Micro-employers’ attitudes towards pensions for themselves and their employees:

A report on small-scale qualitative research with employers

James Noble

A report of research carried out by the Department for Work and Pensions
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Acknowledgements

Jeremy Vincent, Bridget Rogers and Richard Vianello at the Department for Work and Pensions, Fiona Nolan and Elaine Hutton at MORI for organising the recruitment, and all the micro-businesses who took part in the research.
The Author

James Noble was a Senior Research Officer at the Department for Work and Pensions. He is now a Principal Research Officer at the Health and Safety Executive.
Abbreviations

DWP       Department for Work and Pensions
EPP       Employer Pension Provision Survey 2003
SERPS     State Earnings Related Pension Scheme
Department Department for Work and Pensions
UK        United Kingdom
Glossary

**Micro-employer**

Employers (including both businesses and not for profit organisations) who employ one or more non-family member but fewer than five members of staff.
Summary

Introduction and methodology

People who work for micro-employers can be at risk of under-saving for their retirement. The main reasons for this are the potential for low levels of pay and income earned by some micro-employers and their staff, and the fact that few businesses of this size run pension schemes of any sort. From October 2001, all organisations with five or more full-time members of staff were required to set up a stakeholder pension scheme and inform their employees about it. Consequently, employees of employers with fewer than five full-time members of staff remain uncovered by any legislation aimed at increasing workplace access to pension saving.

This research was designed to contribute to the process of informing policies for encouraging both micro-employers and their staff to engage with pensions and make more informed choices about saving for retirement. The aim of the research was exploratory; to draw a picture of the views of micro-employers towards pensions, both for themselves and for their members of staff, and to assess the likely impact of measures aimed at raising awareness and understanding of pension issues.

The research consisted of eight group discussions in three different business sectors (manufacturing/agriculture, retail/wholesale and services) and across four locations in the United Kingdom (UK) (Edinburgh, Wakefield, North London and Hereford). Recruitment of participants was conducted by an independent recruitment agency (MORI Field and Tab) using details of businesses provided by the Experian Business database. The research itself was conducted by James Noble (the author of this report).

The following sections summarise the key findings from the research.

Micro-employers’ views on saving for their own retirement

The micro-employers who participated in this research were generally committed to the idea of saving for their retirement but had a negative attitude towards most of their options for doing so.
The level of current saving amongst micro-employers themselves varied quite considerably from those with strong portfolios of different savings and investments through to those with nothing invested specifically for retirement, but who were hoping that property and business assets might provide them with something to live off. Unsurprisingly, age was an important factor in determining saving levels, with those from their mid-late 30s onwards appearing to be saving more. The wealth of the business also appeared to be important – the wealthier the business, the higher the apparent savings rate.

Despite these differences, a degree of uncertainty and anxiety about retirement income and a general view that pensions in the UK are in a poor state, was common to micro-employers with nearly all current levels of saving. The main issues that the research participants highlighted when discussing their general attitudes towards pensions were as follows:

- Pensions are not seen as a good investment vehicle when compared to other options, in particular property. Indeed, many participants felt that on the basis of their recent statements, pensions delivered less of a return than bank accounts, or even cash (under the mattress).
- Pensions are not a safe place to put your money, and that by investing your money in a pension you are putting yourself at risk of losing it all, either by fraud, by dying before retirement age or through stock-market failure.
- Pensions companies cannot generally be trusted to: a) provide realistic projections of investment return; b) manage money competently; and c) not levy high charges. The research suggests that amongst micro-employers, pensions companies and private pensions as a product, have a serious image problem. Pension companies are generally regarded with suspicion. At their worst, they are seen as ineffective at managing money and singularly motivated to increase their profit margins rather than serve their customers.
- The pensions outlook for micro-employers was seen as unjust when compared to people who work in the public sector and those who do not work at all but claim state benefits and pensions. These issues are important because they contribute to a general perception that the pensions system is unfair.
- Many people (youngsters in particular) are driven by consumption and show no willingness to plan for the future (though it was rare for participants to attribute these tendencies to themselves).
- Finally, participants did not feel they had enough control over the money they invested in pensions. Once invested, participants seemed inclined to feel that the money has disappeared, and that they had no say over how it is used or even whether it will be returned.

Overall, these issues appear to illustrate a poor climate for improving pensions investment amongst micro-employers. Although most participants expressed concern about their pensions and having enough money to live on in retirement, they had little faith or trust in financial products to deliver expected outcomes. With this lack
of trust went a strong sense of individuality, which held that it is better to ‘look after
yourself’ than to rely on others. The result of this was that participants seemed
particularly keen to take control of their own money and investments rather than
abscise that responsibility to pension companies who they felt did not deliver. The
most popular options were, therefore, investing in property (which is tangible and is
seen to have a guaranteed return) or putting money into their business (where it is
perceived that success and failure depends on their own efforts). Even just spending
excess money was sometimes seen by participants as a better long-term approach
than investing in pensions; because they feel that at least if the money is spent you
have got something out of it and not risked losing it through no fault of your own.

Pensions’ lack of credibility was felt equally by high and low-income participants.
However, amongst lower-income businesses, the perceived poor quality of private
pensions investments was less of an immediate concern than the lack of any spare
capital to put into a pension. Although it was made quite clear that even if the money
was there they would favour business and property investment to pensions.

‘Firstly, it’s because we don’t trust any financial institution to take the money
and give us more money back than we put in, and secondly, we can’t spare the
money in the first place.’

(Manufacturing/agriculture, Hereford)

More positively, the research found no evidence that participants were actually
closing down or stopping payments into existing pensions. Whilst current
dissatisfaction was likely to stop them making further investments, there remained
a sense of commitment to their existing choices, and an acknowledgement that
pensions and other investments would be better kept open, also that there are
advantages to having eggs in more than one basket (i.e. a mixture of pensions,
property, etc.).

Attitudes towards employees’ pensions

Profile of people who work for micro-employers

On the basis of this research, it appears that when thinking about the people who
work for micro-employers, it is important to split them into two groups:

- Those whose employment in the businesses is essentially short-term. In this
  study, this included in many cases young people with whom employers appeared
to have a tacit understanding that they will not be working for them for long. It
also includes others who, although ostensibly employed for the long-term,
employers consider will almost certainly move on quite quickly because of the
better packages offered at larger firms.

- Longer-term staff. This includes those people who fail to move on quickly,
  non-relatives who are part of family businesses and long-term part-time staff
  (often women with family responsibilities or older semi-retired people).
Some of the micro-employers who took part in this research appeared to find the process of employing people difficult. Aside from the administrative hassles (that were frequently cited), they claimed to have difficulties recruiting staff members who remained loyal and reliable. This is important because it seems that these problems appeared to contribute many participants’ attitudes towards their staff members; for example, those employers with staffing problems tended to be the most hostile to any suggestions that they become involved in employees’ pensions.

**Pension provision by employers**

The research found very little evidence of any pension provision, information or advice being given to employees at micro-employers. Across all groups in all sectors, few employers had discussed pensions with their staff, fewer had ever considered setting up pensions arrangements and fewer still had any sort of current arrangement in place for their employees.

In terms of their **short-term staff**, participants tended to see little benefit to offering pension guidance or provision to their staff. The main reasons for this were:

- as staff are only short-term, any pension payments would quickly become redundant and have to be returned (there was little awareness of the possibilities around transferring pensions or using more portable options);

- that pensions were associated with staff loyalty and a long-term outlook, and given that this was not being offered by the employee, it seemed illogical to provide any such benefits;

- short-term employees were overwhelmingly younger people, who were seen as uninterested in saving;

- that it was outside the remit of the micro-employer to offer guidance or advice to employees;

- the view that even if a member of staff was interested in saving, their preference would be to take the money in wages and invest it themselves rather than receive pension contributions.

A fair summary of how participants saw the issue of pensions for short-term staff would be:

‘*You’re lucky if you can remember their second names, never mind about setting up a pension for them.*’

(Retail/catering, Edinburgh)

When considering **longer-term members of staff**, the idea of offering pensions or pensions advice began to make more sense to participants, as they could see how pensions might be relevant to the employee. However, there were further barriers that participants felt prevented them from offering pension provision or pensions guidance, even to long-term staff.
A principal barrier was that pensions were not seen to be the employer’s responsibility. In some cases, perhaps linked to the strong sense of individualism often felt about their own pensions, participants appeared to resent the implication that they, rather than the employees themselves, should take any responsibility for their employees’ pensions. The view of the majority of micro-employers in this study was that as long as they paid their staff enough, the choice around whether or not they get a pension should remain squarely with the employees themselves. Furthermore, although this research did not speak to any employees directly, micro-employers tended to argue that this approach was the mutual preference of employers and employees alike. As an illustration of this, few could recall any occasion where an employee or potential employee had asked about pensions options, and most reported that their employees either had not thought about pensions or seemed happy with the choice to do as they wished. Some micro-employers even believed that their employees would resist any efforts to set up a pension for them.

‘I think it would be resented… and as an employee it would be regarded as money you’re not getting.’

(Manufacturing, Wakefield)

As well as not feeling responsibility for their employees’ pensions, participants generally failed to see any business benefits in providing pensions or pensions advice. Although the possibility of using pensions to improve recruitment and retention was acknowledged, it was not thought to be applicable to micro-employers. This is because the benefits of setting up a scheme were seen as small and intangible when set against the administrative effort associated with it and the potential cost of paying into the scheme. Most participants, therefore, saw the idea of establishing a pension scheme as impractical in the short-term (although some had it in their minds as a long-term goal once they had expanded sufficiently).

Finally, the micro-employers in this research tended to assume that their employees shared their own negative views about the value of putting money into a pension scheme compared to other investments. Moreover, they failed to see any point in offering pensions or pensions guidance if neither they nor their employees felt that pensions were a good idea. Furthermore, as was the case for participant’s own saving, the idea of private pensions for people who work for less lucrative businesses seemed particularly irrelevant given the low level of wages paid.

‘We avoid [employees’] pensions like the plague. One it costs us. Two it’s more paperwork…our business is to be in the shop and if we’re doing paperwork we’re not in the shop, we’re not selling. The third reason [is] if we can go and get a pension ourselves then why can’t they?’

(Retail/catering, Hereford)
What improvements to pensions engagement could be achieved through workplace information?

Participants in this research doubted that much could be done with workplace information to improve the pensions situation of their employees.

Firstly, as indicated in the previous section, the suggestion that micro-employers could be involved in setting up any sort of pension scheme for their employees was dismissed as impractical, as well as lacking demand from the employees themselves.

Secondly, the idea that micro-employers might be encouraged to offer their employees guidance was also generally rejected. In many cases this is because participants would see this as outside their role or remit. In other cases, where perhaps the employer was more sympathetic towards the idea of helping their employees with pensions, they did not feel sufficiently qualified to offer any guidance, particularly given their own lack of confidence and trust in pensions as an investment. Asked to imagine that they had been approached by an employee about pensions, most employers felt it likely that they would refer the employee to someone else (banks, financial advisers, the Internet, etc.) or speak to their accountant about it. Some participants suggested that they might be able to offer general advice, but that this would be about as much as they would feel willing or able to do.

However, some participants (though by no means all) said they would be willing to act as a conduit for Government-produced information about pensions which was targeted at people who work for micro-employers. Reasons given for not being willing to forward information include:

- a tendency to throw away all unsolicited information, especially if no business benefits are apparent;
- concern that it might raise employee’s expectations and thereby lead to more costs and hassles for the business;
- a firm belief that their employees’ pensions are not their responsibility;
- a belief that the information would not be useful for the employee.

Those who would pass on information in the form of leaflets, packs etc. report that they would only do so if they were sure that it would not have any negative impact on the business. As such, they would not usually be interested in anything that took up more of their time than briefly reading the information and passing it on. Any communications efforts that were more participatory such as seminars, road shows, etc. would receive a low take-up.

Even those participants who said they would be prepared to pass information on doubted how effective it would be. Whilst some employers saw some potential long-term benefits in raising general awareness of general pensions options, the majority view was that the barriers to pensions saving (principally the lack of
credibility of pensions as an investment and employees’ lack of money to put aside) were far more important obstacles than a lack of information. They also found it hard to understand why such initiatives should be targeted through the workplace rather than a more a general, society-wide initiative to raise awareness.

Other options for improving pensions saving

Having discussed what might be achieved through the workplace to increase the level of pensions’ awareness and saving, participants moved on to discuss more general ideas for tackling the problem of under-saving. The moderator encouraged this by suggesting some general themes, but many of the ideas and the support for them arose naturally out of the preceding discussion.

These discussions suggested that amongst micro-employers, there is considerable appetite for strong measures that would improve the credibility of private pensions’ investment for both themselves and their employees. Amongst the things being sought were:

- **Above all else, pensions products that offer a genuine guarantee of minimum return and, ideally, a minimum rate of increase in return.** Participants felt strongly that a guaranteed product that could be genuinely trusted would go some way to remove both their’s and their employees’ anxieties about pension investment. Many participants saw a role for Government in providing this guarantee as it is seen to be more accountable than pension companies.

  ‘There’s got to be some security in a pension, either through or by the Government. If the money’s put in it’s got to be there with an incentive for people, and the money’s there when they retire.’

  (Manufacturing, Wakefield)

- **Stronger reassurances from both the Government and pension companies that pensions are, in fact, a good investment.** Many participants felt that they lacked a clear steer on the best way forward and that key institutions, such as the Government, had failed to provide good, firm, high-profile advice about what to do.

  ‘Cut out all the crap and say ‘this is how much you pay a month, this is what you get at the end of it’. It’s just too much like placing a bet on a grand scale at the moment.’

  (Manufacturing, Wakefield)

- **Bolder, more radical solutions.** Those participants who felt the most disenchanted with the current pensions system often called for a significant change to both the state and private pensions sector. This, it was argued, would have the benefit of resolving existing problems whilst also raising the profile of pensions and people’s need to save. There was considerable frustration at the regularity of piecemeal changes to the system which were seen as ineffective and confusing.
• **Measures to make it 'pay to save' by providing clear financial incentives.**
  It was apparent from this research that micro-employers (and by extension their employees) did not perceive much of an incentive for pension saving; for example the current system of tax incentives appears to be poorly understood. What employers appeared to be looking for were clear, concrete incentives such as a level of investment matching by the Government.

• **Pensions products which make it easier for people to save.** Participants suggested a number of different ways for making pensions products more attractive:
  – **improving simplicity and transparency.** This was important given complaints about people’s difficulties in fully understanding pensions. Efforts to make pension saving clearer might also help people to feel that their investments were secure;
  – **more control and ownership.** Participants argued that they needed to know what was happening to their money and have greater control over it; and
  – pensions also need to be more **portable** (especially given the high turnover in staff at micro-employers), and both the employer and employee would need to have the capacity to make easy adjustments in their savings rate.

• **Efforts to improve financial education and the financial capability of young people.** This was mentioned frequently throughout this research as a way of addressing the perceived central problem of young people’s apparent unwillingness to save.

Despite having suggestions for improving the current pensions system, from what they knew of their employees, some participants believed that some form of compulsion was the only way to increase saving and counteract current resistance and/or inertia. However, participants were only willing to consider the idea of compelling the employee to save. Compulsion for micro-employers to pay into employees’ pensions was rejected because they did not feel that they had a responsibility over this area, and because they felt the extra cost would be too much of a burden on their business.

