Pensions and pension reform

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A report of research carried out by the IFF Research Ltd on behalf of the Department for Work and Pensions
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Acknowledgements

We are grateful to the individuals who took part in this research who took time to attend group discussions and share their views and experiences with us. We would also like to express our thanks to Karen Elsmore, Arthur Fleiss, Michael Kelly and Athena Bakalexi for their assistance in setting up the project and helping to ensure that we were able to complete fieldwork within a relatively tight schedule.
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Summary

Introduction

This report documents the findings from a qualitative research project designed to look at general knowledge and attitudes towards pensions and responses to suggestions for change in the pension regime in advance of the publication of the second report of the Pensions Commission that was published at the end of November 2005. The study was intended to help inform the Department for Work and Pensions (DWP) response to this report (in conjunction with a quantitative exercise covering similar ground).

Methodology

Twelve group discussions were conducted among members of the general public aged 18 to 65. The discussions were structured to enable sub-group analysis by age, broad income band and whether or not individuals had any pension provision (beyond state entitlements).

Fieldwork took place in mid-November 2005.

Key findings

General understanding about the extent of state pension provision and the way in which it is calculated was poor. Individuals often assumed that the state pension is paid at a higher level, that there is universal entitlement to the state pension or that all those entitled receive the same level of award. These misconceptions were held across all age groups and income bands (although they were more common among those who were younger or had lower levels of income).

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1 Qualitative research serves primarily to identify and explore views about the subject, but not the extent to which these are held. As such, these findings should be treated as indicative only.
Widespread media attention had alerted most individuals to the fact that there is some form of ‘problem’ with the pension system. However, the reasons behind this were very difficult for most individuals to grasp. This was because individuals were largely unaware of (the extent of) the increase in average life expectancy that has taken place since the introduction of the state pension and also because there was limited understanding of the way in which the system operates. A good proportion of individuals believed that each person’s National Insurance Contributions (NICs) are paid into a fund earmarked for them (which in turn pays for their state pension) – this made it difficult for them to understand how there would ever be insufficient funds to meet the needs of pensioners. With this level of misunderstanding, it was common for individuals to believe that the Government had ‘done something wrong’ and hence, to view any proposed changes to the system in a negative light.

Discussions around the way in which the state pension is calculated and the levels of benefit paid led some individuals to state spontaneously that they wished there was generally more education provided about pensions and the importance of saving early for retirement.

In general, people felt that the balance of responsibility for funding retirement lies with the individual and the Government (but only in as far as providing a safety net to ensure people were not living in poverty). Employers were seen to play a much smaller role, being primarily viewed as a facilitator, although employers were the main route through which those who had a pension had obtained it. In discussion of automatic enrolment in a private pension scheme, people were supportive of having an employer contribution.

A number of suggested options for reforming the pension regime were explored in the research. These were:

- the diversion of funds from other areas of Government expenditure to make more money available for pensions;
- increases in taxes or NICs to make additional money available to meet pension commitments;
- increases in the state pension age to reduce the relative cost of providing state pensions;
- making it compulsory to have some form of non-state pension provision in place with a view to reducing the number of individuals relying (totally) on the state to fund their retirement;
- automatic enrolment into employer pension schemes to encourage take-up;
- compulsory employer contributions to pensions with the aim of making saving for retirement through an employer a more attractive option and ultimately increasing take-up.

Of the suggested amendments to the pension regime explored in this research, an increase in the state pension age and raising taxes or increasing National Insurance
Contributions to generate additional revenue for pensions were the least popular. Responses to raising the state pension age were highly emotional and it was viewed as synonymous with forcing individuals to work longer (even by those who stated that the state pension age would have no bearing on when they elected to retire).

However, there was some grudging acceptance that a change of this nature was inevitable among younger participants (who felt the state pension may well be phased out entirely by the time that they come to retire). Where respondents were prepared to discuss the possibility of an increase in the state pension age, they felt that they may well come to live with an increase to either 66 or 67 but that an increase to 70 felt totally unacceptable.

In addition, some stated that they felt that they could ‘live with’ a small increase in taxes on the understanding that the additional funds would be ring-fenced for pensions.

Reactions to the suggestion of compulsory saving for retirement were mixed. There were some groups who viewed this as a potentially positive development encouraging people to start saving earlier (particularly among older individuals with low to mid incomes and no pension provision who wished that they had taken action on retirement saving earlier). Others reacted negatively to the removal of individual choice stating that they should be allowed to choose alternative (‘better’) mechanisms for retirement saving (generally older individuals on higher incomes with no pension provision) or to prioritise other areas of expenditure (generally younger individuals looking to start on the property ladder or to pay off student debts).

Although most did not view the facilitation of retirement saving as an employer responsibility, automatic enrolment in employer schemes was generally viewed as a positive suggestion. Some of those without pension provision acknowledged that they had/have been likely to ‘put off’ joining a pension scheme for a long time simply because they would not find the time or energy to find out what to do. These individuals felt that automatic enrolment would be a relief because it would take the onus off them to take action. Even some of those who had joined their employer’s scheme stated that they had put off doing so for no real reason and that automatic enrolment might have benefited them positively in the long-run.

Most acknowledged that compulsory employer contributions would make automatic enrolment a more attractive prospect. It was clear that employer contributions had played a role in encouraging most of those who were members of their employer scheme to join. Some were concerned that compulsory employer contributions would act to depress salaries.

Widespread distrust of employer and private pensions (fuelled by media coverage of ‘horror stories’) led individuals to raise concerns over being ‘forced’ to use unreliable savings mechanisms if either compulsion or automatic enrolment were to be introduced. Some of this concern stemmed from misunderstandings about the nature of most pensions that employers provide access to. For example, there was a
commonly held misperception among those with no pension provision that it was the case for all employer pension schemes that if the employer were to go out of business (or even perform badly) then all money invested in their pension scheme would be ‘lost’ (or substantially reduced)\(^2\). Hence, several stated that they felt that the Government would need to offer some form of ‘guarantee’ or ‘seal of approval’ on pension schemes (particularly under a compulsion regime).

Perhaps unsurprisingly, one of the most popular solutions for maintaining the future funding of pensions was to divert funds from other areas of Government expenditure.

In terms of the timing of any changes, for most of the options discussed with participants, five years was seen to be a reasonably timeframe over which to introduce amendments. The exception to this was probably increasing the state pension age which respondents felt would need to be phased over a longer period.

The majority of individuals were uncomfortable with the concept of ‘risk’ in the context of pensions. They felt that it was inappropriate to take risks with such an important investment. Many were unaware that pension funds are invested on the stock market and tended to view them as long-term savings accounts instead. Most stated that, if they were given the choice, they would select low risk funds (despite the fact that these would be likely to have low rates of return). Nearly all felt that they were not equipped to make this sort of decision and that they would prefer to leave these sorts of decisions to an ‘independent financial adviser’ or pension provider.

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\(^2\) The Pension Protection Fund was set up to provide a statutory level of compensation to members of defined benefit or the defined benefit element of hybrid occupational pension schemes, where the employer has an insolvency event on or after 6 April 2005 and the scheme is funded below PPF levels of compensation. Defined contribution arrangements, by their nature, can not be under-funded.
1 Introduction and methodology

1.1 Background

In November 2005, the Pensions Commission delivered its second report\(^3\) putting forward suggestions for pension reform. In order to inform consideration of these suggestions for reform, the DWP commissioned IFF Research to undertake a qualitative\(^4\) project to explore the general public’s knowledge of and attitudes towards the current pension regime and test their reactions to some possible changes. The findings of the research contribute to a wider body of quantitative and qualitative evidence on attitudes to saving for retirement, pensions and pension reform. In particular, they are complemented by a quantitative survey on public attitudes to pension reform. A summary of the findings from the survey can be found at www.dwp.gov.uk/asd/asd5/summ_index_2005_2006.asp. The DWP has also undertaken a major consultation and research exercise through the National Pensions Debate\(^5\).

