The material used during the research, and outlined in this research report, was for research purposes only. Neither that material nor anything else in the report represents government policy, financial advice or any form of government endorsement of any financial savings product or method of saving. Before making any personal financial decision you should take professional advice, because DWP cannot accept responsibility for any loss or damage that arises from use of the information in this report.
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The Authors

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Summary

Increased life expectancy coupled with under saving for retirement has produced serious concerns that people will have insufficient income to live off at this time. In addition to this, research (Mayhew, 2002 and Hedges 1996)\(^1\) has shown that many people have a low level of understanding regarding pensions and financial information.

A key aim of the Government’s Informed Choice programme is to help individuals plan for their retirement by enabling them to understand the retirement choices available to them.

Aims

BMRB Social Research was commissioned by the Department for Work and Pensions (DWP) to carry out research for the Informed Choice programme. The primary aim of this research was to find more effective ways of communicating information about pensions and other financial issues relating to retirement.

Methodology

A short developmental stage was initially carried out with stakeholders in order to understand the policy context for this research, as well as to investigate the range of pensions’ materials that are currently available.

This was followed by the main phase of the research which was carried out over three iterative stages. A set of stimulus material presenting messages about pensions and retirement was developed throughout the three stages. At each stage the content and presentation of messages were tested and refined.


The interviews for each stage were carried out in different geographical locations in England: London, the North of England and the Midlands. The sample was purposively selected according to a range of criteria including age, gender, employment status, income level, pension status and ethnicity. In the last two stages of the research the sample was designed to include more people who were identified as having insufficient retirement plans as these were the people who were seen to be most in need of information.

Retirement preparations

With the exception of taking out a pension, respondents had not typically given much consideration to their retirement. Indeed, people in the sample who had taken out a pension appeared to have stumbled on this decision. As a result, respondents seemed to be blindly paying into their pensions and were not using their annual private pension forecasts to review their pensions and monitor the growth of their pension fund.

When consulted about the options, preference was expressed for investing in savings and/or a property rather than a pension. However, it was clear that respondents did not appreciate how they would generate retirement income through these methods. For example, they did not know how much money they would need to save in order to provide a retirement income and they had not considered how they would be able to release money from their property investments.

Respondents found it difficult to consider their future retirement, as well as how they would financially support themselves. Consequently, they were unable to appreciate the urgency with which they needed to make preparations. Judgements about disposable levels of income left people believing they were unable to afford to save for their retirement. There were also reservations about ways of investing for their retirement, in particular about pensions.

Negative views of pensions

Whilst the range of concerns about pensions echoed findings from previous research, the extent of respondents’ concerns suggested that a new climate of scepticism existed about pensions. Media stories about people failing to receive the pension they had anticipated had eroded respondents’ trust and led to a lack of confidence in pensions. This lack of confidence was underpinned by a number of factors:

- Rates of return from pension.
- A lack of personal control.
- Lack of transparency.
- Limited awareness and understanding of pension concepts.
Message: Deciding what you need in retirement

Stimulus sheets were developed to address the difficulties respondents had planning for their retirement. In stage two, stimulus sheets highlighted different ways in which individuals could think about how much income they might need in retirement. These approaches suggested respondents think about their retirement income being a proportion of their final income and that they work out a budget on the basis of this. In stage three, an illustration of a state pension was added to the stimulus material.

Whilst these approaches encouraged greater thoughts about retirement, respondents continued to demonstrate difficulties conceptualising their retirement finances. It became clear that information sheets alone would not fully combat respondents’ difficulties in this area.

The illustration of the state pension did increase awareness of the state pension forecast. Respondents who were surprised how low their state pension illustration was, said that as a result of seeing the sheet they would look into their retirement preparations. In contrast, respondents who had imagined that they would not receive any state pension were pleasantly reassured that they would receive something; the message was therefore less effective in impressing on this group of people the importance of making their own retirement provision.

Message: Addressing lack of understanding in pensions concepts

In common with previous research, respondents displayed a lack of awareness and understanding about pensions. They were unfamiliar with pension terminology and were unable to spontaneously explain how a pension operates. Factors which affected respondents’ understanding were the age of respondents, whether they possessed a pension and the degree to which they were able to engage with the subject.