**Conclusion**

The research shows that participating micro-employers were generally concerned about their retirement income but have a poor regard for many of the options available to them. The principal reasons for feeling negative towards pensions were an impression that pension saving does not deliver sufficient returns, a lack of trust in the pensions industry, a degree of cynicism about pensions, and a dislike for the lack of control over investment that is associated with pensions.

Moving on from this, participants felt little, if any, responsibility for their staff’s pensions or much of a sense that their business might benefit from providing pensions or guidance to staff on pensions. On the employee side, there was also
little evidence from participants that staff were looking for help with pensions. Indeed, participants usually believed that their staff would prefer higher wages over pension contributions.

There was furthermore, little belief, therefore, that workplace information would make much of a difference to the savings rates of their employees, other than perhaps some potential to raise general awareness. The research suggests that employers might be willing to offer limited help in communicating to employees by passively circulating information. However, it was also clear that such assistance would be limited to what the employer could do without inconveniencing themselves and that, even then, a lot of communication would not reach employees as many micro-employers would regard it as irrelevant or not useful for their staff.

There appeared to be more appetite for fundamental reforms than for measures to improve levels of understanding. In particular, many participants were looking to see changes to the system or a new investment vehicle that offered a **guarantee** of return that could be trusted and where there is a clear incentive to save.
1 Introduction

This report shows the findings from small-scale research looking at micro-employers’ attitudes towards pensions and saving for retirement as well as their attitudes towards their employees’ pension provision.

Micro-employers and their employees are seen as at risk of under-saving for retirement. The main reasons for this are that:

- there can be unstable work conditions, particularly for new businesses, and this might discourage people from taking long-term decisions such as saving in a pension plan;
- pay rates may be low at some micro-employers, particularly where there is pressure to reinvest in the business rather than remunerate staff.

It is rare for micro-employers to provide occupational pensions schemes. The following data from the 2003 Employer Pension Provision Survey (EPP) provides an indicative picture of the level of pension provision among micro-employers.¹

**Figure 1.1 Pension provision among micro-employers²**

<table>
<thead>
<tr>
<th>Pension Provision</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group personal pension</td>
<td>8%</td>
</tr>
<tr>
<td>Firm contributes to private pension provision</td>
<td>14%</td>
</tr>
<tr>
<td>Occupational pension scheme</td>
<td>2%</td>
</tr>
<tr>
<td>Stakeholder pension with members</td>
<td>5%</td>
</tr>
<tr>
<td>Stakeholder pension with no members</td>
<td>11%</td>
</tr>
<tr>
<td>No pension provision enabled or provided</td>
<td>62%</td>
</tr>
</tbody>
</table>

Base: 122 employers with 1-4 employees, taken from EPP 2003

¹ This data gives a general indication of the scale of non-provision, but is based on a small base (122 employers).

² Firms can have more that one sort of provision so percentages do not sum to 100.
The stakeholder pensions legislation introduced in 2000 sought to address low levels of access to pension provision at smaller (though not the smallest) firms by obliging all organisations that employ five or more people to set up a stakeholder pension scheme and to inform staff of how they might join (though neither the employer nor the employee were under any obligation to make contributions to the scheme). This legislation was not extended to employers of fewer than five people because of concerns over how the administration of a stakeholder pension might affect the very smallest businesses. Consequently, this has left people who work for the smallest employers without access to a stakeholder pension through their employer and, therefore, at greater risk of under-saving.

The Department for Work and Pensions (DWP) has been considering measures to help people who are at risk of under-saving to make informed choices about retirement planning. This research was undertaken so that the Department would be better informed about the attitudes of micro-employers towards pensions and the barriers towards saving that they and their employees face.

This research has been designed to fill this gap in knowledge. It is qualitative, small-scale and exploratory, as befits its limited aims. However, it will hopefully enable the Department to take an approach that is informed by this group of employers’ views. The findings may also be of interest to a wider audience who are interested in attitudes to pensions more generally.

1.1 Research aims

The specific aims of the research were to:

- look at the pension provision of individual micro-employers themselves and their attitudes towards pensions;
- investigate micro-employers’ attitudes towards their employees’ pensions and explore the reasons for current low levels of provision;
- assess the feasibility of involving micro-employers in spreading the ‘pensions message’ to their staff and to investigate ways through which this might be achieved.

1.2 Methodology

The research was undertaken using group discussions which are the most efficient way of getting the detailed views of a wide range of businesses. It was also hoped that the group discussion format would encourage interesting discussions and debates around pensions and pension saving. The discussions were informal and free-flowing to allow people to express their views in full and for the researcher to get an in-depth understanding of participants’ attitudes. The researcher lead the discussion using a topic guide (see Appendix), though this guide was treated only as an aide to memory and all of the questions were not asked in the same way in each
discussions lasted between one and a half and two hours. Participants were not told that the moderator was a DWP researcher to avoid any possible influence over the discussion that this might have had.

In total, eight discussions took place at four locations between 9 and 23 March 2005. The locations for the groups were selected to achieve a broad mixture of different types of places across the UK. The four locations were:

- Edinburgh (EH1 and EH2) – covering businesses in the centre of a large city;
- Wakefield (WF1 and WF2) – covering businesses in a smaller urban environment;
- North London (N4 and N8) – covering businesses in an urban, though not city centre environment;
- Hereford (HR1, HR2 and HR4) – covering businesses in a rural/mixed environment.

Recruitment for the discussions was also split into three general industry sector groupings. This was done following analysis of the EPP which suggested that levels of pension coverage at micro-employers differed markedly by sectors. A general description of the three sectors is as follows:

- retail, wholesale, catering and personal services (where the EPP suggests that about one in four micro-employers currently offer some sort of pension provision to their employees);
- manufacturing, agriculture, construction, motor trade (where the EPP suggests that less than half of micro-employers currently offer some sort of pension provision to their employees);
- the service sector – banking, real estate, finance, transport (where the EPP suggests that around half of micro-employers currently offer some sort of pension provision to their employees).

The sample was drawn from the Experian Business Database which is derived from various sources, (principally Companies House, Thomson Directories and public record data obtained from The Registry of County Court Judgments and the Electoral Roll). Businesses were selected randomly from all businesses listed within the specified postcode areas and were sent a letter by the DWP informing them of the research. Professional recruiters from MORI (Field and Tab) were then employed to contact businesses by telephone and ask them to attend. An incentive payment was offered to encourage attendance.

The achieved sample was as follows (the figures in each cell represent the number of participants within each group).
Table 1.1  Achieved sample

<table>
<thead>
<tr>
<th></th>
<th>Retail/wholesale</th>
<th>Manufacturing/ agriculture</th>
<th>Service sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edinburgh</td>
<td>9</td>
<td>-</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Wakefield</td>
<td>-</td>
<td>6</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>North London</td>
<td>5</td>
<td>-</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Hereford</td>
<td>7</td>
<td>7</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>13</td>
<td>19</td>
<td>53</td>
</tr>
</tbody>
</table>

1.2.1 Respondent types: business and gender

In considering the findings from this research, it is worth knowing a little about the businesses who took part.

They were all private sector businesses (although not-for-profit organisations were included in the sample they were not numerous and none were recruited). They had been operating for quite different lengths of time, some were brand new (started within the last couple of months) whilst others had been going for decades. This is probably quite an important factor in determining attitudes to pensions and other matters, although it has not been possible to look at this in detail in the analysis.

To give a picture of the kinds on businesses included in the research the following outlines those who took part:

- **Retail/catering sector.** This was split between cafés and restaurants and shops (two souvenir shops, a book shop, a jeweller, a clothes shop, a bathroom tile shop and an electrical goods shop. There were also three hairdressers, an electrical repair service and one import-export wholesaler).

- **Manufacturing/agriculture.** This group was split into motor vehicle repair, hire of gardening equipment, a joiners, farmers, agricultural suppliers, vending machine repairs and printing.

- **Service sector.** This covered quite a range of businesses including: engineers/architects, event managers, a number of consultants (management, engineering, design and IT), a number of estate agents/property consultants, a podiatrist/chiropractor, an employment recruitment agency, a photographer and a video hire shop.

The gender breakdown of the groups differed by sector. Within the manufacturing groups, all bar one participant was male, the service sector groups were mostly male but with a few more women, whilst the retail/catering groups were fairly evenly split. Overall, the sample was dominated by men.
1.3 Note on qualitative research

This report describes quite negative views about pensions and about the potential value of workplace information. Whilst this is a faithful account of the discussions, it is important to bear in mind the fact that the research methodology may have contributed to the level and/or extent of negativity and criticism.

The group discussion environment is relatively unstructured and informal and there can be a tendency for participants to feel that they are being invited to assess and criticise issues. As such, some participants may find it easier to be critical than to be positive.

The reader should, therefore, bear in mind that whilst the views expressed in this report are genuinely held by participating micro-employers, more balancing positive views might, to a small extent, be less fully represented.

1.4 Note on recruitment

Recruitment for the group discussions proved to be a very challenging process for a number of key reasons:

- The availability of micro-employers was found to be quite restrictive. Importantly, different types of business are available at different times of the day, so it was difficult to get the timing of the groups right.

- The incentive did not always prove to be large enough to encourage attendance, with the result that attendance at some groups was lower than hoped (especially in London). Future research with this group might need to offer a large incentive, perhaps up to £80.

- The data on employee numbers was frequently found to be out of date or inaccurate, thereby greatly reducing the amount of available sample. This emphasises the very unstable nature of micro-businesses, whose level of activity and number of employees changes regularly. This has important implications for any future research amongst this group. In particular, quantitative surveys of these employers is likely to be very susceptible to misclassifying the number of employees at an organisation and, thereby, drawing incorrect conclusions about this sector.

1.5 Report structure

Throughout the report findings from all eight groups are integrated together, although differences are shown between the different sectors where these were apparent. The commentary is illustrated with a number of quotes from participants, some of which have been edited slightly to improve the flow, but without ever changing the sense of what the participant was saying.
The first chapter of the report deals with participating micro-employers' own views on pension provision. The second and third chapters look at these employers' attitudes towards their staff and their pensions. The fourth chapter looks at what might be done through the workplace to increase awareness of and engagement in pensions; and the final chapter looks at participating employers' suggestions on what they feel might improve the pensions situation in the UK.
2 Attitudes of micro-employers towards pensions

The main findings from the research begin with a description of the attitudes towards pensions held by those running micro-businesses. This is necessary because to get a full understanding of how these employers regard their employees’ retirement savings it is also necessary to get a detailed picture of how they themselves regard pensions.

2.1 Current levels of awareness and retirement saving amongst micro-employers

2.1.1 Level of thought given towards saving for retirement

The level of thought that participants had given to their pensions varied to a considerable degree, with some participants saying that they thought about their retirement income regularly and others saying that they had barely even considered the issue. Unsurprisingly, age seemed to be an important factor, with many older participants apparently quite preoccupied about pensions, and younger participants generally not very interested. It was commonly felt that 40 was about the age when someone should begin to think about retirement.

‘Since I’ve been 40 I’ve been thinking more about it. You think of the future, but before that I didn’t really think about it at all.’

(Retail/catering, Edinburgh)

Income levels and the sectors people were working in also seemed to be important factors affecting participants’ attention on pensions. Those in traditionally less lucrative sectors (catering, hairdressing, etc.) were less likely to have been giving their retirement income much thought.

In spite of these differences, most participants generally agreed that planning for the future and having some sort of a saving strategy was important. Those admitting that
they had not given pensions much attention were usually quick to concede that they should have thought about it more or taken more action.

In conclusion, it seems that once they get past a certain age (c.40) and achieve a certain level of income, micro-employers are fairly focused on pensions and retirement income.

‘I’m painfully aware that I need to do something about when I retire…people that actually are self-employed are on a low wage, just don’t save at all, and obviously they’re getting in trouble, so I don’t want to be in that situation, but I can’t afford to put 30% of my wage into a pension, which is what I need to do really to make it worth having a pension.’

(Manufacturing, Wakefield)

2.1.2 Knowledge/understanding about pensions

Following on from this variation in the amount of attention given to pension saving, levels of understanding and knowledge about pensions also varied considerably across the groups. Within the white collar/service sector, most participants had a fairly good knowledge of the pensions industry and the options available to them as individuals. Within other sectors, however, knowledge was more varied; with some participants having a good understanding, but also others who had almost no knowledge of what pensions were, how they worked and the benefits of pension saving over other forms of saving. For example, at some groups, participants’ awareness of the tax incentives associated with pension saving was very low.

‘There’s no tax benefits to saving in a pension. I know you used to get a bit back, tax and that. Are they still in place or are they gone? ‘cos you don’t hear about that any more.’

(Retail, London)

‘Well, it’s a bit confusing whether to buy a private pension or to buy a stakeholder’s pension. Just waiting to see what happens. You don’t really know what to do for the best.’

(Retail, Edinburgh)

The research found considerable confusion amongst many participants about the details of their pensions. In particular, understanding of the rules around ‘opting-out’ seemed to vary, as did knowledge of how to access or transfer old schemes. A number of participants appeared to think that if you left an employer then all money invested in the pension scheme was ‘frozen’. This was often given as a reason for not considering a pension scheme for their employees, as the frequency of staff turnover would make the idea of a pension scheme seem redundant.

It would, however, be wrong to see this lack of knowledge around the details of pension provision as the cause of some participants’ lack of interest in pension saving. Indeed, despite an apparent lack of knowledge, many participants believed
that they had a good of understanding of their situation and of the options available to them (although they still usually also felt uncertain and uneasy about what their retirement income would be).

‘I think most people understand about pensions, it’s not that we’ve never heard of the word pension, they either can’t afford it, or it’s 40 years from now so I’ll think about it in five years.’

(Manufacturing, Wakefield)

Lack of interest in pensions was more likely to stem from generally negative attitudes towards pensions products (which are outlined in more depth Section 2.2.2), and it is this lack of interest that is also the cause of poor understanding around the details of pension provision.

‘It’s usually discussed in a negative sense, it’s why do you bother, and what’s the point, just things like that, may as well just not bother, that’s at the end, the whole gist of it.’

(Manufacturing, Wakefield)

So, as Section 2.2 will show, nearly all participants had negative attitudes towards pensions. For some this outlook had meant that they had not felt any need to engage with pensions and learn more about them, which in turn led to a poor understanding of pensions. For others negative attitudes had driven them to learn more and increase understanding. Unfortunately, better understanding did not seem to make these respondents any more favourable towards pensions. Indeed, it was often seen in this research that those who showed the greatest knowledge about the mechanisms of pension saving, had the most negative perceptions of them.

It should also be stated that by no means all participants felt confident when thinking about pensions or believed that they had sufficient understanding. Some participants, particularly those with little or no current knowledge, were quite open about how little they understood and a few expressed an appetite for further information and guidance.

### 2.1.3 Actual saving behaviour

Given the variation in levels of thought given to pensions and the associated differences in knowledge about pensions, a range of actual savings behaviour and levels of preparedness were apparent amongst participants. These can be broadly categorised as follows:

- **Those with a high level of knowledge and who were paying into a private pension.** These participants were usually in the white collar/service sector groups (but individuals were also found in other sectors). They tended to be knowledgeable about their pensions and claimed to be saving at reasonable levels. Many also reported adopting an eggs in more than one basket approach with perhaps a number of pensions alongside different products and property.
Whilst this group seemed to feel reasonably happy that they had done all they could to prepare for retirement, there was no great confidence that their investments (in particular pensions) would fully meet their original expectations.