1.2 Methodology

The project consisted of 12 group discussions among members of the general public aged between 18 and 65 and earning under £45,000 per year. Each group had, on average, eight respondents. Criteria were set for the recruitment for individual

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\(^3\) Pensions Commission (November 2005) A new pension settlement for the twenty-first century, the second report of the Pension Commission.

\(^4\) Qualitative research serves primarily to identify and explore views about the subject, but not the extent to which these are held. As such, these findings should be treated as indicative only.

\(^5\) www.dwp.gov.uk/pensionsreform/debate.
groups to enable the comparison of knowledge and attitudes between individuals of different ages, income groups and by whether or not they had non-state pension provision in place. Table 1.1 below shows the structure of the group discussions.

Table 1.1 Structure of group discussions

<table>
<thead>
<tr>
<th>Aged 18-39 (younger)</th>
<th>Contributing to pension scheme – or have done in past</th>
<th>Not contributing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not working</td>
<td>1 group</td>
<td></td>
</tr>
<tr>
<td>Earning £12-25K</td>
<td>1 group</td>
<td>1 group</td>
</tr>
<tr>
<td>Earning £25-45K</td>
<td>1 group</td>
<td></td>
</tr>
<tr>
<td>Aged 40-65 (older)</td>
<td>1 group</td>
<td></td>
</tr>
<tr>
<td>Not working</td>
<td>1 group</td>
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<tr>
<td>Earning £12-25K</td>
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<td>1 group</td>
</tr>
<tr>
<td>Earning £25-45K</td>
<td>1 group</td>
<td></td>
</tr>
</tbody>
</table>

In the remainder of this report, those with an income of under £12,000 per year are referred to as being on ‘low’ incomes, those earning between £12,000 and £25,000 as being on ‘mid’ incomes and those earning in excess of £25,000 as being on ‘higher’ incomes. Those who were either contributing to a pension scheme at the time of the research or who had done in the past are referred to as those ‘with pension provision’.

Groups were held in London, Birmingham, Leeds and Edinburgh between 15 and 23 November 2005. Each group discussion covered:

- overall attitudes towards pensions;
- knowledge of/attitudes towards current provision (both state and employer provision);
- attitudes towards risk and pensions;
- views on suggestions for future funding;
- diverting monies from other areas of Government expenditure;
- increasing NICs/taxes;
- raising state pension age;
- compulsion;
• automatic enrolment into employer schemes;
• compulsory employer contributions to pension schemes.

A copy of the topic guide is appended.

1.3 Report structure

The report is organised into three subsequent chapters as follows:
• Chapter 2 – General attitudes towards pensions.
• Chapter 3 – Knowledge of and views on the current pension regime.
• Chapter 4 – Views on possible reforms to the pension regime.
2 General attitudes towards pensions

To provide context for the research, respondents were asked initially about their attitudes to pensions in general, including:

- views about funding their retirement;
- anticipated methods and best ways of funding retirement;
- possible sources of advice on pensions and saving for retirement.

This chapter explores these attitudes that people have towards pensions and savings and funding retirement generally. It also examines how these attitudes and plans vary by age and income bracket.

2.1 Views about pensions

People were not actively concerned about pensions on a day-to-day basis. The position of most people in relation to funding their retirement can be described as passive – very few people were actively concerned about planning for their retirement. Varying rationalisations were given for this attitude, depending on individual circumstances. For example, among people who did not have any pension provision currently:

- younger people (aged 18-39) often felt they were too young to worry about pensions yet. They felt it was unnecessary to be concerned about funding retirement when there was still so much time for their circumstances to change. Particularly at the younger end of this age bracket, people were generally uninterested in the subject. They tended to associate pensions with a certain (unwelcome) level of responsibility they were not yet willing to take – so even amongst those who know they should think about setting up savings for retirement, they simply don’t want to deal with it:

  ‘It's a long way off.’

  (18-39, not working, no pension)
General attitudes towards pensions

‘It’s something of a responsibility on top of everything else. I’ve thought about it many times but I haven’t put it into practice.’

(18-39, less than £12K, no pension)

• older people on low to mid incomes (aged 40-65, earning less than £25K) took the view that it was too late to start saving for a pension, or believed they could not afford to start saving for a pension; in both cases they felt that it would be pointless to worry about pensions, as they could not change these circumstances:

‘I haven’t really even thought about it because I don’t earn enough in the first place.’

(40-65, less than £12K, no pension)

• older people on higher incomes (£25-45K) were not actively concerned about funding their retirement, as they generally felt they had alternative plans and/or sources of funding that would provide them with a satisfactory income in retirement:

‘I’ve got investments of various descriptions, not in a property as in an actual building but as an investment via the stock exchange...I’m hoping this will be my pension.’

(40-65, £25K-45k, no pension)

The lack of concern amongst those who did have some level of pension provision was generally fuelled by hope, rather than knowledge, that their current level of pension savings would be sufficient:

• younger people with pensions often had vague plans to supplement their current plan with further investments in the future, but similar to the younger group without pensions, there was a lack of urgency due to the perception that retirement was a long way off;

• like those without pensions in the same age/income bracket, older people on low to mid incomes said they could not afford to contribute further to their pensions, so merely hoped that their current provision would be sufficient; and thus, felt there was little point in worrying;

• older people on higher incomes who do have some pension provision were unconcerned, as they either believed their current provision would be sufficient, or they had alternative funding plans, or both:

‘I think I’m covered...I think. I never thought about it [pensions] when I was younger even though our parents all went on about it [pensions].’

(40-65, £25-45K, with pension)

Thus, for a variety of reasons with which people justified their passive stance, funding for retirement was not ‘on the radar’ of their day-to-day thoughts and at best it was no more than a ‘niggling concern’.
‘I don’t like to think about it too much actually.’

(40-65, £12-25K, with pension)

This low level of worry was a natural barrier to individuals taking an active interest in funding their retirement. There was also a general lack of awareness of what to do and where to go in order to arrange (greater) funding for retirement.

‘Pensions are something I should be thinking about now but I try not to and keep putting it off…Because I don’t really know where to start looking to be honest, you hear that many things about it – don’t get a pension, put your money into investing into something else, so it’s finding out what’s best to do.’

(18-39, less than £12K, no pension)

This lack of awareness of how best to approach saving for retirement led many people to adopt a ‘head in the sand’ attitude; saving in a pension was put in the ‘too hard basket’ and ignored.

Finally, amongst those who do not have a pension but who were better informed about the pension system, there was a complaint that Government ‘keeps moving the goal posts’ as regards state pension provision. This phrase was particularly fuelled by the awareness that a new approach to pensions was currently being mooted by Government (the raising of the state pension age being one of the most frequently cited examples). This group claimed that investing in pensions is pointless and/or unsound, as advice taken at the moment would be based on the current pension system, which is bound to change.

### 2.2 Anticipated methods of funding retirement

At this point in the discussion, participants were asked two open questions:

- If you thought you weren’t going to have enough money in retirement, what would you be likely to do?
- What do you think are the best ways to save for retirement? Why?

Pensions sat alongside property investment, and to a lesser extent, savings as the most popular plans for funding retirement.

#### 2.2.1 Property

Within most groups, many people claimed they planned to fund their retirement through property, intending to rely on property to either fund their entire retirement income, or part of it. Most commonly they planned to downsize the current family home to provide an income in retirement. Less common were those anticipating rental income from one or more properties to fund their retirement. Building up equity in an array of properties was a popular plan amongst younger people but, as discussed in more detail later, many had not yet actually made this type of investment:
‘I’m thinking of getting property as an investment for my pension. I think I can do it without a mortgage.’

(40-65, £25-45K, no pension)

‘That’s what a lot of my friends have done, they’ve invested in property and they are calling it their pension fund. It seems to be the way to go.’

(40-65, £25-45K, with pension)

‘I’ve got my own property anyway so I’m hoping that when the children are grown up I can downsize and make a bit of money with the house.’

