

Research on individuals' reactions to the workplace pension reforms

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These reports present findings from quantitative and qualitative research¹ into the attitudes and likely reactions of individuals who would be eligible for automatic enrolment under the workplace pension reforms. The quantitative survey comprised of 754 face-to-face interviews with a sample of eligible adults, and the qualitative follow-up involved in-depth interviews with 60 individuals, to further explore reasons why people may decide to remain in or opt out of the personal accounts scheme. This research was conducted between July and December 2007 by the Ipsos MORI Social Research Institute, on behalf of the Department for Work and Pensions.

The Pensions Act 2008 set out the Government's reforms to introduce, from 2012, a duty on employers to automatically enrol all their eligible employees into a qualifying workplace pension scheme. Employers will also have to provide a minimum contribution towards the pension saving for those employees who participate. Employees will be able to opt out if they do not wish to participate. The Pensions Act also set out plans for the establishment of the personal accounts scheme, which will be a trust-based, occupational pension scheme for

employers that do not have, or wish to use, a qualifying scheme of their own. This pension scheme will be run at arm's length from Government by a body corporate acting as an independent, not-for-profit trustee.

Key findings

There was broad support for the key elements of the reforms: the majority of people (64 per cent) found the idea of automatic enrolment attractive, and over nine in ten (91 per cent) found the employer contribution attractive.

Most people (69 per cent) said they would remain in the scheme, whilst 22 per cent said they would be likely to opt out, and ten per cent were undecided.

Those earning less than £25,000 a year were more likely to say they would stay in the personal accounts scheme than higher earners (72 per cent compared with 58 per cent), as were younger respondents (individuals in their 20s and 30s) (75 per cent compared with 62 per cent of those aged 40 to SPA), and women (73 per cent compared with 65 per cent of men).

Three main factors were cited as reasons for remaining in the scheme: needing to start saving (49 per cent), employer contribution (31 per cent) and the ease of saving (31 per cent).

A range of factors were cited as reasons for opting out: wanting to save for retirement in a different way (27 per cent), already having a personal pension (16 per cent), being 'too old'

¹ Webb, C., Pye, J., Robey, R., Jeans, D. and Smith, P. (2008) *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. Gray, E., Harvey, P. and Lancaster, J. (2008) *Why people may decide to remain in or opt out of personal accounts: Report of a qualitative study*.

(16 per cent), not being able to afford to save (16 per cent) and concerns about losing money (12 per cent).

The qualitative research indicates that decisions to remain in or opt out of the scheme may also be driven by a wide range of critical factors.

Of those who said they would remain in personal accounts if automatically enrolled, just under half (46 per cent) said they were likely to contribute above the minimum four per cent level on a regular basis, and an additional 13 per cent said they would make additional lump sum contributions.

The overwhelming majority (94 per cent) of customers felt it was important to have a choice over how their contributions were invested.

Awareness and attitudes

There was broad support for the key elements of the reforms: the majority of people (64 per cent) found the idea of automatic enrolment attractive, over nine in ten (91 per cent) found the employer contribution attractive, and seven in ten people (72 per cent) found the idea of automated individual contributions attractive.

Participants in the qualitative research acknowledged that unless people begin making provision for their retirement through increased saving, there is likely to be an increase in pensioner poverty in the future.

Respondents felt the personal accounts scheme was straightforward, flexible and easy to understand, and there was a strong sense among participants that the contribution level was set at a fair and affordable amount.

As expected, given the communication strategy has not yet been introduced, there was limited awareness of the reforms, and less than a quarter (23 per cent) of the survey participants were aware of them prior to the interview.

Participation levels

Most people (69 per cent) said that, if enrolled into personal accounts tomorrow, they would remain in the scheme. This breaks down into around a quarter (24 per cent) who said they would definitely stay in and 45 per cent who said they would probably stay in. 22 per cent said they would be likely to opt out, and ten per cent were undecided.

Those earning less than £25,000 a year were more likely to say they would stay in the personal accounts scheme than higher earners (72 per cent compared with 58 per cent), as were younger respondents (individuals in their 20s and 30s) (75 per cent compared with 62 per cent of those aged 40 to SPA), and women (73 per cent compared with 65 per cent of men).

Decision-making

Three main factors were cited as reasons for remaining in the scheme: needing to start saving (49 per cent), the employer contribution (31 per cent) and the ease of saving (31 per cent).

The qualitative research explored reasons for participation in more depth, and indicates that individuals who stated they would remain in the personal accounts scheme may be influenced by a range of factors. In particular, the degree of importance they placed on saving for retirement, a perception that the scheme was 'Government backed', and a perception that the reforms were simple and easy to understand.