‘I’m fairly pleased that we are covered. We’ve got property, some private pensions and endowments coming up about every five years from now until we retire.’

(Retail/catering, Hereford)

**Other participants who were paying into private pensions but with less knowledge and engagement in pensions.** Slightly different from the first group were those who were paying into private pensions but perhaps at a lower rate and without having given much thought to it. These participants were quite common in all groups and tended to be found amongst those who had been self-employed for some time. They appeared reasonably content to be doing something for their retirement, but as above were uncertain about what income they would get.

**Those who have paid into a pension in the past but were doing little or nothing at the current time.** The participants included in this group were those who had previously paid into occupational schemes when they had been employees or those who had started a pension at some point and then given it up. These participants were keen to believe that their earlier investments would give them some income above the minimum, but were no longer interested in saving in pensions.

‘I was paying into a pension scheme, and stopped it, I probably paid in ‘til the age of 30 to 35, any spare money I had. I’m much better off investing in my business, and that’s the view I’m taking now, I’m not paying anything in. I don’t think I would, I probably never will.’

(Service sector, London)

**Those who have thought about their retirement income, but decided to save by other means than a pension.** Quite a large number of participants had given their retirement income considerable thought but claimed to have opted for other ways of saving than pensions (most often property investment and increasing business assets). This was mainly because of negative attitudes towards pensions products and perceived bad experiences with pensions (outlined in Section 2.2).

‘If I was going to invest money into later life I would think property or something along those lines would be a better return and a better investment because as I say I’ve seen in the papers, you know, pension funds are not really performing very well and the return on it isn’t as good as putting down deposits for instance.’

(Retail/catering, Edinburgh)
‘I made a conscious decision a few years ago not to invest in a private pension because of what we’ve discussed here. Instead, I basically thought you’re better off putting the money in the bank and just having it there when you want it. I think the route I’m going to go down is… buying property to add to, invest in property, renting it out, make it worth buying, and then when I want to retire, sell it, or whatever, worry about it then, but at least I’ve got something, I’ve got bricks and mortar sat there.’

(Manufacturing, Wakefield)

- **Those with only a general idea about the future but no firm plans.** In most groups there were participants – more usually the younger employers – whose retirement savings plans were not particularly well developed. These participants often stated a general aim to use their businesses and property assets, as well as anything else that they had available at the time to fund a retirement income. These participants were not reluctant to think about the future, nor did they lack a sense of responsibility for their retirement or future orientation. It is more that they did not feel they had reached the appropriate stage of their lives to consider retirement saving yet, or that their income levels were not yet high enough to allow it.

‘You’re in a situation where you’re trying to build something, oh well I’ll leave it for this year, see what happens next year when things get a little bit better.’

(Manufacturing/agriculture, Hereford)

‘I’ve made 30,000 on that [home purchase] if I were to sell it now, and that’s sort of a back up for me then – I always could get the money there if I wanted, now it’s you need extra money to put into a new business and stuff. I don’t expect the business I’ve got to fail or anything, so if I get to that age I should have enough money to survive anyway, but I technically don’t really think that far ahead anyway, if I can help it.’

(Manufacturing, Wakefield)

- **People who had thought about it but felt it was too late to help themselves.** This group of participants was rather like the previous one except that they lacked the same confidence in their business and property assets and also felt that it was too late to do anything to improve their situation. This group tended to be made up of older employers running less lucrative businesses. Like nearly all participants, they had given their retirement some thought. However, their only strategy tended to be to make what use they could of their available assets and to continue working for as long as possible.

‘I think you’ve kind of resigned yourself to working longer, it’s not a thing that at a certain age you’re going to stop working, you’ve got to keep going.’

(Retail/catering, Edinburgh)
‘I have been worried about pensions for about ten years, but I’m not in a position to do anything about it.’
(Manufacturing, Wakefield)

‘It would be a nice, lovely idea to stop at 65 or 70 but if it’s not practical I’ll do what I need to do.’
(Retail/catering, Edinburgh)

What was generally consistent across all groups was a level of uncertainty about what income participants felt they would have in retirement and scepticism about pensions as a means of investment. In spite of this, nearly all participants argued that they had made the best decisions they could have done in their circumstances, and as such were resigned to the view that whatever their current strategy was, it was the one that they were going to stick with.

It is important to note when considering probable attitudes towards their employees’ pensions that only the first and second groups (those who are currently putting money into a private pension) had any degree of detailed knowledge about pensions; the rest were generally hostile, indifferent or confused about pensions. Therefore, it is only really the first and second groups who could be considered to be in a position to help the Department for Work and Pensions (DWP) to communicate positive messages about pension saving (this issue is raised again in Chapter 5).

2.2 General attitudes towards pensions

Having outlined the different ways and levels at which participants were themselves saving for their retirement, this section will describe their general attitudes towards pension saving.

A range of views on pensions and retirement saving were found by the research, but with some very strong common themes. Overall, pension saving was seen as a problem and attitudes towards pensions were negative. This is for a number of different reasons which are all outlined in the following sections.

2.2.1 Private pensions are seen as a poor investment

Perhaps the most important reason why pensions are regarded negatively is the perceived poor performance and return on pensions investments over recent years. Many of those who had been paying into a pension were keen to describe how disappointed they felt with the performance of their pension and projected retirement pots, whilst other participants knew of people who had reached retirement with a much smaller pension then they had hoped for or were expecting.

‘It’s worth less than it would have been stuffed under the mattress. I just had another set of returns done from one of them… I looked at it and thought I really seriously don’t know whether there is any future in continuing to do this.’
(Service sector, Edinburgh)
‘Well I started mine when I was early twenties and I just left it to a so-called financial adviser to suggest a good pension scheme, which not surprisingly hasn’t done particularly well. In fact it’s probably worth less than when I started.’

(Service sector, Wakefield)

‘There’s no incentive, from an investment return point of view, to put money into a pension fund when you can do a much better bet by putting it under the bed, practically, where at least it’s safe. The return with a pension fund is not worth the perceived risk.’

(Service sector, London)

‘The pension I’ve got has not increased at all. I feel it is a waste of money. There are better places to put it.’

(Retail/catering, Hereford)

Moreover, this perception of pensions being a poor investment was not restricted to those with direct experience of pensions, it also appeared to be the consensus amongst all participants. As such, even those without any real experience of pensions were quick to assert that pensions were bad value and, in a phrase used frequently during this research, argued that money would be better hidden under a mattress than invested in a pension fund.

‘They’ve had so bad reports haven’t they, really. I know several people that have paid into pensions for 20 years, and they’ve got very little out. Just money down the pan, isn’t it?’

(Manufacturing/agriculture, Hereford)

The perception of pensions as a poor investment is seen yet more acutely when compared with the performance of property investments over the last five years. Indeed, for many participants, pensions and other stock market saving vehicles seemed almost obsolete when compared to the attractiveness of investing in property.

‘I must admit…a better option would be to buy a property rather than put everything into a pension…I’ve got a private pension but the projection on a private pension is rubbish.’

(Retail/catering, Edinburgh)

‘I haven’t paid any, I haven’t increased my amount to pay in because, basically, I don’t believe in pensions, I don’t believe that, it won’t earn you enough money. I think there’s much more better ways of securing the future than with a pension.’

(Service sector, Wakefield)
In expressing these views, very few participants seemed to be willing to see pensions as a long-term investment that might perform well over time. Rather there was an overwhelming preference for looking at performance in the short-term, in terms of recent performance and how much it had grown over the last two to three years. Similarly, there was very little recognition that saving in pensions is good value because of the tax incentives available. Even amongst those with some understanding of these benefits, there was quite a widespread acceptance that the pension they would receive will be lower than they would have expected.

The overwhelming consensus among participants therefore was that private pensions do not represent an effective way for them to save. In this climate it is perhaps surprising that many still did. Although hard to assess, the reason for this was probably one of habit, and a residual sense that it is the correct thing to do. Also, many participants felt committed and tied into their pensions and there was a feeling that to stop investing now would probably cause the loss of even more money.

Therefore, those participants saving in a pension were content, in so far as they felt they were doing the right thing, but are also very sceptical about whether their pension would deliver what they wanted or expected.

‘I think most people perceive you’re putting money away for a pension it’s really a good thing. It’s a good idea, a good concept, but at the end of the day the return’s nothing.’

(Retail/catering, London)

‘Pensions are not reliable. Having said that we still pay in, we haven’t taken anything out. If we stop we lose too much.’

(Retail/catering, Hereford)

Meanwhile, those that are not saving in a pension felt that the poor performance of other participants’ pensions vindicated their decision, and, as such, they had no intention of starting any pension saving.

‘People are a little bit reticent about getting involved in something where all we get is sort of getting bad press about it.’

(Retail, London)

2.2.2 Mistrust of the pension industry (and financial institutions more generally)

Alongside the widely held belief that private pensions do not offer good value for money are very negative views about pension companies and financial advisers. A lot of this appears to have had its origins with the Maxwell affair, which is still widely used to evoke more general problems with the pension and finance industry. Beyond this, many people also cite failures of endowment policies as further evidence of the unreliability of the finance sector. Participants generally held the
The pension industry in very poor regards, and as such it is questionable how much impact the Government could have to improve the perceptions.

The main features of participants’ negative views were that:

- You cannot trust pension companies to look after your money. Whilst it is recognised that fraud or scheme failure might be rare, enough examples can be cited for participants to have concluded that putting money in pensions puts you in danger of losing it in some way.

  ‘You might invest it in something that goes down the toilet. You might also get rid of all your disposable income and die early, and never have a chance to use it.’

  (Service sector, London)

  ‘You’re frightened you’re going to lose your money.’

  (Retail/catering, Edinburgh)

- Participants appeared to have lost any faith in the projected outcomes and earnings from pension investment so that it was generally believed that what you are told at the outset in terms of probable returns was unlikely to be true. This was really seen as a wider problem within the finance industry, so as well as pensions, participants also cited endowment shortfalls as evidence for this.

  ‘There’s no guarantee today that you’re going to get anything like what you’ve anticipated.’

  (Retail, London)

  ‘Suddenly you’ve got to find 15 to 20,000 pounds because they don’t pay off their mortgages and that…they’ve thought their mortgage would be finished in 25 years time when they’re in their 50s and they’d get a lump sum and now they’ve got to find 15,000, 20,000 pounds…That again is off-putting.’

  (Retail, London)

  ‘A long time ago when you had pensions, well not that long ago,…but at the end of the day, yes there was pensions, people did listen to the Government, they did listen to pension schemes and they all put into it, but now it’s a very, very, grey area. Are you going to get back what you put into it? And is it safe?’

  (Manufacturing/agriculture, Hereford)

  ‘To me it’s just another extension of their endowment fiasco really.’

  (Service sector, Hereford)
Participants believed that pension companies levy lots of hidden charges and hidden conditions, which without significant expertise, an investor is likely to fall subject to. Some participants even went as far as to suggest that the complexity of pension investment is a deliberate ploy to extract further profits through the small print of policies.

‘One thing that’s bizarre is if you go to the building society how much does it cost you to open an account? It doesn’t cost you 250 quid, 300 quid, 400 quid, it’s free. Whereas when you start up a pension it takes two or three years for you to pay off that…What’s all that about?’

(Service sector, Edinburgh)

‘I think it suits them to be mysterious though, not being able to answer questions, because that way you can’t tie them down to anything.’

(Service sector, Wakefield)

Pension companies and financial advisers were perceived by participants as singularly motivated by the need to make excessive profits and not interested in customers. Part of the reason for this accusation was that participants appeared to dislike the very idea of people profiting from the savings of lower-income workers (rather than profiting from providing other goods and services). Although it should also be seen as a function of the fairly widely held perception that the pensions industry is engaged in profiteering.

‘If you buy a pension plan with, let’s say, [pensions companies’ names omitted] they are there to make a profit themselves, looking after your pension is their secondary responsibility, their primary responsibility is to their own shareholders, and I think people see that as not quite compatible with the idea of saving for retirement.’

(Service sector, London)

‘People and companies who’re investing these monies, they don’t look at it as people and their pensions, they look at it as figures on a balance sheet. And at the end of the day, if it went pear-shaped, as long as they make their money as they go, they’re quite happy. And what happens to other people afterwards?’

(Manufacturing/agriculture, Hereford)

‘Financial institutions are just fleecing all these people that aren’t as well-educated.’

(Service sector, Wakefield)
‘Why do pensions have to be managed by private companies that take so much out of pensions? They more or less cream everything off, creating an industry for these people to live on very richly and the working class has to pay without having anything back…we are subsidising these people.’

(Retail sector, Hereford)

- Pensions companies and advisers were also sometimes portrayed by participants as incompetent in managing money and offering very poor customer service (linked to the idea that they make things too complicated for people to understand).

‘Ninety per cent of fund managers under-perform the average FTSE index, that means if you put your money using a pin, you would beat nine out of ten of them. It’s a bit worrying actually.’

(Service sector, London)

‘The Government is now encouraging people to take out private pensions, but they don’t put any safeguards in place to make sure that the people, the so-called experts advising on pensions, are properly qualified to do so.’

(Service sector, Wakefield)

- In contrast, for some participants pension companies are also seen as not being particularly interested in micro-employers because they employ lots of young and low-income people, so are not regarded as profitable.

‘I don’t understand why they don’t sell it more hard to young people – pension companies.’

(Retail, London)

Finally, it should also be noted that the Government was often criticised as well as pension companies for presiding over a system in which pension saving has become unattractive. There was dissatisfaction with the lack of Government intervention where investments have failed or systems to ensure sufficient incentives to save were not in place. Government measures on pensions (such as stakeholder pensions) were also often portrayed as ineffective.

2.2.3 Participants have an acute dislike of the lack of control associated with pensions

As well as a lack of faith in private pension to deliver a good return and negative attitudes towards pension companies, many participants appeared to have a considerable dislike of the lack of liquidity in pensions; the idea of putting money into a pension where they could not get it back when required. For many participants, it felt akin to putting money into a black-hole or down a drain.
‘You’ll never convince people to put money in a pension when, as soon as they pay it, each week they pay it they’ve lost control of it. I just can’t see how you’re going to convince anybody. You can talk to them as much as you like, but you, if you said you put £50 a month in or £50 a week, and at the end of the year I’ll give you £700, fine. But at the end of that year you want to go get your money back in a lot of instances.’

(Manufacturing, Wakefield)

Equally important, participants really seemed to have difficulties with the uncertainties of pensions, in particular the perception that there was no guarantee even of the minimum amount that one could get from pensions investments. The idea that you could lose all, or nearly all, of the money invested was considered by some participants to be extremely troubling. For many participants, pensions, by their very nature were supposed to offer security, and were essentially not doing so.

This level of uncertainty conflicted with a strong desire, held by many participants, to feel in control of their money and investments. This desire might be attributable to their lack of trust in the pensions and finance industry generally (as outlined already), but it may also reflect a more general tendency of self-employed people to want to feel self-sufficient, especially when faced with uncertainties that are outside of their control, for example, general insecurity about the business, even the perceived dangers of the modern world.