(18-39, £12-25K, with pension)

Property was the favoured method of funding retirement due to the perception that property is seen as more reliable and more potentially lucrative than a pension. Property was seen as a tangible, ‘bricks and mortar’, sturdy investment and was thus, favoured over a pension, which is an invisible investment that people feel they have less control over:

‘But a lot of people are putting their money into houses aren’t they? If you bought a house for £150,000 and sold it for £250,000, that’s your pension isn’t it. So what’s the point in having a pension when you can make money in bricks and mortar?’

(18-39, £25-45K, no pension)

The other major appeal of property was the potential for a ‘windfall’ high return. Unlike investing in a pension, people perceived that they have a chance to strike it lucky with the property market and make an unexpectedly large profit from the sale of their property in the future. Over the long-term, property was seen as a very sensible investment with virtually guaranteed and, possibly extremely high, returns:

‘You could sell your house and have your investment for your pension this way…Who knows what it’s going to be worth in 30 years? I mean house prices now are ridiculous.’

(18-39, not working, no pension)

‘With property prices you just think there’s more of a chance of some sort of windfall’.

(40-65, £25K-45K, no pension)

However, amongst the many people who cited property as the method by which their retirement would be funded, there was often little or no evidence of a coherent plan, for example, relating to exactly how, when or with what effect, their property would be downsized. Those who claimed to be planning to fund their retirement with property had rarely explored the economics of their plan in any depth. It appears that while many people had heard from others or the media that property is
‘the way to go’, there was little understanding of what is involved or whether their properties would even be able to support them in retirement.

Indeed, supported by the current popularity of property as an investment, property was often offered as the plan for funding retirement in the absence of having an adequate pension – that is, it appeared to be more of an excuse or justification for lacking an appropriate savings or investment plan for retirement.

2.2.2 Savings

Savings, particularly through an ISA, were also regularly mentioned as the method by which people anticipated funding their retirement, particularly by older low-income groups without pensions. This group had no chance of investing in property or elsewhere, and equally felt they would not be able to build up a sufficient pension in the small proportion of their working lives remaining.

2.2.3 Pensions

Opinions about the role of pensions in providing for retirement were more divided. Certainly for higher income groups, pensions were seen as core or basic provision for retirement which would need to be supplemented by other investments such as property and stocks and shares.

The advantages of pensions were seen to be:

• security/peace of mind: many people felt that if they had some pension provision, no matter how small, they would at least be assured of a bare minimum income. Pensions were also seen by many as a safe, responsible investment;

• inaccessibility of funds until retirement: that funds paid into a pension are unavailable to spend until retirement age was appealing to many people. This feature eliminates the temptation to dip into savings, which many people know they need, as they cannot trust themselves to save with sufficient discipline for a long period;

• defined benefit/final salary schemes provide excellent pensions: it was universally acknowledged that some employer schemes provide highly lucrative pensions for their employees, enabling employees to retire comfortably with a salary paid for life.

On the other hand, the factors which contributed to a lack of satisfaction with pensions as a means of saving for retirement included:

• media reports of pension collapses/low returns: the steady stream of media reports and exposes of pension scandals has caused many to mistrust pensions generally, usually without any understanding of the circumstances involved;

• the need to start building a pension early: many people were aware that a pension needs time to grow. Older people without a pension had often realised too late that to start contributing to a pension which would support them in retirement, they would have to contribute a lot more than they can afford;
• no guarantee and no chance of high returns: although most people did not equate pensions with high risk, there was awareness that pensions are investments which do not have guaranteed returns. Furthermore, because they did not perceive them as high risk, they felt the potential returns would also be modest. This was set against the perception of property which was seen to be (almost) guaranteed to return a healthy profit over the long term and also had the potential to provide a surprising 'windfall' result;

• difficult to tell what you will end up receiving: most people did not have a good idea of what level of income their pension would actually return them at retirement;

• unlikely to be able to provide a high standard of living in retirement: notwithstanding that people generally did not know what level of income their pension would provide in retirement, they did feel that making average contributions to a pension would not fund a luxurious, or even comfortable, retirement – however, they felt unable to contribute more.

The tax benefits of saving for a pension were rarely mentioned in favour of pensions, however, the taxation of pension payments was often mentioned in the context of negative opinions about pensions.

2.2.4 Views of pensions amongst those with no provision

Amongst people who did not have pension provision beyond state benefits, their plan for funding retirement differed according to age and income bracket.

Younger people, who generally felt it was too early to consider saving for retirement, or who had other spending priorities (student loans/mortgages/enjoying disposable income) – were most likely to:

• have no plans or vague plans only for funding retirement:

  ‘I feel I don’t know enough about them, my dad keeps pestering me – “You need to sort something out”, but also I think I want all my money at the moment for myself.’

  (18-39, less than £12K, no pension)

• plan to take out a pension sometime in the future:

  ‘I think there is a pension scheme (at work) so I’ll probably end up joining that.’

  (18-39, less than £12K, no pension)

  ‘I’d like a pension, I would. So that the future is secure. But at the moment I can’t afford to pay into one, which is why I haven’t got one.’

  (18-39, not working, no pension)

• plan on building up a property portfolio over the course of their working life;

• want to save with an ISA or other savings vehicle.
Older people on low to mid incomes, who generally felt it was too late to start a pension or who felt they could not afford to save, were generally planning on:

- relying on state retirement pension and state benefits (particularly amongst those who are not working):
  
  ‘A state pension, that’s all I’ve got to look forward to.’
  
  (40-65, not working, no pension)

- downsizing their homes at retirement:
  
  ‘I bought my property from the Council – it will be three years next year -and eventually I shall sell the property and perhaps look into investing that money. I look upon that as my pension.’
  
  (40-65, £12-25K, no pension)

- saving into ISAs or other saving vehicles at some stage in the future when they will be able to afford it (e.g. when their children leave home, or when they become employed again):
  
  ‘I hope to save in the future – when the kids are old enough I’ll go back to work and hopefully be able to put quite a bit in. But at the moment I’m just bringing up the family.’
  
  (40-65, not working, no pension)

Older people on higher incomes, who often had alternative plans of varying degrees of strength/tenability, were often looking to downsize their homes, or planning to work past the state pension age if necessary:

‘I’m approaching that age when I need one and realise that there’s nothing there. I’m just going to have to continue working for as long as I can.’

(40-65, £25-45K, no pension)

Thus, the passive attitude which characterised the low levels of concern about funding retirement was further reflected in people’s plans for funding retirement. There appeared to be a lack of active decision making, with many planning on dealing with the problem sometime in the future, or relying on ‘downsizing’ with only a vague notion of how and to what effect they will carry out the plan.

2.3 Attitudes towards using external advice on retirement planning

At the initial stage of the discussion, group participants were asked:

- whether they would know what to do if they wanted to make additional savings for retirement;

- who they would trust to help them make decisions about how to save for a retirement (and whether they would approach financial advisors).
Most people appreciated that financial advice was necessary to plan effectively for retirement. Most claimed they would seek such advice if they wanted to take out a pension or otherwise make plans for funding their retirement. It was very rare for people to feel that they could make plans without external advice.

Most stated that they would seek advice about pensions from an independent financial adviser (IFA). This was despite a general lack of trust in IFAs (many questioned the quality of IFAs’ advice and their impartiality), However, as they personally were not sufficiently knowledgeable to make the investment decision, they acknowledged that they had little alternative but to put their pension decisions in the hands of an IFA.

There were some people, who tended to work for employers who offered final salary schemes or other occupational schemes, who had taken up that pension based on word-of-mouth recommendations from friends or co-workers, without the benefit of independent financial advice. These situations occurred when advised by others that they would be ‘mad not to’ take up the pension, as they were widely believed to be excellent.