A wide range of factors were cited as reasons for opting out of the scheme: wanting to save for retirement in a different way (27 per cent of those who would opt out), already having a personal pension (16 per cent), being 'too old' (16 per cent), not being able to afford to contribute to a pension (16 per cent) and concerns about losing money (12 per cent).

The qualitative research with participants who stated they would opt out indicates that decisions may also be influenced by a range of factors, including a perception they were 'too young' to save, being uncertain about what their pension will be worth when retiring, concerns about the impact of the reforms on their employer and future job security, previous negative experience of State financial support, opposition to the principle of automatic enrolment, and concerns about the management and administration of the scheme.

Changes in personal circumstances were a key driver in decision-making for some respondents. However, some individuals responded differently to the same change in circumstance, and having children or experiencing divorce, for example, caused some individuals to state they would opt out, whilst driving others to remain in the scheme.

For some, the decision whether to remain in or opt out of the scheme was quite straightforward, whilst for others it was a more complex decision. Individuals may adopt different approaches to decision-making, and for some the decision was reached through giving careful consideration of the relative costs of participating compared with the benefits and financial gain that saving would be likely to bring. For others however, short-term financial considerations were more prevalent, whereby the cost of contributions relative to their **immediate** financial circumstances was the driving factor. For some respondents, decision-making was governed by a strong appreciation of the principle of making provision for retirement, and for a few participants, political and ideological views of automatic enrolment and the role of the State, tended to frame their approach to deciding whether or not to remain in the personal accounts scheme.

Contributions

Of those who said they would remain in personal accounts if automatically enrolled, just under half (46 per cent) said they were likely

to contribute above the minimum four per cent level on a regular basis, and an additional 13 per cent said they would like to make above minimum payments in the form of the occasional lump sum.

Investment choice

The overwhelming majority (94 per cent) of respondents felt it was important to have a choice over how their contributions were invested. Of those who said they were likely to remain in the scheme if enrolled into personal accounts, the majority (68 per cent) said they would choose how to invest their money.

Of those who said they would choose how their money is invested, around seven in ten (68 per cent) said that the level of return was the most important issue for them. However, a significant minority (23 per cent) said they were interested in ethical investment options regardless of the level of return.

Risk

The survey included a question designed to enable calculation of each respondent's attitude to investment risk². This involved asking respondents to imagine what they would do if they had a specific sum of money to invest for their retirement. Respondents were presented with a hypothetical situation in which they had an equal chance of doubling their money, or losing a third of the amount that was invested. The proportion of the money that respondents said they would place in this investment was then used to determine their propensity to take financial risks.

Over four in ten (44 per cent) were classified as 'risk averse', i.e. they were not keen on risking substantial amounts of money for the potential of a higher return. Seventeen per cent were classified as being 'mildly risk averse', and

² This was based on a standard measure of 'constant relative risk aversion' (CRRA). For further information see Section 7.4 *Attitudes to Investment Risk* within the quantitative report.

almost three in ten (29 per cent) were classified as being 'risk loving'. Those saying they would opt out of personal accounts were more risk averse than those that would remain in (51 per cent compared with 42 per cent).

Information and communication

One-fifth (18 per cent) of respondents did not get any information at all about financial services at the time of the survey. This was particularly the case for those on lower incomes (90 per cent of those who did not get any information earned less than £25,000 per year).

Individuals who did get information about financial products, services and issues (81 per cent) used a variety of sources, the types of which varied by age and income. Higher earning respondents (those earning £35,000 per year or above) were more likely than lower earners to use independent financial advisers (34 per cent compared with 14 per cent) and the Internet (40 per cent compared with 21 per cent).

In relation to the personal accounts scheme, the majority of respondents said it was important that information is provided by an independent source and not Government. Independent sources (including organisations such as the Citizen's Advice Bureau, the independent body set up to run personal accounts, and independent financial advisers) were the preferred option for 67 per cent of individuals, employers for another 16 per cent, and the Government for just 12 per cent.

Respondents were divided as to the channel of communication they would prefer when receiving information about the personal accounts scheme. For example, while six in ten (59 per cent) were ideally interested in face-to-face contact, others were split between preferring telephone, email and post to receive communications (13 per cent, ten per cent and ten per cent, respectively).

The full reports of these research findings are published by the Department for Work and Pensions (ISBN 978 1 84712 469 2. Research Report 550 and ISBN 978 1 84712 467 8. Research Report 551. December 2008).

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