‘Because of the uncertainties with the world economy. The pensions have been hit. You put money into it and then overnight your pension fund could lose the money…your investment for the future.’

(Retail/catering, Edinburgh)

‘Whereas 20 years ago it was just there, you set yourself up a pension and that’s how it went until you are 65 and you got your pension. Nowadays it’s completely different. I think people tend to take control of their own money rather than rely on others.’

(Retail sector, London)

That people see themselves as wanting to be in control of their own money and take responsibility for their investments, rather than entrust it to someone else, might be viewed as positive on some levels. From this perspective, the problem may not be that people are uninterested in savings and investment per se (quite the opposite), rather that the products on offer, in particular, pensions, are not seen to fit with their desire to have control over their money and to have greater certainty over what is happening to it.

‘I’ve got to use my own money to make money. I think I can do better for myself than the pension schemes can do for me.’

(Manufacturing/agriculture, Hereford)
‘So what we’re saying is really it’s up to us. Our faith is in ourselves.’
(Retail/Catering, Edinburgh)

‘I cannot foresee being, again, involved with a pension fund. There seems other ways that you seem to have maybe a little bit more control over. Property seems a little bit easier to understand than the mystique and the mysterious surrounding pensions and financial advisers.’
(Service sector, Wakefield)

2.2.4 Pensions are perceived as complex

Although participants tended to believe that they had a reasonable understanding of pensions, they nonetheless perceived them to be extremely difficult to engage with and learn about fully. This appeared to make participants feel particularly vulnerable about making poor decision about pensions. It also acted as a disincentive to look into the issue further because of the amount of time and effort required before an effective decision can be made.

‘The clarity of the products that the pension industry is selling us, it’s very muddy. It’s complicated to work out how they’re doing it and what the profit’s going to be. They’re like a mobile phone company aren’t they? It’s essentially, they’re all doing the same thing but how can it be so difficult to select the product you’re after?’
(Service sector, Wakefield)

‘The thought about it is quite scary unless you understand it totally.’
(Service sector, Wakefield)

Because of the perceived difficulties of getting a good understanding of pensions, along with the intangibles and unknowns that were associated with them, pensions once again were compared unfavourably with property. Property appeared to participants to be an almost intuitively better investment than a pension, possibly because the asset was perceived by participants as real, not just existing on paper and not susceptible to being lost altogether like a pension. Therefore, on the one hand there is pensions; seen as inherently (even deliberately) complex, and on the other there is property; more easy to understand and tangible or ‘real’ at the same time.

‘I know more about buying a property. It’s kind of more simple than a pension. It seems as if pensions are more risky than buying something that you know that it’s yours and then when you’re a wee bit older you can sell it off.’
(Retail/catering, Edinburgh)
2.2.5 Pension saving is not a main priority

Given that participants regarded pensions rather negatively it is perhaps unsurprising that where there were other commitments for their expenditure, pension saving was generally regarded as dispensable. Those at the lower end of the income scale seldom, if ever, felt they had a choice. With income so low and the needs of the business so great, pension saving was seen as automatically less important regardless of whether or not they had a positive or negative view of private pensions. This view was found frequently within both the retail and manufacturing/agriculture groups and amongst businesses that were just starting out.

‘Putting money aside for a pension is something, it’s a good idea, but practically I can’t see how the hell to do it. We’re struggling, we’ve been struggling since we started 14 years ago and we’re still struggling. It’s not something that I spare time on.’

(Manufacturing/agriculture, Hereford)

‘I don’t think people can afford to save. We’ve got our own business but we can’t afford to do anything.’

(Retail/catering, Hereford)

It is important to stress that amongst participants, the expenditure that took priority over pensions was very much related to business rather than personal priorities. Although group participants were often critical of others, especially young people, for not thinking enough about the future and saving enough, their own lack of saving was generally ascribed to the financial burdens that they as micro-employers faced.

2.2.6 Other people do better out of pensions

Another issue raised by some participants was the disincentive to save created by what they saw as the generosity of the state system and the extensive use of state benefits by people who, unlike them, had not worked hard all their lives.

‘As you say, if you’ve got nothing, no savings or anything, you can get unbelievable handouts from the state, but if you’ve got any savings, you own your own house or one of these sort of things, when you become old it’s very difficult. And you can’t hand your money down to your children, it doesn’t encourage you to put any money by because the Government’ll have it off you at the end of the day.’

(Manufacturing/agriculture, Hereford)

The groups contained a number of individuals who felt aggrieved that a large portion of society was benefiting from state benefits that they attributed to their reluctance to work and save; to ‘pull their weight’. This is important because it did affect participants’ views on pensions, though it appeared to be more of a function of their overall world-view than attitudes towards pensions specifically.
Another frequently recurring theme was a sense of bitterness and injustice about the pensions that were available to other workers, particularly those in the public sector. Participants often found it difficult to understand how public sector pension schemes were so lucrative when compared to their own and why this fundamental unfairness had not been addressed by the Government.

‘The other things which gets employers’ backs up is the disparity in pensions between the public sector and the private sector. What I fail to understand is that we’ve all been working for 20-30 years, but if you happen to join the police force or the army or the teaching profession, after 25 years you have the option of taking a pension and a golden handshake. You can’t do that in the private sector. They walk out with pensions of 50-60 grand per year, we’ll be lucky if we walk away with five and a half grand and who pays for that – it’s us.’

(Retail/catering, Hereford)

This issue did appear to influence the overall views that these participants had towards pensions and retirement saving, as the sense of injustice appeared to encourage them to feel yet more negative and critical. It might then also be seen to have an impact on the way they perceive pensions entitlement for their employees. As shall be seen further on in the report, many employers take the view that as they themselves have not received any financial help towards their own pensions, especially when compared to public sector workers and workers at larger firms, they are unlikely to feel particularly inclined to help others, including their employees.

### 2.2.7 Generally not disposed towards saving

As has already been stated in Section 2.1, most micro-employers who attended the groups were reasonably committed to the idea of saving and convinced that it was the right thing to do. Therefore, it was only a minority of participants who claimed to have no interest in saving at all. These participants tended to be the youngest participants in the research (those in their early 20s or earlier) and as well as being generally disinclined towards saving, they also are much more likely to feel that their business is a priority for investment.

‘For younger people who have got children and with their needs and wants these days, because children are always wanting what other children have got, and parents feel obliged to provide it. They don’t even start to begin to think about their old age until they’re in their forties and by then to take a pension out and amass the amount of money that you would need to live the lifestyle that you’ve always lived, I don’t think is feasible.’

(Service sector, Wakefield)

‘The idea of money today is completely different, isn’t it, to what it was going back ten, fifteen, or twenty years. What you get today, you can spend quite easily and you don’t save it. I think that’s the mentality today, that you don’t put it away.’

(Manufacturing, Wakefield)
2.2.8 Conclusions – micro-employers’ attitudes towards their own pensions savings

This chapter has outlined participants’ views on saving for retirement and pensions, it has also described the broad pattern of different savings behaviours that were currently being pursued.

It appears that micro-employers, especially older and more profitable ones do have a degree of knowledge about pensions and that this translates, in some cases, into an active interest in pensions and a general belief that it is right to pay into some sort of pension. Amongst owners of younger and less profitable businesses there is less interest, less understanding and less action and it was here that we were more likely to find people willing to avoid pensions in favour of other forms of spending and investment.

Across the board, the research found a degree of uncertainty and concern about pensions and an overwhelmingly negative attitude towards pensions as a product, the pensions industry and financial advisers. There was also significant criticism of Government policy, specifically the perceived lack of incentives to save and the ineffectiveness of recent measures to address the situation.

These attitudes form the background against which any attempts to get a pensions message to employees of micro-employers must be seen, and, as such, represent a number of key challenges:

- Amongst a substantial amount of the micro-employees covered by this research, particularly those who are younger and in less lucrative sectors, there was a fairly limited understanding of, or enthusiasm for, pensions. It is therefore unlikely that they would be able to offer useful advice to their employees.
- Nearly all micro-employees in the research felt negatively about pensions and, as such, were unlikely to be inclined to recommend them to their employees.
- On the more positive side, the research did find almost universal agreement amongst participants that saving for retirement is a good and sensible thing to do. It is, therefore, probable that micro-employers might endorse a more general saving message to their employees.
3 Micro-employers’ attitudes towards their employees

Before going on to describe how participants felt about the issue of pensions for their employees, it is useful to firstly look at attitudes towards the employees themselves.

It appears that, based upon the account given in this research, employees of micro-businesses can be roughly divided into those regarded as short-term and those regarded as long-term. The use of short-term and long-term staff appears to differ markedly by sector, with retail and catering employers who participated in the research relying heavily on short-term staff while participating manufacturing and service sector firms preferred long-term staff but generally only employed people in the short-term because they find that staff move on so quickly.

3.1 Short-term members of staff

This section describes the short-term members of staff that participants in the research employed.

Young people working as a ‘stop-gap’. In the retail and manufacturing sectors, participants predominantly saw their staff as transient whose labour was essentially a temporary arrangement. In these circumstances, participants adopted a fairly transactional attitude towards their staff and seemed to expect their staff to do the same. The basis of this understanding was that in return for their wages, the staff member will perform their duties to an acceptable level and be reasonably reliable, but that the employee could leave or be sacked at any moment. Loyalty to the job was regarded as desirable but extremely rare and participants did not consider that they are able to do much to encourage it if the staff member is intent on moving on. It was notable that for some participants, the practice of employing young people on a semi-temporary basis was so well established that the terms ‘employees’ and ‘young people’ were interchangeable.
‘It’s not an industry where you work for years and years, maximum to a year. There’s a short turnaround in staff so it’s not staff which gets huge responsibilities, it’s not a career.’

(Service sector, London)

‘I don’t think anybody who’s worked for me has seen it as a long-term job anyway. They’ve seen it as a job to take until something more interesting comes along.’

(Manufacturing/agriculture, Hereford)

‘The kind of people that I have working for me it’s more a sort of stop gap until they start getting involved with careers so to speak, so they don’t actually see it as a long term investment, and they just want to make some money until they find something else and then move on.’

(Retail/catering, Edinburgh)

Slightly longer-term members of staff. Especially within the manufacturing and agricultural sectors, participants reported having staff who, whilst outwardly committed to the job in the long-term, were nonetheless unlikely to last for long. The key difference here to the more obviously temporary arrangement described above, is that the job is not regarded as a stop-gap, i.e. the employee is not evidently doing it before moving on to something else. However, participating micro-employers report having found that these employees do not tend to last very long either, and demonstrate very little loyalty. Most often, micro-employers expect all their staff to quite quickly find better jobs, perhaps at bigger firms and with more pay. Although they would prefer staff members to stay around, employers generally appear resigned to people leaving. This makes them essentially unwilling to do anything to encourage them to stay, especially if it involves costs or effort to themselves.

‘They just don’t stay long. The ones that are any use move on to a better job, and the ones that aren’t any use, well you have to move them on anyway.’

(Manufacturing/agriculture, Hereford)

‘You get a decent person working for you, and then they want to go up the ladder, where there’s a slightly better pension, slightly more perks. ‘Cos that place where they’re going to has got more people working to get the perks, and the small business gets the dead wood.’

(Manufacturing/agriculture, Hereford)
3.2 Longer-term members of staff

From what the micro-employers who participated in this research have told us, there appear to be two main groups of long-term workers at micro-employers:

**Long-term full-time staff** – A small number of participating businesses, as well employing semi-temporary staff, also had a few full-time, longer-term employees. These employees tended to be very highly regarded and sought after, and in many cases, the employer will report having a good personal relationship with the employee.

**Part-time staff** – Other participating business also reported employing predominantly part-time employees. Often these employees are described as women with other responsibilities such as husbands and families who do a few hours work a week. Again these employees tend to be very long-term and relatively loyal, the reason for which is seen to be principally because they are not motivated to move on and that they value the long-term security available with the employer.

3.3 Attitudes towards employing staff

How micro-employers feel about their staff plays a very important role in guiding their attitudes towards their staffs’ pensions and, in turn, how willing they might be to help provide information on pensions. In many businesses covered by this research, particularly those in the retail sector, employment was generally regarded as temporary and as such the pensions of staff members were of no interest to the employer. Where staff were longer-term, employers did see the possible relevance of pensions though, in almost all cases, they saw pensions as outside of their responsibility. The next chapter outlines the reasons for this.

Some participants appeared generally frustrated with the process of employing people. Aside from the administrative hassles that are frequently cited, they claimed to have serious difficulty recruiting staff members who remain loyal and reliable. This is important because it seems that these problems inform many micro-employers’ attitudes towards their staff members (for example, those employers who seemed particularly frustrated with staffing issues tended to be the most hostile to any suggestions that they become involved in their employees’ pensions).

3.3.1 What this research might suggest about the profile of workers at micro-employers

Finally, although it is not possible to draw statistical conclusions from qualitative research, if the pattern of employment reported here was repeated across the micro-employer sector and long-term staff members were found to represent only a small proportion of those working for smaller businesses, this could reduce the number of people who are most at risk of under-saving for retirement. It could be that much employment in micro-businesses is transitional and represents only a short period of peoples’ working lives when compared to time with larger employers. However, if
this were true (and quantitative data from employees themselves would be needed to test it), it would still leave some long-term employees of micro-employers at risk, and there may also be a group who change employment regularly but who remain within the micro-employer sector who would still be at risk.
4 Micro-employers’ attitudes towards their employees’ pensions

This research found only two cases of employer-sponsored pension provision across all groups and in all sectors. Moreover, very few other participating micro-employers had considered offering a pension or had had a discussion about pensions with their staff. Because of this, the majority of this chapter of the report aims to describe the various reasons that participants gave for not sponsoring pensions either directly (by setting up a scheme) or indirectly (by offering employees guidance and advice).

4.1 Reasons for not getting involved in employees’ pensions

4.1.1 Perceived lack of employee demand for pensions

The prevailing view amongst participants was that their staff, in particular short-term staff, were not interested in saving towards a pension; or, if they were at all interested, then they were content to sort themselves out with a private pension (to the extent that it was assumed that they would prefer higher wages to help them set up a personal pension rather than have a company-sponsored scheme).

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3 Although this research is small-scale, there is no reason to suspect any bias in the recruitment process that would lead to a bias against organisations who are providing pension schemes. It, therefore, raises some interesting questions for the Employer Pension Provision Survey (EPP), in particular it may be that those businesses that the EPP is classifying as micro could actually be slightly larger and are, therefore, covered by the stakeholder legislation.
Short-term staff were regarded as particularly uninterested in pensions, so that participants tended to regard the issue of pensions for these members of staff as irrelevant. The reasons for this were:

- Both the employer and the employee had an understanding that the job was short-term and, therefore, there was no point in making pension contributions that would just be wasted once the employee moves on (as was mentioned earlier, there was, amongst many employers, a general lack of familiarity with more portable pension products and the scope to transfer pension schemes from employer to employer).

  ‘We’d all like to set up these young lads’ pensions. But you get a young lad straight from school, and you send him on these training courses, and everything else, and then when they just get used to you, they’ve learnt the job, they float off to work for somebody else.’

  (Manufacturing, Wakefield)

- As outlined in the previous section, short-term employees are perceived to be only interested in the job for the wages and, as such, would prefer just to have the extra money (whilst the employer would prefer just to give the extra money to them and let them get on with it).