In the context of requiring external advice on retirement planning, many believed that advice and/or information from the Government would be valuable and welcome. The type of advice envisaged here ranged from information like that received in the state pension forecasts some people had received to suggestions that the subject of pensions should be taught in schools, as a matter of course. Some felt more strongly that the Government had a duty to properly inform people about saving for retirement and, more particularly, the state pension system. However, people were generally not aware of what was available or who to approach in terms of Government advice and information about pensions.
3 Knowledge of, and views on, the current pensions ‘regime’

In this chapter we look at:

- knowledge of, and views on, the state pension system;
- attitudes towards employer pension provision;
- willingness to take risk in the context of pensions;
- the perceived balance of responsibility for pensions between individuals, employers and the Government.

3.1 Knowledge of the state pension

To help to understand respondents’ knowledge of the current pension regime, they were asked:

- about their understanding of the state pension and the way in which it is calculated;
- whether they were aware of any further provision made by the Government on top of the basic state pension.

A brief description of the basic state pension and the State Second Pension (the description used is shown in the box on page 19) were given to respondents after they had responded spontaneously to the questions above.

Understanding about the way in which the state pension operates was very low. There were common misunderstandings that:

- there is universal entitlement to the state pension;
- all those who are entitled to the state pension receive the same level of award.
However, most were vaguely aware that there was some link between NICs and the state pension. A number of those who thought that there was a link to National Insurance payments also stated that they understood that the state pension was paid at a flat rate. This demonstrates the general lack of understanding among individuals of all age groups about how entitlement to the state pension builds up.

In addition to the lack of awareness of the way in which the state pension is built up, there was also a general lack of awareness of the value of the basic state pension. When the amounts involved for the basic state pension were quoted (see the box opposite), the response was frequently negative:

‘That’s shocking. How’s anyone going to survive on that?’

(18-39 years; £25-45K; no pension)

Awareness was slightly better among older individuals (sometimes as a result of having received forecasts from the DWP).

Very few also knew that increases in the value of the basic state pension are linked to the retail price index and not earnings. The few that were aware understood that this led to lower rises than would be the case if state pensions were linked to earnings. Even when this was discussed, some individuals felt that a link to the retail price index was most important because the ‘value’ of their pension was in what they could use it to buy. Others felt that this was unfair because it would lead to increasing ‘relative poverty’ of pensioners. This mix of views may well reflect a lack of understanding of the difference between price and earnings increases.

There was further confusion over the State Second Pension and the way in which this is built up. Many did not know that there were two elements to the state pension, others had heard of the State Second Pension (usually as ‘SERPS’) but often knew little more than the name. A number thought that the whole state pension was calculated along the principles of the State Second Pension with those earning more ultimately receiving more.

However, once it was explained to respondents how the basic state pension and state second pension were accrued, the general consensus was that the system was fair. (The description used is shown in the box on page 19). They felt that to have a non-earnings related element that led to comparable provision for all (through adjustments for carers and those unable to work) other than those who ‘chose not to work’ and then a ‘smaller’ element that rewarded those who had ‘worked hard’ was a good ‘compromise’.

However, despite the general view that the current pension system is fair, when individuals were asked to consider ways of addressing the pensions’ funding issue, some spontaneously concluded that it might be appropriate to consider greater means testing of the state pension:
‘The rich people that have work pensions, they don’t need a government pension. I just think that people that really genuinely need a pension should receive it.’

(40-65, not working, no pension)

State pension description

Basic state pension
You can get a basic state pension by building up enough ‘qualifying years’ before state pension age. Men normally need 44 years to get the full basic state pension and 11 qualifying years to get the minimum basic state pension. Women normally need 39 qualifying years for the full basic state pension and 10 qualifying years to get the minimum basic state pension. This will change in 2020, when the state pension age is made the same for men and women (65).

A ‘qualifying year’ is a tax year in which you have enough earnings on which you have paid NICs. Sometimes you can be credited or be treated as having paid contributions – eg if you are not working because you are looking after a child. However, if you have only ever received NI credits and not made at least one year’s contribution you won’t be eligible for a state pension.

In 2005/06, the full basic state pension is £82.05 a week and the minimum state pension is £20.51 a week.

Provision is made through Home Responsibilities Protection and NI credits for parents and people who are unable to work for a specific reason (e.g. disability).

Additional state pension
There is also an additional state pension (used to be called SERPS, now ‘State Second Pension’). How much an individual could build up depends on the amount of National Insurance they have contributed since 1978. Since 2002, there has been more generous provision for low earners, carers (including parents of young children (up to six years)), people with a long term incapacity or disability.

N.B. Self-employed are not covered by the State Second Pension (S2P).

N.B. It is this part of the state pension that you can ‘contract out’ of – this means you can choose to invest the part of your NICs that would go towards the S2P in an occupational or personal pension instead. To do this, the pension scheme needs to meet certain conditions. Employers also pay lower NICs.
Despite low awareness of the value of the state pension and poor knowledge of the way in which it is accrued, most were aware that the state pension age is currently 60 for women and 65 for men. However, a few older women were unaware that the state pension ages for men and women were in the process of being equalised.

There was a low awareness of Pension Credit. However, some older individuals in the lower income groups who did not have pension provision were aware that there would be some form of ‘top up’ benefit that they would be eligible for in retirement. When informed about the value of the basic state pension, these individuals stated that they were not too concerned because they knew that they would have more than this to live on because there would be other benefits that they would be entitled to.

3.2 Attitudes towards employer provision

Awareness of, and attitudes toward, employer pension schemes also constituted a section of the group discussion with respondents asked questions covering the following areas:

- if they knew whether or not their employer provided a pension scheme;
- whether they had joined their employer’s scheme and why (including the role of any employer contribution in this decision);
- the value placed on an employer contribution;
- whether they felt it was an employer’s responsibility to provide pensions;
- the role of pension provision in decisions to join or remain with an employer.

Employers were the main channel through which those who had a pension obtained it. Only a minority held other types of private pensions.

Reasons for joining employer schemes centred around the fact that their employer contributed, which was the main incentive for workers to join such schemes. There were also sporadic examples of automatic enrolment at work which helped encourage workers to join their scheme. Persuasion or advice from colleagues was also mentioned by a small number.

‘They basically say when you do your payroll, we’ll join you up to the pension scheme’.

(18-39 years; £25-45K, with pension)

‘In my case it was because my employer was going to contribute three times as much as I was.’

(40-65, £12-25K, with pension)

Among those with pensions, awareness of how much their employer contributed to their pension was generally good, but awareness of what they could expect from their pension at retirement was lower.
Among those without pensions, reasons for not taking up their employer’s pension varied mainly by age. Older participants tended to be either unaware of what provision was offered (if any) by their employer or maintained that their employer did not offer a pension at all. As noted earlier, these older respondents were also more likely to hold the view that it was too late for them to start saving; that they had ‘missed the boat’.

Younger participants without pensions, by contrast, were usually aware that their employer offered a scheme and whether their employer made a contribution and how much this was, but actively chose not to join the scheme. These were most likely to cite other financial commitments as the barrier to them taking up their employer schemes, including paying off student loans and saving to buy their first property. However, as discussed in the previous chapter, there was also a widely held view amongst this group that retirement was a long way off and, therefore, saving for retirement was a lower priority.

Other reasons given for not taking up an employer pension included the reliance (mainly by women) on their partners’ pensions and also some ignorance/confusion about the transferability of pensions from one job to another, which acted as a disincentive. Others were simply in the dark about what their employer offered:

‘When you move companies, your pension is frozen; you can’t move it to the next company.’
(18-39, £25-45K, no pension)

‘I asked my employer about a pension and they said they weren’t allowed to tell me.’
(18-39, £25-45K, no pension)

Clearly, that their employer had a scheme was for many an incentive to take out the pension, particularly when their employer also makes a contribution. To put this in context, however, employer contributions were seen as a ‘perk’ – on a par with the company car, private healthcare and so on, and were considered less valuable than an equivalent increase in salary would be. However, as noted earlier, people did not have any understanding or awareness of the tax advantages of saving in a pension. Final salary schemes were a possible exception to this but very few participants had the opportunity to take up pension schemes of this type.

