

Calls for more pension saving are a recipe for a pension...

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The [Guardian reports this morning](#) that:

The average person will have to save £260,000 over their lifetime to enjoy a basic income in retirement, climbing to £445,000 if they are unable to get on the property ladder, according to a report by a former government pensions minister.

In a gloomy assessment of the outlook for today's millennial generation, Steve Webb said most savers in the government's scheme were likely to accumulate only half the target amounts.

The report comes from insurer Royal London, who clearly have a vested interest in more people saving. The report is also totally wrong.

The more people save the less economic activity there is in the UK. That is for two reasons. The first is that savings take money out of the economy: they are not spent, so that has to be true. And second, because savings do not fund investment (they go into second-hand shares and property in the main, instead) they do not add value to the UK economy. They do instead simply inflate the value of financial assets.

Now let's roll forward thirty years and assume that everyone has saved as required. We will have five things. The first will be a massive pile of financial assets. The second will be an economy that has underperformed. The third will be an economy with too little actual investment because there will have been no demand for its creation. Fourth, we will then in all likelihood be much worse off than those countries that have not saved in this way. But, fifth, and most important there will then be fewer young people (demographic change is happening) and they simply will not have the means to buy that great pile of over-valued financial assets that their older generation will by then own. And sixth, they will be over-valued. The [reasons for this I have already explained](#): markets are institutionally set up in the short term (which is all they care about) to ensure that this is the case.

So how will the younger generation in thirty years react to this request that they buy

this pile of second-hand dud financial assets? They'll realise they are being sold a pup and refuse to part with their cash for assets that will deliver little real value to them. And all those savings will disappear in a puff of financial meltdown.

There is good reason for this. Of course it makes sense for an individual to save. I do not dispute it. But as I say time and again on this blog: just because something makes sense for an individual does not mean it makes sense for an economy as a whole: in fact the opposite is often the case. And that is true here. So long as everyone does not save then saving for retirement can work because the assets into which money is saved are not overvalued enough, and the economic effect of saving in the current period is not big enough, for massive economic distortion to result. But if everyone does it then the opposite is true: total economic distortion results: asset bubbles are created whilst current incomes are suppressed and the result is an inevitable economic meltdown when it is appreciated that there will never be a market able to buy the assets that must (in the case of pensions) be sold to provide an income for a person in retirement. And I stress, pension calculations do assume that the capital is consumed and so assets must be sold.

Royal London are, then, talking complete nonsense.

And so too are governments by compelling mass pension saving.

Pensions are always provided by a younger generation being willing to forego part of their income to look after the elderly. That's the only way it works. And that can only happen en masse through a state pension system. The private pension system we have is already tottering because of asset over-valuation. It will collapse if required to do what Steve Webb suggests.

One day we will realise macroeconomic problems cannot be solved with microeconomic solutions. Pensions are a case in point. But right now learning the lesson may prove to be very costly indeed. And insurers will profit on the way. Of that we can be sure.