  ‘I think it boils down to people’s sort of expected careers, once they’re on the career path that’s when they would start doing something. But generally for small employers and people with minimum wages working for independent firms it’s really just seen as a stop gap…they don’t really see it as their step on the career, the pension, even sometimes the mortgage, it’s just really the money that they’re making just now until they move on to something better.’

  (Retail/catering, Edinburgh)

- Short-term staff also tended to be younger people, and younger people were generally portrayed by their employers as showing a pronounced reluctance or lack of interest in any sort of saving. For many participants this was indicative of growing cultural barriers to saving, where young people were portrayed as motivated by consumption, living today and so on. Others, however, felt that young participants’ attitudes were rational given other commitments and priorities that they might have (for example getting on to the property ladder). It is notable that cultural barriers to saving were generally ascribed to young people and not to participants themselves (any lack of saving on their part was generally put down to other legitimate commitments taking precedence).

  ‘All our employees are under 25. They’re not interested. They’re really not interested. It’s not something that we’ve ever talked about and these youngsters wouldn’t be able to put any money away as they’re only just starting out. They cannot afford to give a part of their wages to saving and I don’t think that they’re really interested, they’re only interested in getting their wages, going home spending it and then coming back next week.’

  (Retail/catering, Hereford)
'An 18 year old wouldn’t be interested in something that he was going to get in 40 years time, it would be a meaningless concept to him.'

(Manufacturing/agriculture, Wakefield)

- Participants also assumed that their employees had similar attitudes towards pensions and pension companies as themselves (i.e. mistrust and scepticism about the level of return) and as such they would be unlikely to want to invest in pensions, even if they were interested in saving.

When it came to businesses who employed longer-term members of staff, participants did acknowledge that they might have some interest in pensions and as such, were less likely to claim that their staff were not at all interested in pensions. However, even for longer-term staff, participants tended to maintain that pensions were not a central concern.

Importantly, for both short- and long-term members of staff, participants often argued that if the employee was interested in a pension then both they and the employee would prefer it if the wages were increased so that the employee could sort out a pension independently rather than through the workplace. This approach was considered consistent with participants’ desire not to take any responsibility for their employees’ pensions, nor to take any extra administrative tasks (see Section 4.1.7).

‘People will actually rather have the money in their hand, than have you taking money out of their weekly wage and saying, I’m going to put that into a pension policy for you, each week...They wouldn’t want you to do that, would they, not in small business circumstances.’

(Manufacturing/agriculture, Hereford)

Amongst participants, this perception that employees were not interested in pensions was, therefore, quite deep-rooted. As this research only looked at the views of employers and not the employees themselves, it is not possible to say how far this view reflected the reality. However, participants in this research cited a significant amount of evidence in support of the view that their employees were not really interested in saving. None were able to mention a time when pension contributions were a factor in recruitment and only a few could recall members of staff who have asked for pension advice or any sort of pension contribution.

‘It’s never created us a problem where somebody has said well, if there’s no pension we don’t want to work for you.’

(Service sector, Wakefield)
'Well we’ve offered a stakeholder from day one... that is with three full-time, two part-time, that’s in the office. And in all that time – and there’s a big sign up – not one single person has said ‘oh wow, I see you offer a stakeholders’ pension, what’s the deal there then?’ If you mention it, you give them the leaflet, they’ve binned it before they’ve left the office. I’ve never had one person enquire about stakeholders.’

(Service sector, Wakefield)

‘I mean I’ve interviewed to get the two posts... and I probably saw six or eight people and not one of them brought up the question ‘do I have a pension?’ It just wasn’t an issue.’

(Service sector, Edinburgh)

‘We have spoken about pensions, I’ve run the thing when having to provide access to pension information became law a few years ago, I asked everybody did they want me to do anything about getting them in contact with pensions providers, and it was an absolute resounding no.’

(Manufacturing, Wakefield)

4.1.2 There is no perceived business benefit to providing pensions

Participants generally failed to see any business benefit in providing any sort of pension. The main reasons given for this were the lack of potential loyalty from employees and their perceived lack of interest in pensions, alongside the fact that starting a pension scheme was seen as relatively much more costly for micro-employers than it is for larger organisations.

‘What we’re saying is that, as micro-employers, there just is no way that we can afford to pay in for the employees. How many people would you want to employ before you could get into that league? You’d want to be a little factory or something. You’d want 40, 50 employees, I would think before you could run something.’

(Manufacturing/agriculture, Hereford)

‘It’s money that the company doesn’t actually see any return for. With pensions going out which is why I’m not interested at this point in time.’

(Service sector, Edinburgh)

When thinking about short-term members of staff, the idea that offering a pension might help the business recruit and retain people was usually regarded as ridiculous. Participants argued that short-term staff were motivated by wages alone and had no intention of working for them in the long-term and therefore were not interested in an employer sponsored pension scheme that would appear to them to have the effect of reducing their wages.
‘I think it would be resented…and as an employee it would be regarded as money you’re not getting.’

(Manufacturing, Wakefield)

When thinking about longer-term staff, participants were more likely to appreciate how businesses might, in principle, benefit from offering pensions. Indeed, they were aware that not offering one could cause them problems when they try to compete with larger businesses to recruit and retain people. In spite of this the participants felt that the costs in setting up and running any sort of scheme, considerably outweighed any potential benefits that they could see. This often meant that micro-employers were resigned to not being able to recruit the right sorts of employees, or losing some good longer-term staff to larger firms where they are offered better packages. This problem was seen by participants as essentially the reality for small firms.

4.1.3 Employers have difficulty believing in pensions themselves so are unlikely to recommend them to their employees

A further very important barrier to employers providing pensions or offering their staff help with pensions goes back to views about the value and credibility of private pension investment. Quite understandably, if participants themselves had a low regard for private pensions or if they do not really understand the details of pensions, they were unlikely to feel that this was a useful thing for their employees to get into.

‘For encouraging new staff to take out a pension, I’m rather dubious, I have an accountant who’s saying don’t put any more money in your pension, you can do better things. So how can I say to my staff ‘you really should start a pension scheme?’ It’s a bit dubious.’

(Service sector, London)

‘With your own experience when you look at the return every year and it’s gone down how soul destroying is that? Do you know what I mean? It’s like you just want to stop it, you want to rip it up. So although it makes a huge amount of commonsense, how can you recommend doing something and say this is a perk when in fact it’s gone down? It doesn’t add up.’

(Service sector, Edinburgh)

‘Confidence has gone out of pensions anyway so how can you aim to encourage us to take out policies for our employees?’

(Service sector, Wakefield)

‘Mentality’s changed. In younger days you put away for a pension. But you read so much bad publicity now, where all your money that’s gone to the insurance company’s been eeked out elsewhere, etc, it’s very difficult to convince somebody to put money into a pension scheme.’

(Manufacturing, Wakefield)
4.1.4 Employees don’t earn enough to put money aside

Another fairly basic barrier to providing any sort of pension or pension guidance to their employees is that many participants said they did not think they paid enough for their staff to put money into a pension. Many of those participants whose businesses were less profitable and who were not currently saving considered their employees to be in essentially the same position as themselves, if not worse.

In the context of low wages and conflicting demands on their staff’s money, the idea that any employees could be encouraged to save into a pension seemed, quite improbable.

‘You can’t really afford to get a pension on £4.85 an hour.’
(Retail/catering, Edinburgh)

‘If you’ve only got a couple of hundred pound a week, you’ve got to eat, you’ve got to pay for your mortgage, if you’re married and you’ve got kids, and a pension is something 40 years down the road, it’s, you’re always going to do it next year.’
(Manufacturing, Wakefield)

‘If you start trying to entice them into a pension scheme, which is going to cost the company, it’s going to probably cost them as well, and I think it’s tight enough as it is. And as I say, all they seem to want is money at the end of the week to go and spend on fags and booze, and I don’t think pension even comes into their conversation and I don’t think you would entice people to work for you if you offered a pension scheme either, I think it’s just not that sort of mentality as I see it.’
(Manufacturing, Wakefield)

‘People are not going to save if they’re on low wages because they are not going to save no matter how much you tell them.’
(Retail/catering, Hereford)

4.1.5 The employers themselves can’t afford to contribute to pension

Alongside their perceptions of how much money their employees had to put aside, the micro-employers who participated in this research were also very keen to stress that they themselves had no available money to contribute into their employees’ pensions. Most participants saw their businesses as operating at a very low margin, and with a constant need to balance income against expenditure. In this context, expenditure on staff was often described as one of the most significant costs to the business but also one which was quite marginal (something that can be adjusted most easily). For this reason it was frequently argued that anything which increased
the cost of having staff, such as pension contributions, would potentially be highly damaging to them and would force them to look to reduce staff costs in other ways (by making people redundant, reducing hours, reducing wages, etc.). Therefore, the idea of contributing to pensions was seen to be in conflict with business interests.

‘When I’m employing somebody I do it by the book and honestly and always pay them the minimum wage. And I’m all too bloody aware that I’m paying nearly a fiver an hour and I’m probably earning one pound fifty for myself, by the time all the paperwork’s done. And why the hell should I pay extra on top of that for a pension for them?’

(Manufacturing/agriculture, Hereford)

‘I think we’re socially aware of like, not making a lot of money for yourself whilst your employees having very little. It’s just balancing the books. I would quite happily share a bit more if I had it, but it’s difficult in the whole picture of things. Profit is not enough overall…all the expenses to do that.’

(Retail/catering, Edinburgh)

‘Professionally, as a businessman, my view is I just could not afford anything just now. I am spending most of my time on getting work and doing work and I’m trying to develop…and anything that would have a cost penalty I would rather avoid. Obviously there are certain costs that you just can’t avoid and I’d rather not at this point in time contribute or add to those in any way.’

(Service sector, Edinburgh)

4.1.6 Administering pensions is not practical in terms of time and money

The argument that micro-employers cannot afford to contribute to pensions was not only related to the actual financial cost of making pensions contributions for staff, but also to anything which would represent an extra cost to the business in terms of time, effort or money. Therefore, added to the actual cost of making contributions were the further costs of setting the scheme up and administering it. This was frequently cited by participants as a major barrier to them feeling able to do anything for their employees’ pensions.

‘I think as a small employer you have to put a certain amount of time and effort into doing this, for two or three people you have to put the same amount of time and effort into trying to persuade them as if you had 50 people in your employment, and I reckon it’d be just another burden on time and effort, for really, something that I think isn’t my responsibility.’

(Manufacturing, Wakefield)
‘It’s very hard on small businesses. Big companies have got departments/resources to deal with it. Small businesses struggle with all that, they haven’t got the bodies the expertise…and it is hard to stay afloat at any time, it is just too much.’

(Retail/catering, Hereford)

Even when considering options which appear to have no immediate cost, such as offering pension guidance to their staff or providing information, the attitude taken by some participants was that this nonetheless represented an extra cost and therefore not something that they felt willing or able to do.

‘It’s just, I have enough trouble coping with the VAT, the income tax, and accounting, and just doing the books as well as earning a living. I think there’s just so much paperwork with everything, that people just dread any more paperwork as well.’

(Manufacturing/agriculture, Hereford)

4.1.7 The employer feels like they have no responsibility for employees’ pensions

The final reason why participants tended not to have offered their employees anything pension-related, either in the form of pension provision or advice and guidance, was a prevailing belief that their employees’ pensions were outside their remit.

Although this view was not universal amongst participants, the idea that micro-employers should take little or no responsibility for their employees’ pension was held by at least half the participants in the research (although we should avoid drawing any quantitative conclusions from this). It was an important factor affecting the outlook of participants, because it was not just about the practicalities of doing it or around beliefs in whether pensions were attractive or a good investment, rather it was a point of principle. For some participants, therefore, because it was a point of principle, meant that they were unwilling to consider helping their employees, even if it represented no cost or effort to themselves (this barrier is discussed further in the next chapter).

‘The answer is, is that basically if you pays them enough money then they sort themselves out…if they want to do a pension then it’s up to them, not up to us.’

(Manufacturing/agriculture, Hereford)

One explanation for this attitude towards the limits of employer responsibility was that many participants were very individualistic and keen to stress the importance of individual responsibility both for themselves and for others. Participants who took this view could not see a reason why a portion of their income or their time should go towards someone else’s pension rather than their own, and furthermore did not see why, having agreed to pay their employee’s wages, they needed or should go beyond this.
'It’s really the responsibility of the person who’s actually working for the small business. They’ve chosen to work for a small business, and they would know that working for a small business you’re not going to get the benefits that a large company can offer…it’s down to themselves as opposed to down to the employer.'

(Retail/catering, Edinburgh)

‘I think it’s an employee mentality as well; ‘somebody will sort my problem out, the Government or somebody will sort my problem out’, it’s not their problem that they’re going to be penniless when they’re 65, the perception is that somebody will provide for them. I think there’s a real split between employees and employers, employers have to think for themselves and provide for themselves, employees are used to having things provided for them, employees are used to having things sorted for them.’

(Manufacturing, Wakefield)

‘How does it benefit us that our employees have a decent pension?’

(Manufacturing, Wakefield)

A small minority of participants actually saw the situation in terms of their own needs being in opposition to those of their employees. This group were inclined to see pensions as a further ‘perk’ that they have to supply to their employees without them necessarily having done anything to deserve it.

‘They already have more annual holiday and more per hour, and everything is going in their favour in one way. And they’re going out enjoying themselves.’

(Manufacturing/agriculture, Hereford)

‘I think people should be encouraged to be responsible for themselves, take responsibility for their own lives, and that’s the culture you need to create.’

(Service sector, Edinburgh)

However, this level of negativity towards employees’ pensions was found only amongst a small number of participants, and indeed the idea of having some responsibility for an employees’ pensions did in fact appear to be an issue for most employers when talking about their longer-term members of staff (particularly those who have been employees for a number of years and upon whom the business heavily relied). Participants’ attitudes towards these staff members was usually to get some reassurance that the staff member is saving something without going into too much detail about what is being done (thereby keeping a firm boundary between employees’ and employers’ respective roles and responsibilities).
'I know that two of the part time people that work for me have got independent private pensions of their own, that they're just contributing to. As we only employ them one day a week or two days a week they're quite happy to sort themselves out.’

(Retail/catering, Edinburgh)

'I think he has something sorted out. He pays into a pension, we've never really discussed it.’

(Manufacturing/agriculture, Hereford)

'You have a certain responsibility, but at the same time you don't want to be in a position where you're unpaid sorting out somebody's pension.'

(Retail/catering, Edinburgh)

'You do feel a bit of responsibility about how they are going to manage, but at the same time if you haven't got the resources, if you're stretched to the limits then you cannot do anything about it.’

(Retail/catering, Hereford)

Participants also suggested that the approach of leaving pension responsibilities solely with the employee was preferred by employees themselves. This was because as they are likely to move on from a job, it would be better to have a private pension that is portable, rather than one organised through the employer which they thought is not.

'I think they'd probably be quite pleased that their employer's taking an interest but...by the time they've reached that age they would have had other measures or done it independently and they wouldn't really take it particularly seriously. They would think it was a nice gesture that you are concerned, but...they'd do it somewhere else already or, you know, would go through an independent person.’

(Service sector, Wakefield)

Some participants also reported feeling some level of responsibility, but less around the employer-employee relationship more around the ‘adult’ to ‘youngster’ relationship.