3.3  Attitudes to risk

Respondents were also asked about their attitude to risk with questions centring around the following:

• whether a pension is felt to be a secure way to provide for retirement;
• awareness that pension funds are invested with the aim that the money grows over the life of the investment and perception of how risky this is felt to be for pensions;
• confidence in being able to assess how 'risky' different types of pension funds are and/or whether they would need advice on this;
• whether they would chose 'risky' or 'safe' investments.

Publicity regarding collapsing schemes and under-performing funds had led to a widespread belief that pensions are somewhat risky. In this context, most respondents across all groups claimed they would want their pensions invested in zero to low risk funds.

This attitude was further affected by people feeling that they were behaving responsibly by making pension provision and hence, using 'high risk' funds felt inappropriate (i.e. irresponsible). Similarly, having contributed to a pension for many years to guarantee some level of financial security in retirement, many felt that it would be irresponsible to invest it in high or even medium risk investments:

‘You just want something that's safe really. That's why you're doing it in the first place.’

(18-39, £12-25K, with pension)

‘Your pension isn't a gamble is it? It's an investment. You can't afford to lose a pension.’

(18-39, £12-25K, no pension)

However, some were not even aware that pensions are likely to be invested in stocks and shares. They viewed a pension more as a long-term savings account.

Most people would not feel comfortable deciding which funds would be appropriate for investing their pension in (and indeed many of those who had pensions were unsure what type of funds their pension was invested in). As discussed earlier, nearly all had delegated or would delegate the decision as to how their pension is invested to someone else, i.e. the pension provider or an independent financial adviser, as they acknowledged that they do not have sufficient expertise to make sound decisions:

‘You can only go with their advice really. If you suddenly decide you want to take out a pension plan or whatever you would have a financial adviser and you would take their advice and they will tell you what is right for you.’

(40-65, £12-25K, no pension)

3.4 Division of responsibility between Government/individuals/employers in planning for retirement

Early in the group discussion, the issue of whose responsibility it is to ensure people have an adequate income for retirement was raised.
In general, people felt that the balance of responsibility for funding retirement lies with both the Government and individuals, with employers playing a smaller role.

The Government was seen as responsible for providing at least a basic standard of living through the state pension system. People did not believe that individuals deserved to be provided with a luxurious quality of life by the Government, yet overall there was a strong feeling that the Government does have a responsibility to provide a basic state pension. The concept of the Government providing a 'safety net' rather than a 'good' standard of living was more popular among the young and those on higher incomes.

Likewise, individuals were seen as responsible for providing the extra funding necessary for a better than basic quality of life in retirement if they wish to do so. Again, younger people and those on higher incomes were more likely to put the onus of responsibility on the individual. Younger people were often doubtful that the Government would provide pensions for them at all by the time they retire, although many of them felt that they should be able to rely on the Government to provide a basic pension.

As discussed in the previous chapter, there was a very strong view, held across all groups, that the Government was primarily and principally responsible for educating people about the pension system, what they could expect to receive from the state pension and advising them on the need to save to privately fund their retirement. After receiving information about pensions and savings through the focus groups, many people were concerned that the Government is not providing this kind of information to the public and people are, therefore, not aware of the urgency of saving for retirement.

Employers' role was seen to be mainly as a source of advice and information and as a facilitator of pensions, rather than being responsible for funding them. For example, people tended to feel that the Government could use employers to help raise awareness of pensions amongst employees. It was noted, however, in the groups where people were not in employment, that the Government would have to put in place some alternative arrangement to advise and inform them about pensions, as they do not have an employer (or indeed the benefit of discussing pensions with co-workers), as a source of information.

The view that employers had a social responsibility for funding the retirement of their employees was not widespread. Only a minority felt that employers have a role to play in making contributions to employee pensions. However, as noted earlier, of those who had pensions, the main type of pension was an employer provided scheme. Furthermore, in discussion of alternative reform options, people were supportive of an employer contribution, indicating that it would increase take-up. A minority made the point that they felt it would be too much of a burden for small employers in particular to be forced to take responsibility for employees' pensions.
Thus, the Government was seen to have a responsibility to provide a basic pension on which retirees can live. It was also felt to have a role in educating people about the pension system and raising awareness of the need to save privately for retirement. Providing advice about how to go about saving would also be welcomed from the Government. Employers could provide an interface for passing information from the Government on to employees. Most ultimately believed that it was an individual’s responsibility to ensure they made sufficient savings to fund the standard of living that they wished to have in retirement, although the possibility of an employer contribution was viewed favourably.
4 Views on possible reforms to the pension regime

Individuals participating in the focus groups were asked for their views on a number of possible options for the reform of the pension system to help address future funding issues. They were asked to provide opinions on:

- the diversion of funds from other areas of Government expenditure to make more money available for pensions;
- increases in taxes or NICs to make additional money available to meet pension commitments;
- increases in the state pension age to reduce the relative cost of providing state pensions;
- making it compulsory to have some form of non-state pension provision in place with a view to reducing the number of individuals relying (totally) on the state to fund their retirement;
- automatic enrolment into employer pension schemes to encourage take-up;
- compulsory employer contributions to pensions with the aim of making saving for retirement through an employer a more attractive option and ultimately increasing take-up.

This chapter details responses to each of these proposals in turn. At the end of the chapter we show the relative appeal of the different options discussed.

4.1 Diversion of funds

In the context of a discussion around the need to find additional funds for state pensions or to reduce the Government’s liability by changing the structure of the state pension scheme, the diversion of funds from other areas of public spending was a very popular solution. Nearly all respondents felt that they could identify areas of ‘wastage’ from which additional funding could be secured. However, there was
unanimous agreement that funds should not be diverted from spending on either health or education.

It is worth noting that a reasonable proportion of respondents understood the ‘pensions shortfall’ to be the result of the Government spending money that should have been earmarked for pensions in other areas. In this light, they felt that to divert money from other areas of spending (back) into pensions would only be ‘reclaiming’ money that ‘rightfully’ belonged in pensions:

‘They've got to use the budgets better. They've just spent millions on a war haven't they? They soon find money for that but they can't find money to sort out pensions for people who have fought in the war.’

(18-39, £12-25K, with pension)

‘They've robbed Peter to pay Paul and the money's been hidden.’

(18-39, £12-25K, with pension)

4.2 Increases in taxes or National Insurance Contributions

The suggestion that the funding of pensions could be met by increases in either taxes or NICs was generally a relatively unpopular one. In part, this was because there was a relatively widespread belief that any additional taxes or contributions that were collected would not necessarily be used to fund pension provision. (As mentioned above, some were suspicious that funds which should have been used to fund pensions had been requisitioned for other uses to cause the current pensions problem and hence, they felt that this could happen again even if additional funds were secured through taxes or National Insurance).

That said, some individuals (generally those in the mid or high income groups) felt that a small increase in taxes or NICs would be acceptable if it were to ‘solve’ the problem. Generally a ‘small’ increase was felt to be in the order of around a one percentage point increase in taxes:

‘I probably wouldn't notice an extra one per cent tax or national insurance, but I sure would notice an extra five years at work.’

(18-39, £12-25K, with pension)

4.3 Raising the state pension age

The responses of individuals to the idea of increasing the state pension age to reduce the ‘costs’ of providing pensions were almost entirely negative. This was a highly emotive issue and respondents did not always respond particularly rationally. Most interpreted an increase in the state pension age as being synonymous with forcing them to work longer despite the fact that several (particularly younger respondents) had said earlier that the age at which they could draw their state pension would have
little bearing on when they chose to retire. Several stated that they felt an increase in the state pension age would equate to the Government ‘breaking its contract with them’. They felt that they had entered into the work arena on the understanding that they would receive their state pension at 65:

“When you get a job you’ve got to pay tax from the day you start earning wages. So why should you be penalised just because you are living a bit longer. They don’t say – well you don’t have to pay tax until you’re 25 do they?”

