies. This fits perfectly into the characteristics of the generation Z.



The generation Z is considered to be the most advanced generation in terms of understanding and use of digital technologies. However, the obtained answers indicate a superficial view of the younger generation regarding the digitalization of the pension savings market. 14.1% find it difficult to answer the question "How will digital technologies affect the development of the pension services provided by non-state pension funds?" 54.9% believe that pension services will become more accessible, 62.5% think that it will be more convenient to receive pension services.

## **Conclusion**

The results of the study confirmed the hypothesis: the generation Z has not developed its pension behaviour yet. Economic factors (sources of income, expenses, planning and record-keeping of expenses); institutional factors (family standards of financial behaviour) influence the development of young people's opinions on pension. Economic and institutional factors, in turn, determine behavioural factors.

The generation Z lives in the world of digital technologies, social networks, and advertising. Based on this, we assume that the younger generation requires new ways, technologies, and methods of enlightenment and improving their financial literacy. The prospect of further development of the pension savings market will have to do with encouraging factors, incentives and conditions that would help develop a demand for the services of non-state pension funds. The state, being the mega-regulator, should take into account the specific features of the generation Z when creating conditions for the development of the pension savings market. In particular, the state has to expand the use of modern digital technologies in financial literacy programmes, use social networks and Instagram to explain the legislation, expand the range of the publications explaining the mechanisms of non-state pension savings and upload them on information and educational platforms in a format that would be convenient for the generation Z.

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