'I think as an employer of young people I think it's OK to help them along, to explain things so they can understand, but ultimately it's their responsibility, OK, with us as adults to say to them, you know,...you could be putting that away...clear...a lot of time filling out a lot of forms...But as adults anyway it's our responsibility to help young people...’

(Retail/catering, Edinburgh)
4.2 Reasons for providing pension contributions or other help with pensions

Despite all of the barriers to providing some help with pensions outlined above, a small proportion of participants had actually put something in place or done something for their employers. This section briefly outlines the reasons behind this.

Benevolence. One respondent in the service sector (the only participant in the research who was currently running an occupational scheme for their employers), felt that providing a pension was the right and correct thing to do from a personal/ethical point of view.

‘I’m not in business just to make money. I think it is right to look after your staff’s pensions, I feel that it is what I ought to do.’

(Service sector, Wakefield)

The same respondent also claimed that there was in fact a business benefit for him to claim a pension.

‘It is because it helps to recruit people and helps to retain people. It helps to make them feel valued so that you push them when you need to push them.’

(Service sector, Wakefield)

The fact that this viewpoint was so rare in the research is probably the most noteworthy aspect of it. However, other participants, whilst falling short of providing a scheme, did occasionally offer similar sentiments and suggest that they had done something for their employees.

‘When they join we make it very clear that we don’t offer pension, but we do say that we think it’s a very good idea if they take one out.’

(Service sector, London)

Examples such as these are rare. There was a far stronger tendency for the micro-employers represented in this study to have avoided having anything to do with their employee’s pensions. Not only because it is seen as potentially costly to them, but also because it is outside of their responsibility, and that they are not interested in changing this.

Individual members of staff demanding a pension. The research also found a very small number of employers who had experience of a staff member asking for contributions to a pension scheme and one case (in the service sector) where this has actually been done.

‘I started an employee two years ago who asked for a pension to be set up for him and once we’d set it all up, he then left for another company which was quite annoying ‘cos I’d set it all up and in the end he never used it and I just closed it down after nine months.’

(Retail sector, London)
Other participants also claimed that they would look into what could be done if an employee did actually approach them about pension contributions, suggesting that the level of provision at smaller firms might actually be higher if employee demand was higher, despite the problems associated with providing a pension on the employer side (that are outlined in Section 4.1).

**A pension scheme as a part of business expansion.** A small number of participants saw setting up a pension scheme for their employees as part of their long-term expansion plans. So that whilst no pension provision was currently offered it is something that the employer aimed to do, in part as a way of recruiting better staff. However, in the short-term it is well down the list of priorities.

> ‘Even though I’d love to offer them something and I hope that we will in the fullness of time, right now it’s a constant tension between how do you grow the business and how do you retain the staff.’

(Service sector, Edinburgh)

### 4.3 Conclusion – micro-employers’ attitudes towards providing pensions for their employees

The research found little current pension provision or advice from employers to employees. Although examples were found of employers providing something or of employees asking for pensions, these were rare. Rather, the most common position taken by participants was to not get involved in their employees’ pensions at all. Principally they felt this was because:

- staff members were often short-term and, therefore, there was little point in encouraging them to be loyal by providing benefits;
- short-term staff were mostly young and, therefore, not interested in pensions;
- longer-term staff may be more interested in pensions but would still prefer more wages to pension contributions;
- there is no perceived benefit to the employer to provide pensions or pension advice, especially given the time and costs that would be needed to do it;
- employers themselves are sceptical about pensions and it is assumed that employees would feel the same way;
- many employees (and their employers) do not earn enough to save;
- as a point of principle, many participants felt that their employees pensions were outside their area of responsibility.

This set of views seemed fairly well entrenched amongst participants. The next chapter will show how they impacted on participants’ willingness to become more involved in their employees’ pensions by providing information through the workplace.
5 Views on the likely impact of workplace information

5.1 Introduction

An important aim of this research was to carry out preliminary investigations into what measures might be successful in communicating information about pensions to employees through the workplace. Participants in the research were asked what they, as employers, felt they could do to engage their employees in pensions, as well as how they might respond to a small number of ideas for communicating with their employees through their workplace. This chapter discusses how participants responded to these suggestions.

5.2 General response to the idea of proving pensions information through the workplace

Given overall attitudes towards pension saving and attitudes towards the pension saving of their employees, it is unsurprising that the employers who took part in the research were broadly negative about the prospects for engaging with employees about pensions through workplace information. There were two principle reservations.

The first reservation about work-based information was that participants generally felt that it would not really do any good. Mainly this was because they felt that employees, like themselves, had a negative attitude towards pension saving, or because they felt that their employees were not at all interested in saving.

‘It’s got this fundamental credibility problem, hasn’t it? People just don’t believe in pensions so no matter what you say, people are going to be cynical.’

(Service sector, Wakefield)
‘I think generally people are kind of aware about it just now anyway… I don’t think the Government would see a big improvement in people going out to set up pension schemes, to be honest, if we were to give them leaflets about it.’

(Retail/catering, Edinburgh)

‘I think lots of people don’t care. Put something in the paper, that’s as good as printing leaflets out.’

(Manufacturing, Wakefield)

Despite this view about the efficacy of information, some participants did see that there might be potential benefit in improving people’s overall understanding of pensions and raising awareness of the need to consider retirement saving. There was no real expectation that this would make any difference to employees’ behaviour in the short-term but it was considered that information and guidance at a very general level might help to create a more healthy outlook amongst employees. As such, a number of participants acknowledged that workplace information could potentially have some long-term impact.

‘I think certainly it should be more a Government responsibility to make people aware…I don’t think it would be a bad thing if like the Government focused on actually sending information packs round to small employers to give them to their staff to make them more aware. Backed up with a media campaign and awareness in newspapers and things about the pension problem that society could be facing…’

(Retail/catering, Edinburgh)

‘It’s probably going to be a worthwhile thing if they did that, if it really was genuine information…because clearly there is a massive gap in people’s knowledge of how pensions work, and their options and such like.’

(Service sector, Wakefield)

‘I think the Government’s got to explain it better, because a lot of people are in the dark about it.’

(Retail/catering, Edinburgh)

The second objection to the idea of workplace information is that many participants were unwilling to see why they, as employers, should have to get involved in their employees’ pensions (which they saw essentially as an private matter for the employee). Especially, if it involved time, effort or money from themselves or threatened the business in some other way.

For some participants, this objection came down to a matter of principle and they were, therefore, unwilling to consider any sort of action to help their employees with pensions. As part of this objection, some participants also expressed unwillingness to take on a role which they felt was for the Government, not them, to undertake.
‘It’s nothing to do with us what our employees do with their money. It would be nice to be able to be curtail them, and educate them, but at the end of the day they’re all grown ups, they make their own choices, if they choose to pay it in tax on fags and booze to the Government then that’s their problem.’

(Manufacturing, Wakefield)

‘People that work for me make choices what they do with their money, and in a way I feel it’s not really right for me to tell them what they ought to be doing with their money, it’s up to the Government to have to tell them.’

(Manufacturing, Wakefield)

‘The Government is trying to put the onus on to the employer for everything.’

(Retail/catering, Hereford)

A key cause of people taking this view seemed to be the opinion that micro-businesses were already significantly overburdened by both national and local government regulation. This is important to note, because whatever these employers’ views about pensions, they seemed fairly likely to feel negative about any further requests or instructions from Government. Therefore, anything that the Government asked them to do was likely to be met with a fairly cool response.

‘You don’t want to be an unpaid civil servant for the Government either. You know organising someone else’s pension. I mean if you’re not getting any money for it, there’s no incentive for a small employer to do it.’

(Retail/catering, Edinburgh)

‘Call me cynical but I presume the purpose of this meeting is to see whether the Government can push onto local or micro-employers the responsibility for providing pensions and whether there is going to be any resistance to that.’

(Service sector, Wakefield)

‘The Government already asks small businesses to collect tax on their behalf through VAT. If they’re trying to get small businesses to collect another aspect – the pension. It’s getting a bit too onerous.’

(Retail/catering, Hereford)

On the more positive side, whilst these objections were frequently aired by more vocal participants, it was only a minority of participants who expressed an outright objection to getting involved with their employees’ pensions. Most took the more moderate approach that, whilst retaining the principle that employees’ pensions were basically the province of the employee themselves, they would be willing to get involved in small ways, if they felt that it might genuinely help their employees and cause no problems to themselves.
5.3 So what might employers be willing to do?

Chapter 4 of this report described how few participants in this research were willing to consider the idea of setting up a pension scheme or other sort of pension provision for their employers. It was also fairly clear that participants would be unwilling to go too far out of their way over this issue, and therefore any interactive measures designed to improve employee engagement through the employer (such as seminars, meetings, road shows) could be poorly attended. In terms of what employers might be encouraged to do in the workplace then, this section looks at two general ideas for getting involved:

- being encouraged to provide some general guidance to their employees;
- circulating or disseminating information, in the form of leaflets, websites and CD Roms.4

These are dealt with in turn below.

5.3.1 Provide general guidance to employees

When introducing the idea of providing guidance to staff members, the researcher was keen to stress that it would only be at a general and not expert level. However, whilst many participants were concerned to help their employees or to at least assure themselves that an employee was covered, most did not feel that they were in a position to offer any particularly useful guidance.

Part of the reason for not feeling able to help is that participants did not feel that they knew enough about pensions to offer advice. This problem is exacerbated by their own insecurity around pensions and lack of confidence in pension investment; in short, because they are unsure whether their own pensions are worthwhile they do not really feel in a position to recommend anything to their employees. Although, in some cases participants said that they might feel able and willing to encourage their staff to think about retirement, for most it seemed that any advice beyond this would be too much for them to take on.

‘Whose going to take any notice of me if sit down with my two guys, they’re not going to take any notice of me they’ll say ‘well what do you know about it’?’

(Retail/catering, Hereford)

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4 Participants were only asked to consider general ideas for getting involved, i.e. they were not asked to consider Government products or firm Government proposals.
'If I was actually working for a small firm I would think I would probably go independent anyway and actually seek pension advice from somewhere else. I’d rather not go through my employer to be honest because I would think that the advice that we would actually have to offer wouldn’t really be valuable to be honest. I think I would either go to the banks or an agent working on behalf of somebody, and get the best advice from that rather than actually through an employer.'

(Retail/catering, Edinburgh)

To explore this issue a bit further, participants were asked what they would do if an employee asked them for guidance on pensions. Most said that they would try and take the issue seriously but would not feel in a position to help that much. Some participants said that they would speak to someone, most often their accountant, and see what could be done for the employee. More usually, participants concluded that they would probably offer what general advice they could before referring them to somewhere else (e.g., banks, building societies, the Internet).

‘I think that if somebody ever asked me about it, I would really say to them that I wasn’t really too aware. I would say the best thing for them to do was seek independent advice.’

(Retail/catering, Edinburgh)

‘I’d refer them to Google and say search. Search around.’

(Service sector, Wakefield)

In addition to not feeling qualified to offer advice or guidance, the other main problem that participants had with this idea was the, by now, familiar objection that participants generally did not consider it their role to speak to their employees about pensions.

‘Not really our business. Why should one person in a small business be expected to know all these things?’

(Retail/catering, Hereford)

The basis for taking this negative stance on advice and guidance might be the result of a basic unwillingness to get involved in employees’ pensions, but often it seemed to also be a reaction of the idea of being told to get involved. As such any encouragement that might be given to employers to take on this issue should be done softly so as not to compound resistance.

‘We’re not financial advisers so why should we be advising them on their pensions. The Government is expecting a newsagent or a hairdresser to become a financial adviser. Why?’

(Retail/catering, Hereford)
In conclusion, as was also shown in Chapter 4, only a small minority of the participants in this research proactively offered their employees advice about pensions. If the Government encouraged them to do so then some felt that they might be able to offer general encouragement about saving but most would seem to want to avoid the subject, firstly because they did not feel sufficiently confident or knowledgeable about it themselves to offer advice, and secondly because they felt keen to avoid taking responsibility in this area.

5.3.2 Distributing Information

Group members were canvassed on the extent to which they would be willing to participate in efforts to distribute information about pensions to their employees in the forms of leaflets, packs and more interactive media.

The majority of participants in the groups said that they would probably distribute material that they received to their staff. However, it was apparent that they would do so without any real relish and with no expectations that their staff would look at it or take any action as a result. It was also clear that in most cases this low level of involvement (acting as a conduit) was probably about the limit of what they would be prepared to do, and that if a staff member were to raise queries or ask questions that they wouldn’t really feel in a position to do much to help.

‘I would pass them on. I wouldn’t say anything about it because I know nothing about it and I don’t think I’m qualified. But if they landed on the doorstep I would say that I’ve been told to give you these so go away and think about it.’

(Retail/catering, Hereford)

Most encouragingly, there were some respondents who could see the merit of the approach particularly if, as outlined above, the focus of the material was on improving peoples’ long-term outlook on pensions and engagement in the issue. There were also participants who felt it was something that they would like to do to help their staff, especially if did not involve many sacrifices from themselves.

‘Personally I would give it to the people, and I would think it would certainly be a good thing to make people aware... It’s just something that I’d like to make them aware of. It’s in the best interests to do it.’

(Retail/catering, Edinburgh)

However, whilst the majority of participants said that they would distribute material, some also raised objections to doing so. The main objections were as follows:

Firstly, participants found it hard to fathom why information was being targeted at their employees in particular rather than the population as a whole, and why it needed to be done through the workplace. Those participants who raised this view tended to think that what was needed was a much wider campaign, aimed at society as a whole, conducted either through material sent to the home or using other media such as television advertising. In the context of these group discussions, the
researcher explained some of the reasons for the workplace approach, but it should be expected that without the benefit of such an explanation, many employers who received leaflets to distribute would not understand why they in particular had been asked to get involved (rather than other forms of distribution such as leaflets to peoples’ houses).

A second main problem that participants raised was that they expected to regard any leaflets that they received as junk mail, that had no benefit for them personally and, therefore, would be immediately thrown away (including Government-branded communications). As such, if the Department were to take the approach of asking employers to distribute information it would need to have fairly realistic, low, expectations of how much information would actually reach the employees rather than be discarded.

‘It would go straight in the bin.’
(Manufacturing/agriculture, Hereford)

‘It’s not going to make your business money I’d chuck it in the bin.’
(Retail/catering, Edinburgh)

‘I would be more than willing to pass it on but actually, in reality, I think most people would put it in file 13, as the proverbial junk mail.’
(Service sector, Wakefield)

A third major barrier highlighted by participants was that many assumed information about pensions would be irrelevant to their employees. The reasons why employers might take this view have already been outlined in Chapters 3 and 4.

‘Of my three employees, none of them will do anything about it yet, I can guarantee that.’
(Manufacturing, Wakefield)

‘I would throw any leaflets into the bin. Because we’ve been told over the years that saving into a pension does not work and if you talk to an employee about pension they think it is a waste of money.’
(Retail/catering, Hereford)

‘There’s no way I’m going to start giving out forms about pensions. If I don’t believe in it why should I give it to our staff. I’m not going to say ‘here you are girls, you might want to invest in this but we think it is a bad idea.’
(Retail/catering, Hereford)
The fourth reason sat in contrast to the notion that employees would ignore the leaflets. A small minority of participants said that they would not distribute the leaflets because of worry that their employees, having read them, would then take up the issue of pensions with them (either by asking for advice or for pensions contributions) neither of which they would be in a position to provide.