(18-39, £12-25K, with pension)

Respondents were asked specifically whether they were aware of the fact that the population is ageing – leading to a requirement to increase funding for state pensions which could be mitigated by increasing the state pension age. While some respondents recognised that life expectancies were increasing, they were largely unaware of the extent of this and often tended to underestimate the current life expectancy. Some individuals felt that an increase in the state pension age would help to meet the future funding of pensions simply by ensuring that more people died before drawing their state pension:

“In some areas the life expectancy is only 68 so they are not going to be pleased about working until 67 are they?”

(40-65, £12-25K, no pension)

Beyond the very emotional response that an increase in the state pension age just seemed ‘unfair’, a number raised concerns that it would not be possible to continue working in certain job roles beyond 65. The types of roles mentioned were usually manual roles which required a good level of strength, fitness and general good health. Others also felt that if they were going to extend their working lives (beyond the current state pension age) then they would be most likely to do so through working part-time and that part-time working would not be financially viable if they could not claim their state pension until later. Others raised concerns about the impact on the wider job market such as whether there would be enough jobs to cater for people working longer and the impact that longer working lives would have for the progression of younger people in their careers:

“If people are going to have to work an extra two years that means that people who are coming out of school are going to have to wait an extra two years to get a job because people are going to be working for an extra two years, there are going to be less jobs around.”

(18-39, £12-25K, no pension)

One or two also stated that they felt it would accentuate social inequalities. These individuals felt that the average life expectancy of those on lower incomes (who would be more likely to rely exclusively on state provision in retirement) was lower than those on mid-high incomes. They felt that those on low incomes would be obliged to work longer if the state pension age was increased and hence, would spend even less time in retirement relative to those better-off than is the case at the moment:
‘A life expectancy of the middle class person, upper class person and lower class person is not the same. I think a working class person will die eight years before a well-off person.’

(40-65, £12-25K, no pension)

That said, there was a ‘grudging’ acceptance among some younger participants that an increase in the state pension age was something of an inevitability. These younger individuals had heard it said many times that there was unlikely to be much of a state pension by the time they came to retire and hence, an increase in the state pension age seemed to them to be the start of a phasing out of state provision.

Where respondents were prepared to discuss the possibility of an increase in the state pension age, they felt that they may well come to live with an increase to either 66 or 67 but that an increase to 70 felt totally unacceptable:

‘One extra year maybe but an extra five years is a bit much. I think two years would be the limit – you couldn’t go any higher really.’

(40-65, not working, no pension)

4.4 Compulsory saving for retirement

Attitudes towards the concept of making provision for retirement compulsory varied considerably by sub-group.

Among the most positive were older people who already had pension provision. This was largely because they felt that the current ‘problems’ with pensions were a result of other people having behaved ‘less responsibly’ than they had and hence, they felt it appropriate that all individuals should be compelled to save. Also positive were older individuals on low to mid incomes who had not made any pension provision. These individuals were concerned about how they were going to fund their retirement and felt that they would have been in a much better position if they had been forced to save when they were younger:

‘It just forces people to make the decision – it is something that should be taken care of.’

(18-39, £12-25K, no pension)

‘Sometimes people do just need it taken out of their hands if they don’t listen to you.’

(18-39, £12-25K, no pension)

Younger individuals who had already made pension provision tended to be more neutral in their views. Most acknowledged that some form of compulsion would have encouraged them to save for their retirement earlier but they did not all agree that this would have been a positive development (several felt that they only took out their pension at the point when they could afford it and to have started saving any earlier would have left them ‘short’).
Younger individuals who did not have pension provision were more extreme in their views with some responding positively and some responding negatively. Those that were positive tended to be those who felt a vague sense of ‘guilt’ over the fact that they had not made any provision for their retirement. These individuals felt that if they had been compelled to save then this would have freed them from having to think about (or worry about) pension provision. Those who were negative felt that compulsory saving would be inappropriate for them because they want to be able to prioritise other areas of expenditure over retirement spending (typically, buying their first home or paying off student debts). One or two also mentioned that they might want to live abroad at some point and hence felt that they would not want to be ‘tied’ to a specific UK savings plan:

‘I don’t think making it compulsory is a very good option… I want to be saving up to get on the property ladder so that when I do retire I’m not still paying a mortgage. So making it compulsory is not ideal for everyone.’

(18-39, £12-25K, with pension)

The most negative reaction to the idea of compulsion came from older individuals on higher incomes who had not made pension provision. The view of pensions as a not particularly productive/efficient means of saving for retirement was quite entrenched in this group and they felt that they should have the freedom to elect to put their retirement savings into other ‘better’ vehicles (typically property or deposit accounts).

Even those who were well disposed towards compulsion felt that they would not really be able to decide whether or not they were in favour of the idea until they had an indication of the minimum level of contribution that might be required. Several people also felt they would want to understand what level of guarantee the Government would place on schemes that individuals were obliged to contribute to:

‘If it is a moderate or high risk scenario and you are forced to put your money into it and then you didn’t even get your money back at the end, you’d have a legitimate claim against the Government wouldn’t you?’

(40-65, £25-45K, no pension)

There was a general assumption that such a policy would not apply to those who were not working or those on very low incomes.

A number of individuals had difficulty in understanding how a system of compulsory saving would differ from an increase in NICs. In most cases this tended to be the result of a misunderstanding about the way in which the state pension operates; this group understood their NICs to be made into an individual ‘pot’ for their own retirement.
4.5 Automatic enrolment

The concept of automatic enrolment into employer schemes met with a more positive response than compulsory saving. Nearly all of those who had joined their employer's scheme were positive – most did not join the pension scheme as soon as they were eligible often because they simply had not ‘got round to it’. Some of those who had not joined their employer’s scheme (particularly older participants) were also positive for similar reasons – they had been meaning to find out about joining the scheme for a while but not got round to it because it did not feel like something that needed to be acted on immediately and reflected a general low level of interest in pensions:

‘When I first started my job at 20 and they mentioned a pension…I was like an airhead – I thought I needed my money to drink and go out socialising. Now 20 years later on you think “if only I’d have joined that”.’

(18-39, not working, no pension)

‘When you are told it is taken out of your wages from day one, you have to contribute, that is it, that is the end of it isn’t it – no point worrying.’

(40-65, £12-25K, no pension)

Of those who had pension arrangements but not through their employer, some had not made a specific decision to save in a private/personal pension rather than one arranged by their employer. These individuals had either not thought to explore whether their employer offered a pension or assumed that they did not. Some of these felt that they may not have made the right decision not to find out about employer provision and recognised that a system of automatic enrolment would have at least alerted them to the option of saving through their employer.

That said, there were some who felt that a system of automatic enrolment would be ‘underhand’. These were largely those on low incomes who did not feel that they could afford a pension (and hence would be likely to opt-out anyway). They were concerned that the situation could arise whereby they had made several months’ worth of contributions before realising that they had been deducted from their salary:

‘I definitely think that you should not have this auto-thing because what will happen is that there will be a lot of people paying and they won’t even realise they are paying.’

(18-39, £12-25K, no pension)

A proportion of individuals also stated that if a system of automatic enrolment was introduced, then (because individuals would be more likely to take up employer provision) there would need to be greater controls on the ‘quality’ of pension schemes offered by employers. This type of concern reflected a general feeling of mistrust about pensions (stemming from reporting of ‘horror stories’ in the media).
Some younger individuals were also concerned about the implications of being ‘auto-enrolled’ into a number of schemes as they moved from employer to employer throughout their careers. They voiced concerns about the extent to which funds would be transferable and also about the administrative burden of having savings in lots of different pension schemes:

‘This would be OK if jobs were jobs for life as they used to be. Now you can be in a job six months and then you have to not only change job but change career so you’re constantly switching and changing. Every new employer would mean a new pension – that would be an absolute nightmare to do.’

(40-65, £25-45K, no pension)

4.6 Compulsory employer contributions

As mentioned earlier in this report, individuals did not spontaneously feel that employers should take responsibility for the retirement provision of their staff. They saw pension arrangements as an added benefit that employers might choose to offer to make their overall package more attractive to potential and existing staff rather than a right or entitlement of all staff. There was a view that employers could have reasonably been expected to view retirement provision as their responsibility in the past when staff tended to stay with individual employers for longer (and ‘jobs for life’ were not uncommon).

However, in the context of a discussion about ways to address the future funding of pensions, respondents were relatively positive about the idea of compulsory employer contributions. This appeared to be largely because they did not view an increase in the number of employers making contributions to pension schemes as having a direct negative impact on them personally (by comparison, increased taxes or an increase in the state pension age would have a more tangible impact).

Employer contributions played an important role in encouraging most of those with a pension through their employer to join the scheme. In addition, some of those who had taken out private pensions stated that they would have joined their employer’s scheme instead if their employer had made a contribution. This suggests that employer contributions do have an impact on take-up of employer schemes. Similarly, most acknowledged that a compulsory employer contribution would make automatic enrolment a more attractive option.

A number voiced concerns about the burden on employers of compulsory contributions (particularly micro or small employers). Others were concerned that imposing compulsory pension contributions would act to depress salaries (and most, particularly younger participants, rated a salary increase more highly than an equivalent increase in employer contributions to a pension scheme) scheme, although, as noted earlier, there was a lack of awareness or understanding of the tax benefits of pensions:
'They’d just make the salary smaller unless they were told that they can’t do that. If it’s just going to make my salary smaller then I don’t really agree with that, because then, they’re choosing which pension to put it in and it’s like them choosing what to do with your money in a way.’

(18-39, £12-25K, with pension)

4.7 Timing of pension reforms

Individuals were asked for their views on the timeframe over which any change to the pension regime should be made. This was difficult for most people to respond to spontaneously and hence the timeframe over which the equalisation of state pension ages for men and women will take place was used as a reference point. It was explained to respondents that the process for changing the state pension age for women from 60 to 65 began with an announcement by the Government 15 years before it was due to start and that the change will be phased in over a ten year period from 2010 to 2020.

Most individuals stated that they felt the timeframe for any changes should give those approaching retirement plenty of notice so that they can make any necessary adjustments to their plans. However, many also felt that the ten years over which the equalisation of state pension ages for men and women will take place is too long. This was because they understood the problem to be serious enough to need quicker action. For most of the changes discussed, five years was seen to be a reasonable timeframe over which to introduce amendments. The exception to this was probably increasing the state pension age which respondents felt would need to be phased in over a longer period:

‘I think the problem is so serious that we can’t wait 15-20 years to do something – it is a whirlwind with things getting worse and worse each year.’

(18-39, £25-45K, no pension)

4.8 Relative appeal of different options

At the end of the group discussions, respondents were asked which two or three of the options for pension reform discussed they would find most acceptable. This was obviously a slightly artificial exercise since the individual options would not necessarily have comparable impacts on the overall funding of pensions and therefore, the findings should be interpreted with caution. However, it did serve to demonstrate the relative reception that individual changes would be likely to receive if they were to be implemented. Figure 4.1 shows the ranking of the individual changes with those to which respondents were most favourable closer to the top of the arrow.

As Figure 4.1 shows, the ‘solutions’ that participants as a whole found most palatable were automatic enrolment and the diversion of funds from other areas of Government expenditure. The least popular option was an increase in the state pension age.
Discussion about the range of options available for addressing the future funding of pensions led some respondents to consider greater means testing of state pension provision. While nearly all felt that the current system was ‘fair’, in the context of changes needing to be made, several felt that means testing might be an acceptable response (particularly when compared to increasing the state pension age). Those who felt this way tended to be younger participants who were resigned to the fact that the state pension would not exist in its current form by the time they reached retirement or older individuals on low incomes with no pension provision who felt that they would directly benefit from means testing. It is worth pointing out that this latter group did not necessarily register that a means tested approach would be likely to mean that they would need to ‘apply’ for their state pension (with all the associated disclosure of financial information).

Figure 4.1  Relative appeal of different options
Appendix
Topic guide for group discussions

Pensions and savings discussions topic guide

1 Introduction
- IFF Research.
- Discussion groups, how they work.
- MRS Code of Conduct.
- Subject: pensions and savings system in the UK.
- Introduce themselves.
- Name, a bit about themselves (job/family/caring responsibilities).

2 General views on pensions
- Just to start us off, what associations do you have with ‘pensions’?
- Have you thought about what financial planning you need to make for your pension and retirement at all before now?
- How do you think you will fund your retirement? Do you worry at all about funding retirement?
- If you thought you weren’t going to have enough money in retirement, what would you be likely to do?
  – Probe for: start saving/investigate new ways of saving in addition to what you’re already saving/save more/invest in property/work longer.
- What do you think are the best ways to save for retirement? Why?
• If you were wanting to make additional savings for retirement, would you know what to do? Or would you want to ask someone’s advice? Who would you trust to help you decide about how to invest or save for your retirement? Would you use a Financial Advisor?
  – IF NOT: Who would you prefer to contact/seek advice from?
  – IF GOVERNMENT/CAB etc: Would you be happy only getting information from them? Are you aware they cannot give advice?
• How confident do you feel about knowing where to go for information or advice? Why?
• Whose responsibility is it to ensure that people have an adequate income in retirement? Who should be responsible for pensions?
  – Probe for: government/employers/individuals.
  – If combination of these: Who should bear the most responsibility?

3 Knowledge of basic state pension
• To the best of your knowledge, what provision does the State make for people in retirement?
• Have you heard of the Basic State Pension?
• At what age would you expect to start receiving your State Pension?
• Would you expect to receive full Basic State Pension?
• Are you aware that amount of state pension you get depends on your National Insurance record?
• Do you know how you get a full Basic State Pension?

GIVE EXPLANATION of the current system: You can get a basic State Pension by building up enough ‘qualifying years’ before State Pension age. Men normally need 44 years to get the full basic State Pension and 11 qualifying years to get the minimum basic State Pension. Women normally need 39 qualifying years for the full basic State Pension and 10 qualifying years to get the minimum basic State Pension. This will change in 2020, when the State Pension Age is made the same for men and women (65).

A ‘qualifying year’ is a tax year in which you have enough earnings on which you have paid National Insurance Contributions. Sometimes you can be credited or be treated as having paid contributions – eg if you are not working because you are looking after a child. However, if you have only ever received NI credits and not made at least one year’s contribution you won’t be eligible for a State Pension.

In 2005/06, the full basic State Pension is £82.05 a week and the minimum State Pension is £20.51 a week.
EXPLAIN IF NECESSARY: Provision is made through Home Responsibilities Protection and National Insurance Credits for parents and people who are unable to work for a specific reason (eg. disability):

- Who here knew that this is how the system works? Which parts didn’t you know/understand?

- Do you know how the amount that the basic State Pension is increased by each year is determined?

(EXPLAIN IF NECESSARY: Increases in the basic State Pension are linked to (price) inflation increases rather than increases in average earnings:

- What do you think this means for annual increases in the basic State Pension? (FOR INFO ONLY – NOT TO READ OUT – ie lower levels of increase than if pensions went up in line with earnings).

4 Attitude towards basic state pension/contributory principle

- Is this system fair? Why/why not?

- Is it fair to calculate how much you receive in retirement based on your National Insurance record? Why/why not?

- Should anyone be credited with National Insurance contributions when they are not working (and not paying NI)? Who? (probe for carers, parents of young children, disabled people, legitimately unemployed) Why?

- Should anyone not be credited with National Insurance contributions when they are not working (and not paying NI)? Who? Why?

- Would it be fairer for everyone to get the same basic State Pension regardless of contribution? Why/why not?