‘We’re too frightened to ask them about pensions in case it costs more money for us. When you’re trying to run a small business, trying to survive and cannot encourage any more expenses because next year we’ll have to pay more tax, more tax and more tax.’

(Retail/catering, Hereford)

The final issue referred to acting as a conduit for Government information, raised by another small number of respondents was that even this would be too much hassle for them if they could see no business benefit.

‘A small business wouldn’t do that because you’re busy running your business. You need time to do that. You couldn’t allocate someone, just say OK you do that…employ somebody and it wouldn’t practically work.’

(Retail/catering, Edinburgh)

‘It’s the first step of a slippery slope. First you are handing leaflets around then in three years time it’s here’s a leaflet and have a discussion about it and in five years time it’s something else. These things just sort of creep in.’

(Retail/catering, Edinburgh)

5.4 Types of information

The discussions briefly touched on the types and style of information that participants thought would be most effective and it is worth covering these briefly in this section of the report.5

Unsurprisingly, participants felt that simplicity and straightforwardness should be a key feature of any Government communications on pensions. The reasoning of participants was that as employees seemed particularly unwilling to engage in pensions, information about the details of saving would probably be disregarded or poorly understood. Rather, it was suggested, communications should focus on a very general aim of achieving small increases in awareness and interest, perhaps with links to further information if any individuals were particularly interested.

5 For a more thorough discussion of these issues, please see the Department for Work and Pensions (DWP) Research Report No 239: Effective means of conveying messages about pensions and saving for retirement by Emma Green and Clarissa White (2005).
‘A leaflet with a few pointers on it and a website listed on the leaflet, young people are more likely to go and check out the information in questions and answers on that…’

(Retail/catering, Edinburgh)

The need for the Department to be simple and straightforward in its communications about pensions was rooted in the perception held by some (though not all) participants, that the Department does not currently produce very useful information. This perception is important to note, because it suggests that the Department faces a challenge with getting people to look at its communications because people may approach them with the expectation that they will be complicated and difficult to understand.

‘I’ve never seen anything that means anything from the Department of Work and Pensions…I get mailings every so often, I try and read them. They don’t make any sense. They might know what they’re talking about but they’re not communicating OK.’

(Manufacturing/agriculture, Hereford)

‘I think it would have to pop through the door with lights flashing and somebody singing here I am. It would have to be stunning to get that much attention because otherwise people will just…another glossy brochure from the Government, another way to rip us off, I’m not even going to respond to it.’

(Service sector, Wakefield)

Finally, we also found some evidence to suggest that the Department’s current policy of issuing unsolicited state pension forecasts was fairly well received.

‘The only thing that is going to work on that score is sending a letter to Mr. Smith saying, you’re 47; you’ve got so many years stamp. The pension you’re going to get if you carry on at the current rate is so much. Is to actually tell people, at regular intervals as they go through their lives, what kind of pension they’ve got to so far. ‘Cos at the moment it’s leave school, you launch yourself into a career, you live a life and you only find out, actually how much you’re going to be having as a pension when you stop work. If people are fed back individually, a projection of what they’re going to get at the end…An information sheet, which is individual to them, has their National Insurance record that brings together all the information on their income.’

(Manufacturing/agriculture, Hereford)
5.5 Conclusion – perceptions on the efficacy of information

In concluding this chapter on the potential for providing workplace information for employees, it is worth returning to a fairly central point: **that the micro-employers who took part in this research did not see the lack of understanding or information about pensions as a main cause of low levels of pension saving.** For them, the far bigger issue was the lack of credibility of pensions as well as a perceived cultural resistance to saving amongst their employees (as outlined in Chapters 3 and 4).

In spite of this, some participants did feel that efforts to educate people were justified and that they might help as long as they were kept simple and straightforward and were focused on the long-term aim of improving peoples’ understanding of the general need to save. In giving their limited support to the value of information, some participants expressed a willingness to disseminate material to their employers, as long as it did not cost or inconvenience them at all. However, they also suggested that there were significant obstacles to that information reaching the recipients, principally that:

- the employer would regard it as irrelevant to the employee;
- the employer would just treat it as junk mail;
- information would be regarded as potentially damaging to the business (or at the least not beneficial);
- employers do not feel that they have responsibility for pensions.
6 Views on what would make pensions more attractive

The previous chapter discussed how far the provision of information might go to help both micro-employers and their employees engage more with pensions and possibly increase saving. It showed that even amongst those who did see a role for information, more fundamental changes were considered to be more important to address the main reasons for under-saving. For this reason, in the last part of the group discussions, participants discussed other ideas for boosting the level of saving both amongst micro-employers and their employees. The moderator encouraged this by suggesting some general ideas, but many of the ideas and the support for them arose naturally out of the preceding discussion. These discussions covered a wide range of different options and this chapter groups outlines these around a number of key themes.

6.1 Pension investment should be guaranteed; the need for security in pension saving

As was shown in Chapter 2, participants in this research felt overwhelmingly that saving in pensions was not secure. As a response to this, the most frequently raised suggestion for making pensions an attractive investment was the argument that people needed to feel that their investment was guaranteed. The essence of support for a guarantee was to give people a level of assurance and certainty that the money invested will not disappear and that it will, at the very least, retain its value.

‘Even if you’ve got a pension that’s not going down at least it’s a start, do you know what I mean? And if there’s something that you say well, that’s rock solid, it’s not going to be very exciting, but it’s rock solid then it could be a start.’

(Service sector, Edinburgh)
Beyond not actually losing the money, many participants felt that for pensions to be attractive there needed to be a guaranteed rate of return on investments. For example, it emerged quite clearly from this research that the need for a guaranteed rate of return from investments was much stronger than any desire for high returns brought about by greater risk. Indeed, for many of the participants, the idea of risk seemed fundamentally incongruous with what they were looking for from retirement saving products. As such, many participants generally seemed to judge the quality of pensions savings in terms of how far they provided security and certainty rather than how much profit could be accrued, and this explains why the need for a guarantee was considered so important.

This analysis suggests that participants had an essentially contradictory view that, on the one hand they have been disappointed by low investment returns, whilst on the other they want financial security and low risk. This is probably best understood as a negative attitude towards pensions on both grounds; those looking for good returns are disappointed as are those looking for security. The perception is that there are no products offering either benefit and, therefore, no reliable or certain choice to make.

‘It’d have to be a guaranteed incentive really, not attached to the stock markets, there’s too many ups and downs, and as I say, it only needed terrorists to blow our building up in London or New York, and then the stock market drops down and everybody loses money.’

(Manufacturing, Wakefield)

‘I think to restore confidence you need a product that you can actually foresee some kind of return in the end. So it would be, fortunately, something like an ISA account, which has a limit on how much you can invest every year…You can actually see a percentage mark-up profit every year that isn’t just going to fall to bits if the stock market takes a wobbly for 18 months. And it’s clear and it’s transparent what’s happening. ‘Cos it’s not clear and it’s not transparent at the moment.’

(Service sector, Wakefield)

‘Yeah, there’s got to be some kind of guarantee if you’re going to put x amount of money, that someone has got to take responsibility for making sure you don’t lose it.’

(Retail/catering, Edinburgh)

Participants were invited to consider whether they felt there was a role for Government in providing this guarantee. The consensus amongst participants was that there could be a role for Government because, although lack of trust in Government was an issue, it was still perceived as more accountable. Therefore, a guarantee given by the Government was generally seen more positively than one given by, for example, pensions companies.
‘Talking to the clients of mine about starting a pension plan, their biggest objection to it is that they don’t trust that the money will still be there when they need it. They think if we put £100 a month into it, by the time we get to 60 it might be worthless, because there’s no guarantee, and that’s what, I think, what worries them more than anything. If you could say here’s a guaranteed Government investment, which will absolutely be there when you need it to retire, then people would be more interested in it, because of the Equitable Life and a few others, that they see as a high risk money, rather than an investment.’

(Service sector, London)

‘There’s probably more trust there in a whole nationalised, centralised thing than in a small insurance company who might suddenly realise that what they had promised they can’t do. So a centralised thing would maybe help people to save and to think about saving and to trust investing in pensions.’

(Retail/catering, Hereford)

There were mixed views on how the Government could become involved or administer such a scheme, but the essential point was that to make pensions more attractive, participants were looking to see an authoritative, trustworthy guarantee that pension savings would retain their value. For many, the Government were the only organisation really capable of offering such a guarantee.

6.2 More guidance/more of a steer from the Government

Many group participants also felt that the Government could take a much stronger lead in supporting pensions and affirming that pension saving is worthwhile. It was argued that more direction from the Government might address some of the confusion and uncertainty around pensions and help people make better and more confident choices rather than resisting the issue as they do currently.

‘Not until the Government turns around themselves and shows on television that ‘this is the right thing to do and it works’ – then people might think about saving. It’s not up to us (employers) to convince individuals. Even if we tried it wouldn’t work.’

(Retail/catering, Hereford)

‘The Government has to make sure that what’s available is going to be worth people investing in or they’re not going to want to do it. They’ve got to tell people what’s the best thing for them to do.’

(Retail/catering, Edinburgh)

The call for the Government to more outwardly support pension saving appeared to be part of a wider need for someone to take the lead on pensions, to provide advice to people and to offer them reassurances. For participants this appeared to be
needed at both an overall level (i.e. by the Government) to restore faith in the whole of the pensions system and for themselves personally (by financial advisers), so that they could get better, more trustworthy advice and information upon which to base their choices.

‘Tell us where there are successful pension schemes. Because my personal experience would be that you put all that money by and watch it devalue itself to the point where it's less than just standing still. So I'd need a positive example of it for me personally before encouraging staff to take up on that.’

(Service sector, Edinburgh)

‘Ordinary people are looking for somebody to guide them but there is no-one there to guide them.’

(Retail/catering, Hereford)

‘I just want somebody to come and do a simple outline, say here are the options, here's the plus, here's the minus...because they've read all the small print and you get to ask questions of it. To just hand over product information to people, because if the Government's selling it through a leaflet saying go get one effectively, it's a good thing to have, go get one. To then go get one requires you to face the financial products guff that I think is too much.’

(Service sector, Edinburgh)

On this subject, the research found little evidence that people had so far benefited from the Department’s information campaigns about pensions (though it should be remembered that the sample size was small and that many initiatives are still in their early stages) and no awareness of the various Government pensions initiatives currently being implemented. Consequently, participants did not appear to have much faith in the Government’s willingness to promote a strong pensions message or to support people in making pensions choices. Indeed, the more sceptical respondents found themselves questioning whether the Government even wanted people to save more, the perceived rationale being that increases in saving would have a negative impact on consumption and through this, economic growth and tax returns.

‘As far as I can see, the Government doesn’t encourage saving at all. They don’t encourage social responsibility.’

(Service sector, Wakefield)

6.3 Appetite for bold and radical solutions

Along with wanting to see the Government taking a bolder, more proactive stance in advocating pensions, many participants, particularly with the gravest views about the current pensions system, said that they wanted to see the Government looking at more radical solutions to the problem.
Part of this appetite for radical solutions appeared to be a level of dissatisfaction with what were perceived to have been as piecemeal, ineffective changes to the pensions system over the last few years. Many of these small-scale changes were considered by participants to have exacerbated problems by further increasing the complexity of the system and undermining people’s savings plans meaning they have to save more and for longer. Those with this opinion seemed particularly interested in bolder more radical solutions such as new products or savings vehicles that are clearly different from existing options and radical reforms of state pensions.

‘I think if they want to really help people they need to be more radical instead of just taking the soft options all the time.’
(Service sector, Wakefield)

Participants also felt that bold solutions might be a way of re-engaging people in pensions issues. If proposals were radical and interesting and are communicated clearly, it was argued, people might regain some of their interest in pensions and adopt a more positive outlook towards them.

‘Maybe a change in how pensions work or something that you’d read it in the press, your employees would read it in the press and find about it…, if it’s just another leaflet then all that’s going to do is alert you to the problem and everybody knows the pension issue is a problem.’
(Service sector, Edinburgh)

‘The whole term pension has just got such a bad name…they need a re-branding exercise. But there must be scope for other products that are…something different that are long-term savings, whether it be a savings account that you can’t take the money out for 20 years or something.’
(Service sector, Wakefield)

It should be noted that participants’ enthusiasm for bold proposals only arose after having discussed the problems of pensions with the researcher for over an hour. We might not expect the same level of reaction amongst the wider population, who will not have benefited from a lengthy discussion about pensions.

6.4 Employees need a clear incentive to save

The need for clearer and better incentives to save was also very important for many participants, especially those who argued that the main reason for not saving was not lack of understanding, but simply that people see no rewards for doing so.

‘The Government needs to do something about that…just to have some … incentive…some tax breaks.’
(Service sector, Edinburgh)
‘I think the Government would actually have to put their hands in their pocket.’

(Manufacturing, Wakefield)

‘As an incentive to save, if the Government would match the contributions that people paid into their pensions.’

(Service sector, Edinburgh)

A degree of this enthusiasm for better pension saving incentives can be attributed to low levels of understanding of current tax incentives (as was described in Section 2.1.2). Assuming that the patchy level of knowledge found in this research is mirrored in the wider population, a key task would, therefore, be to make savings incentives clearer.

However, even if more people understood the incentives currently available, they may still not seem particularly appealing to either employers or employees. A number of participants in this research argued that the idea of taking less tax is not really an incentive at all, and that to be properly understood savings incentives must have a greater sense of additionality about them. The idea of a Government ‘match’ to pension saving, or some other way of making it look like the Government is actually contributing money, was frequently cited by employers as a possible way of persuading staff members to save more.

‘You’re saying it’s financially beneficial to make pension contributions, because you don’t pay tax, but the average employer, employee won’t think ‘wonderful, they’re not going to take some money off me’, that isn’t really much of an incentive. So how about the Government saying we’ll pay an extra amount to you as well as your tax, or each £10 you put in, we’ll put a pound in or something like that.’

(Manufacturing, Wakefield)

‘I think they should offer some genuine incentive that people could see every week, be it just in somebody’s tax bracket, or paying some, paying a contribution to the pension, when the employee does. I don’t know, they have to do something definite and visible, rather than this supporting a leaflet campaign or something like that.’

(Manufacturing, Wakefield)

Other, more creative ideas for incentives were also suggested by participants. Many highlighted the recent introduction of the Child Trust Fund as a possible model for a lifetime pensions savings vehicle. A suggestion that received a lot of support in one group was the idea that graduates could, rather than repay their student loan, divert these repayments into fledgling pension schemes just as they started work.
'How about this for a really good idea? Here we’ve got the Government now giving children that are just born £250 for the first year they’re born. They’re giving grants for this, that, and the other. If the Government were to really want to encourage people to save, if they were to turn round and say well, instead of your National Insurance or whatever, whatever you put into the pot we will match. Because then people would be inclined to put more in to get more back.

(Service sector, Wakefield)

6.5 Incentives for the employer to contribute

Alongside stressing the need to provide clearer incentives for employees to increase their saving, participants also discussed what might persuade them to participate in their employees’ pensions. Although, as has been outlined already in this report, the consensus was against any sort of employer involvement in employee pensions, some participants were willing to consider ideas for persuading employers to get involved. These ideas tended to focus on the need for a financial incentive for the employer to contribute; the essential point being that participants would only really be willing to consider making voluntary contributions to their employees’ pensions if they themselves could benefit financially (or at least not lose any time or money).