5 Awareness of, and attitude towards, the State Second Pension

- Are you aware of any further pension provided by the Government, on top of the basic state pension?

- IF ANY AWARE: Who gets the State Second Pension? How is it calculated?

GIVE EXPLANATION of the current State Second Pension: There is also an additional State Pension (used to be called SERPS, now ‘State Second Pension’). How much an individual could build up depends on the amount of National Insurance they have contributed since 1978. Since 2002, there has been more generous provision for low earners, carers (including parents of young children (up to six years)), people with a long term incapacity or disability.

N.B. self employed are not covered by the State Second Pension.

N.B. It is this part of the State Pension that you can ‘contract out’ of – this means you can choose to invest the part of your NI contributions that would go towards the SSP in an occupational or personal pension instead. To do this, the pension scheme needs to meet certain conditions. Employers also pay lower NI contributions:
• Who here knew that this is how the system works? Which parts didn’t you know/understand?
• Is the State Second Pension fair? Why/why not?
• Should people who contribute more National Insurance receive higher pensions in retirement?

6 Awareness of other benefits for Pensioners
• Are you aware of other benefits you may be entitled to as a pensioner? What are they and do you know how they work?
• Do you take into account Pension Credit you think of the state pension/help you will get from the Government when you retire?

7 Suggestions for funding retirement
• Are you aware of the suggestion that because many people are living longer (people sometimes say the population as a whole is ‘ageing’), the amount needed to fund State pensions is increasing? How do you think the Government should address this problem?
• One possibility would be to increase the amount spent on pensions and reduce spending in another area (eg. Health or Education):
  – What are your reactions to this?
  – Would this be fair?
• One possibility would be to raise the age at which people can claim their basic State Pension:
  – What are your initial reactions to this?
  – Would this be fair?
  – What if the State pension age was increased by a year? What do you think of this? Would this make you likely to work the extra year or not? Why do you say this?
  – What if the State pension age was increased by two years? What do you think of this? Would this make you likely to work the extra two years or not? Why do you say this?
  – What if the State pension age was increased by five years? What do you think of this? Would this make you likely to work the extra five years or not? Why do you say this?
  – What do you think is a reasonable balance between the number of years spent in work and the number of years spent in retirement?
  – What problems do you think there would be to raising the State Pension Age? What are the disadvantages or drawbacks?
• Another possibility would be to increase National Insurance Contributions or to raise taxes:
  – What are your initial reactions to this?
  – Would this be fair?
  – Who loses out? What are the disadvantages or drawbacks?
  – Would you be willing to pay any more in NI Contributions/tax to fund pensions? If so, what would be acceptable?
  – Which of these approaches – raising the State pension age or increasing taxes/NI contributions would be fairer? Which would be more acceptable? Why?

8 Compulsion
• Another option for paying for pensions is making it compulsory for individuals (both employed and self-employed) to save for their retirement by taking out a pension in addition to the basic State Pension:
  – What are your initial reactions to this?
  – What are the pros and cons of making personal pensions compulsory?
  – Who should have to save? Everyone or just certain people?
  – How much should they have to save?
  – IF ‘WITH PENSION’ GROUP: What prompted you to start saving for your retirement?
  – IF ‘NO PENSION’ GROUP: What stops you from saving for your retirement?

9 Employers schemes
FOR THOSE WORKING:
• Do you know whether your employer provides a pension scheme?
• Are any of you members of your employer’s pension scheme?
  – How much do you know about it?
  – What type of pension scheme is it?
  – What kind of pension will people receive through it when they retire?
  – What do you think about it?
  – How did you find out about it?
  – Does your employer contribute to pensions of people who are members of the scheme?
  – Do you know how much?
  – (IF EMPLOYER CONTRIBUTES BUT NOT MEMBERS OF SCHEME) If you employer contributes to the pension scheme why have you not joined the scheme?
• Do you see your employer's contribution as part of your salary that you earn, or as an added benefit?

• Would/Did your employer's pension scheme encourage you to take out a pension? Or would you take one out regardless, if you wanted one?

• Do you think employers should offer pension schemes to staff? Why/why not?

• Did your employer's pension scheme have any effect on your decision to join your employer? Or to stay with your employer? Is it important to you that your employer contributes to your pension? How valuable is it to you?

• Would you have taken up the pension if your employer did not contribute to your pension?

• What made you decide to join or not join your employer's pension scheme?

• Did you join your employer's scheme as soon as you were eligible or was there some delay?

• Do you have any concerns about your employer's scheme?

AUTOMATIC ENROLMENT

Currently most pension schemes are offered to employees to take up if they wish. One suggestion to encourage more people to take a pension is that the employer will automatically enter their employees in the pension scheme deduct pension contributions from their wages. If an employee didn’t want to join they would have to specifically ask to be excluded and tell their employer they did not want to join eg by signing a form:

• What are your initial reactions to this suggestion?

• Would it be fair? Are there any sorts of people it would be unfair to?

• Would you be likely to stay in or opt out of such a scheme? Why/why not?

• IF ANY MEMBERS OF EMPLOYER SCHEME: Do you think you would have joined your employer’s scheme earlier if it had operated in this way?

Another suggestion is to make it compulsory for employers to contribute to the pensions of employees who are members of the company pension scheme. Many employers already contribute and they would probably continue as before.

• What are your initial reactions to this suggestion?

• Would you be content to stay in or opt out of such a scheme? Why/why not?

• If all employers contributed to pension schemes, would it make the concept of employees being automatically enrolled in pension schemes more appealing? Why/why not?

• If your employer had to contribute to your pension do you think this might have an effect on your wages/salary?
10 Risk

- Do you think that a pension is a secure way to provide for your retirement?

- Pension funds – be they personal pensions or schemes run by employers – are invested (for example in Government bonds and stocks and shares) with the aim that the money grows over the life of the investment. Is this something that you are aware of?

- How risky do you think this is for pensions? Why do you say that?

- For some pension schemes, you pay a certain amount of money into a fund, which is invested for you, and do not know how much pension you will get until you turn it into an ‘annuity’ when you retire. This will, in part, be based on how much money you have accumulated in your fund (or ‘pot’) to turn into an annuity. How much money you have will depend on how well the money you have invested in your pension scheme has done in the financial markets, on government bonds and stocks and shares for instance. There is obviously some degree of risk associated with this sort of investment. Generally the riskier investments have a higher potential return but this may not be guaranteed. How much risk would you be happy to take when investing in your pension fund? Why?

- How confident do you feel in being able to assess how ‘risky’ different types of pension funds are?

- If you had the choice of investing your retirement savings in a fund, which would you pick?
  - A) A safe investment (such as Government Bonds) with little or no risk but very low returns (no better than leaving in building society) but you had greater certainty about the amount of money you would have in your ‘pot’ when you retire.
  - B) Taking on more risk (by investing some or all in stocks and shares) where you get a better return, but you have less certainty about the amount of money you would have in your ‘pot’ when you retire.

- Would you be happy for all your retirement savings to be invested in ‘stocks and shares’ where there is the greatest risk or some of it? How much? Or just stick to safer Government bonds?

- How would you decide which level of risk was appropriate for your pension fund?

- Who do you think should decide this – individuals/experts – which experts?

- Would you make a different selection if you were talking about investing money that was for another purpose eg. a child’s education/school fees, a wedding, general savings, spare cash to invest. Why/why not?
11 Timing of any pension reform

- If any changes were made to the national pension system this would take a long time to implement. For instance, for changing the State Pension Age for women from 60 to 65, this was announced by the Government fifteen years before it was due to start and will be phased in over a ten year period from 2010 to 2020. Does this sound like a reasonable amount of time? Do you think the Government needs to act more quickly with future changes to the pension system? More slowly? Why do you say that?

12 Conclusion

- What is the best way for the Government to deal with the shortfall in pensions?
- Draw together the topics discussed.
- Anything else to add?
- Thank and close.