‘I do think that if there could be some, I don’t know, tax break for the company if they contributed something and also tie it into the staff also contributing something, you know, something noticeable. I don’t know whether, there must be grants that you can contribute…’

(Service sector, Edinburgh)

‘So maybe giving you more tax rebates, more tax relief. Not just on pension contribution but on profits that you make so that you’ve got more disposable cash to put back into a pension scheme.’

(Service sector, Wakefield)

6.6 Improving pensions products

Another major barrier that participants were keen to address when discussing how pensions could be improved, was to tackle some of the less attractive aspects of existing pension saving products.

Firstly, participants felt that people wanted to see more transparency and simplicity in the pensions options that are available to people.

In some respects this can be linked back to the importance of giving people guarantees about what they should expect out of a pension. Participants who felt unclear and uncertain about pensions, also felt vulnerable to losing their money by making unwise choices. Greater transparency and simplicity leading to greater
understanding seemed important to participants as an important way to help them feel that their investments were secure and guaranteed, and that they were making the best choice available to them.

‘I find that you just can’t see what the outcome of investing into pension schemes is going to be. For example, with an ISA you can. You can see directly.’
(Service sector, Wakefield)

‘People should be able to plan, they need to be able to plan in the knowledge that they’re not going to get fleeced and that.’
(Service sector, Wakefield)

In addition to helping people to feel more assured about their savings, on a more basic level participants also argued that improving the transparency and simplicity of pensions products would make it easier for them to make informed choices about what to do.

‘Cutting down the red tape, cutting down all the paperwork and cutting down the sales teams…rubbish. If you could get rid of that surely it would make sense for the Government to organise some such scheme and then that could pave the way.’
(Service sector, Edinburgh)

In particular, some participants felt that it would improve the extent to which different pension products and companies are comparable, thereby giving people evidence to inform their decisions. The lack of comparability between products was often cited as an obstacle to further investment.

‘Pensions must be clear and comparable. You can’t compare one pension company with another pension company, or even a product that they’re virtually marketing within their own business.’
(Service sector, Wakefield)

Many participants also felt that letting people have more control and ownership over their pensions investments would help people to feel more positive about investing. To some extent this was about simply knowing how much money is invested and where, but it is also about the need to have access to the money if necessary, to have the ability to change pension company or scheme if things look like they are going wrong and the ability to increase or reduce the level of contribution as circumstances dictate.

‘It would be much more attractive if you could see that it is your money, and that you get a statement every year.’
(Manufacturing, Wakefield)
'I think the banking idea would appeal to some people, you know, the pension banking thing where you…pay your money into that, make some kind of contribution, then you could maybe set the level yourself.'

(Retail/catering, Edinburgh)

Improving the level of **portability** of pensions was also regarded as an important way of making private pensions more attractive, particularly for employees who regularly moved from job to job. As was mentioned in Section 2.2.1, current understanding of the arrangements for moving pensions from employer to employer was low (although some respondents were aware that this was one of the benefits of stakeholder schemes).

Discussions around portability tended to focus on the need for pension saving that was individualised, that is, operating at an individual rather than a company level so that an individual could contribute whatever their circumstances or where they worked. This was also attractive to those participants who believed that pensions should, in principle, be an issue for the individual rather than one associated with the workplace or employer.

‘As they move from business to business, there is this lump of money which is accumulating somewhere centrally, which they should withdraw on. It’s similar to SERPS, isn’t it?’

(Service sector, London)

‘The point would be, when you move on you just carry on with the same scheme and not have to think about restarting…or whatever. That would be the better, a continuous, you know, thing that they could carry on themselves or if they were unemployed…into that as well.’

(Retail/catering, Edinburgh)

### 6.7 Financial education

One regularly recurring theme was the argument that to tackle the low levels of saving, the Government needs to improve and increase the level of financial education in schools and colleges. This ties in with the oft cited perception that younger people (and by extension employees) have little or no interest in saving (as opposed to spending and borrowing money) and the Government should tackle this by encouraging a fundamental shift in attitudes through education at an early age.

‘I think that if you’re going to change attitudes and think about pensions I think you should be hitting young people with the information.’

(Manufacturing/agriculture, Hereford)

‘The other thing is that there should be a big push in schools to educate young people, and I think that’s really the core of it.’

(Retail/catering, Edinburgh)
6.8 Compelling people to save

The research also looked at the suggestion that the Government could compel people to save more for their retirement. Participants were generally split into two camps on this issue.

The first group of participants were those that concluded that the only measure that was going to really increase levels of pension saving was some sort of compulsion to save. This was because none of the other options seemed likely to overcome the twin barriers of the unattractiveness of pensions as an investment vehicle and cultural resistance to long-term saving.

‘You can’t protect all the people all the time against themselves, can you. You can’t make the employee save unless you have a statutory scheme.’

(Manufacturing/agriculture, Hereford)

‘If you’re taking two or three percent out of your wages, compulsory, at source, by the Government, I think that is the way forward. If you take two or three percent either as a tax or as a part of a pension scheme across the country, for everyone, then I feel that yes, you will have something there at the end of it.’

(Manufacturing/agriculture, Hereford)

It should be noted that this support for compulsion only emerged at the end of the discussion and once all other options had been looked at. It is unlikely that compulsion would have received the same level of support at the beginning of the discussion and as such it would be dangerous to conclude from this finding that there is a degree of support for compulsion amongst micro-employers as a whole. The more limited conclusion is that some employers can be persuaded to see the value of compulsion once the pension saving problem has been thoroughly considered.

‘I’m not sure a leaflet would do very much either. I don’t think anything that’s voluntary will work. Stakeholder is 100% voluntary isn’t it? The only compulsion is for a company to set up a scheme but not to contribute to it. I don’t think that people are knocking at the door saying they want those.’

(Service sector, Edinburgh)

It should also be noted that support for compulsion was essentially support for compelling other people to contribute to pensions and not themselves. As such, there was little evidence that compulsion would be welcomed as a means of getting micro-employers to save more, and the idea that micro-employers should be compelled to contribute to the pensions of their employees was universally derided. Rather, support for compulsion originated in the need to address saving amongst people who are deemed incapable or not sensible enough to save for themselves.
'But my own view of pensions I think [it] has to be compulsory, I mean I’m right in the position just now that I think it has to be compulsory but I hope I don’t have to pay for it.’

(Service sector, Edinburgh)

Amongst those who supported compulsion, it was acknowledged that the policy would be unpopular in the short-term. However, these participants also felt that resistance would be short-lived and that many of their employees would quickly learn to accept it.

‘Unless they force it through I just don’t think that enough people will make the provisions that they need to fill it out. So I’m sure in the next five or ten years, or maybe quicker, that this will be introduced.’

(Service sector, Wakefield)

‘I think compulsory would make people resentful, or some people, not everybody. But if you were an employee, just going to work, and somebody said this is what you do, and £5 of that goes to the Government, they wouldn’t know any different.’

(Manufacturing, Wakefield)

‘At the moment we have employers’ National Insurance, if there were an additional tax that was a percentage, sure there’s going to be some objections to it initially. But I can see, if that was going into something like a personal Government sponsored pension fund that followed you wherever you were and was based on the percentage of whatever your salary was, like employers’ National Insurance in the company, for example, which you could also contribute as a percentage in your salary. And that would help with the mileage, particularly if it had a solid base, it wasn’t just going to collapse on the next stock market situation.’

(Service sector, Wakefield)

The second group of participants were those that were opposed to any form of compulsion. The main objection was that if employees were to be compelled to contribute more to their pension, that it would be they as employers who would end up paying for it as the employee would ask for more wages to make up the shortfall. Many participants felt that compulsion for either the employer or the employee to contribute would endanger the viability of the business and encourage them to look at other ways of reducing staff costs (by firing people or reducing their hours).

‘In a small business, it’s two or three men, the employer’s going to say oh, it isn’t worth it, I’ll pack it up.’

(Manufacturing, Wakefield)
‘They’d want us to pay them more money to start off… They’d want a wage increase.’

(Retail/catering, Edinburgh)

‘If things were fine and things were… you would just take it on the chin and deal with it. If however things were really tight and you were struggling to meet salaries you would have to let somebody go potentially in order to offer that to others.’

(Service sector, Edinburgh)

The other main objection of those opposed to compulsion as a solution was that participants felt they were already being compelled to save through the National Insurance system and, as such, could not see why further consumption should be necessary. Many participants were also very resistant to any ideas that they would regard as further taxation.

‘I wouldn’t feel very happy with that. I feel that we’re getting enough tax taken off us now, to be subject to a new one.’

(Manufacturing/agriculture, Hereford)

‘People will just regard it as another tax. As an exercise, I sat down a couple of years ago and added up how much tax went out of my business every year, in all its various forms, and I thought if I closed off, and went unemployed tomorrow, the Government would lose all that tax. And yet they don’t appear to be keen to make our lives easier, this would be another way they would make our life harder.’

(Manufacturing, Wakefield)

‘This would be just seen as another form of tax, another lump of money disappearing from a pay packet. Isn’t that what National Insurance is for anyway? We’ve already got this for National Insurance? They’d have to maybe clarify what National Insurance was for.’

(Service sector, Wakefield)

6.9 Conclusion

Because of the generally negative views about pension saving found throughout the research, the group discussions concluded by looking at the changes that participants said they wanted to see in the pensions system, and the kinds of initiatives from the Government and the pensions industry that they thought might improve the situation.
Discussions were wide-ranging but certain common themes emerged, these were:

- pensions saving needs to be seen to have greater security and to be **guaranteed**;
- the Government and the pensions industry should do more to strongly assert and reassure people about the benefits of pension saving;
- more substantial, bolder solutions were needed to address the current weakness in the system (rather than further incremental changes);
- there needs to be better, clearer incentives for pension saving;
- pension products should be simpler, more transparent, more accountable, more flexible and more portable;
- better financial education of younger people is needed about the need to save and the best ways of doing so.

The research also briefly looked at the issue of compelling people to save. Some participants concluded that compulsion might be the only effective way of resolving current levels of under-saving. However, this view was rejected by as many participants as supported it. It was also clear that support for compulsion was only support for compelling **other people** to save.
7 Concluding remarks

The main findings from this research are summarised in the Summary so there is no need to repeat them here. Rather, by way of some concluding remarks, it is worth putting the research into some context.

Undoubtedly, the findings quite vividly illustrate the challenge ahead if the Government is to increase the level of voluntary pension saving among micro-businesses and their employees. In doing so, the research hopefully highlights the critical barriers (both real and perceived) to increased saving amongst participating micro-employers and to them helping their employees to save more.

However, the research also found a degree of uncertainty and anxiety about pensions; respondents were not simply ignoring the issue, rather, in most cases, they did want to do at least something (however limited in some cases) to prepare for retirement. This appears to mean that there is at least some appetite for saving more amongst micro-employers, as long as the investment is seen as a good one. Though whether this desire extends to their younger, less well-off employees is perhaps doubtful, and would need to be tested by further primary research amongst this group.

In considering the apparent negativity of these findings, two important points should also be noted:

- The research was small-scale and exploratory. It usefully raised issues and beliefs which are held by participating micro-employers but it does not show with any real accuracy how widespread these beliefs are held. Quantitative research (perhaps through the Employers Pension Provision Survey (EPP)) would be needed to do this.

- The qualitative, group discussion environment can tend to encourage some people to express the more negative side of their views. As such, future research using in-depth interview approaches with the self-employed and micro-employers might find a more balanced mix of positive and negative views.
The research also suggests that there might be limits to how much information on its own might be able to achieve in increasing savings levels among micro-employers and their employees. Again, it is wise to treat these results with caution. Participants were only asked to tell the researcher their likely reaction (and that of their employees) to the Department for Work and Pension’s (DWP’s) pensions information. Forthcoming Department quantitative research on individuals’ responses to pension forecasts may show that good quality, personalised information is indeed positively received by the public.
Appendix
Department for Work and Pensions micro-employer research topic guide

1 Introduction (10) minutes
Aim is to get people ‘warmed-up’, used to talking to one-another

Name/ name of business
Type of businesses
How long operating
Current number of employees

2 Perception of pension situation and own provision (20 minutes)
Aim is get people talking about pensions, perhaps get a few pointers towards overall attitudes to pension provision

Have you heard or seen anything in the news about pensions over the last six months? PROBE FULLY What else?

How much would you say you think about pensions? PROBE FOR LEVEL OF INTEREST/UNDERSTANDING OF ISSUE

What preparations for retirement have you personally made if any?
How do you think current pensions situation might affect you?

What do you think are the main barriers to people saving more for their retirement? PROBE IN DETAIL
3  Employees’ current pension provision (30 mins)

Have you ever spoken to your employees about pensions?

IF YES

What have you talked about?
What, in general, are your employees’ attitudes towards pensions?

IF NO

Why haven’t you discussed pensions with them?
Would you ever consider talking to your employees about pensions? Do you think that it is part of your role?
What, if any, pension provision do you think your employees have?
Do you think they might be at risk of under-saving?
What do you think are the main barriers to them saving more for their pensions?

IF EMPLOYER CURRENTLY HAS A SCHEME/SOMETHING IN PLACE

What have you put in place for your employees’ pension provision?
Do you make a contribution?
Why did you do this? PROBE
What are your employees’ attitudes towards the provision you have put in place
Have they signed up?

What, if any business benefits do you think running this scheme provide? (PROBE FOR STAFF RETENTION ETC.)

4  Scope for delivering pensions messages (30 mins)

Intro: The Government has calculated that amongst the groups most at risk of under-saving for their retirement are the self-employed and people who work for micro employers – this is mainly because these groups do not have access to the occupational pension schemes that larger employers provide. The Government wants to see what it can do to raise awareness of pensions amongst people who work for micro employers, and in the last part of our discussion I want to discuss how willing, and in what ways micro employers like yourselves might be able to get involved.

Initially how do you think you might respond if the Government asked you to help in engaging employees about pensions? PROBE IN DETAIL FOR REACTIONS/REASONS

What sorts of things might you be willing to do/interesting in doing?
How do you think your employees would respond?
What sorts of things would you not want to do/be interested in doing?
Why not?
I want to look at out some of the things that the Government might look at

1. An information pack that is sent to you directly for circulation amongst your employees
2. A CD ROM including pensions information
3. Sending links/sign-posting to a website with pensions information that you can forward to your employees

FOR EACH
How willing would you be to get involved in this?
How likely do you think will be to get involved?
How do you think your employees might respond?

Would you be more or less likely if you approached by someone else rather than the Government/Pensions Service? PROBE FOR;

Banks
Chambers of commerce
Professional bodies
Trade Unions
Private industry/pension firms
JobcentrePlus
Business Link/Small Business Service

What else, if anything, might encourage you to talk about pensions to your employees?

How do you think that the government should try to raise awareness of pensions amongst people who work for micro employers?

5 Conclusions (5 minutes)
In conclusion how likely would you be to take these issues up with your employees if the Government encouraged you to do so?

What do you think are the three main things you think the Government should do to increase take up of pensions, particularly amongst people who work for micro employers?

THANK, CLOSE, DISTRIBUTE INCENTIVES