In order to address this lack of understanding, a simple explanation of how a money purchase pension operates was shown to respondents in stage one. In this format, the message aroused negative views about pensions. Comments were made about the poor return that the pension would give them, the reliance on the stock market for the performance of the pension, the lack of control over the way a pension is paid and the fact that a pension cannot be passed on to relatives when an individual dies.

During stages two and three it was made clear that a pension offers a guaranteed income once someone has retired and that the longer a person lives the more money they will receive. Respondents’ reactions improved in these later stages. Also the message appeared to be more effective when it was presented as part of the wider context, rather than when it was presented as isolated information.
Other stimulus sheets addressed respondents’ lack of awareness of pension concepts including; a sheet explaining how a salary related pension works and sheets giving more information about annuities. Of these, annuities was the concept which respondents found most difficult to grasp.

**Message: Emphasising the importance of saving early**

The benefit of starting a pension early was another message which was presented to respondents at each stage of the research. In stages one and two, a guessing game was used to highlight this message. Respondents were asked to guess the difference in the size of the pension if someone started their pension at age twenty and someone who started at age forty.

Respondents were generally unaware of the extent of the benefit of starting early because they did not spontaneously take the effects of compound growth into consideration. The game helped people of all age groups to appreciate the full extent of the benefit of starting a pension from an early age. However, a realisation of the need to start a pension early was set in context of whether respondents felt they could afford the monthly payments.

In order to impress on respondents the urgency for starting a pension early in stage three respondents were shown the proportion of their income they would need to save if they started a pension at different points in their life. Respondents unsurprisingly stated a preference for starting at an earlier point which involved saving a smaller proportion of their income.

Whilst this message was aimed at the younger members of the sample, the sheets were shown to all respondents. In stage three, the ‘starting early’ sheet led some older respondents to believe that if they were prepared to save as much as the diagram suggested, then they would be able to make up the difference and end up with a satisfactory pension. This finding emphasised the need to target messages appropriately in order to avoid giving unrealistic hopes to people.

**Message: Highlighting the benefits of pensions**

Another aim of the stimulus material was to inform respondents of the benefits of pensions so that they were able to judge them against other investments fairly. In the first stage, the benefit of tax relief was presented to respondents as it was known that there was limited knowledge and understanding of this. Whilst it was seen to be a ‘nice gesture’ from the Government, it did not counteract respondents’ negative views of pensions. Also, tax relief was not viewed to be a huge amount of money, although the benefit was thought to be greater for higher rate tax payers.

In addition to tax relief, in stage two the benefit of employer contributions was presented to respondents. Graphical representations were added to the materials to make the sheet easier to grasp; these were used to depict both tax relief and
employer contributions. Respondents appreciated the benefits and felt that employer contributions were worth taking advantage of if they were available.

**Message: Considering other methods of saving for retirement**

Across all three stages of the research, a preference was expressed for generating income through property or a savings account rather than a pension. A savings account was favoured by respondents because it was seen to be safer than a pension, even if it could potentially result in a smaller return. The fact that the property market had performed well in recent years resulted in the impression that this type of investment provides a higher return than a pension. Stimulus material was therefore developed to confront public misconceptions about pensions and other forms of investment.

In stage two, a sheet comparing the average performance of a pension with the performance of a bank deposit account between 1971 and 2002 was designed. In stage three, a comparison with property was added and graphics were deployed to visually represent the performance of the three investments. The stage three stimulus sheet ‘Comparing ways of saving for retirement’ did aid respondents’ appreciation of the value of a pension. Respondents with strong negative views of pensions, however, remained sceptical about their performance.

In stage three, sheets were also produced to help inform respondents about the way in which investments in property and savings could be translated into retirement income. This information helped respondents to appreciate that using these other types of investment to provide sufficient income in retirement was not as simple as they presumed.

**Addressing concerns about the rates of return from pensions**

In stages two and three, sheets were designed to try and address concerns about the rate of return from pensions. This was done by showing how additional money from tax relief and employer contributions can have an impact on the pension fund and how these benefits are missed out on by people who do not own a pension. In stage three, a comparative chart was developed showing the effects of these benefits on the growth of a pension fund, whilst the growth of the bank account and the property remained static.

**Views of stage three materials – content, design and presentation**

Respondents found the stage three stimulus materials easy to read and understand. They differentiated them from other financial information they had seen, which they often thought to be full of ‘jargon’. Despite this, there were a number of factors which affected respondents’ ease of comprehension:
• Whether a person had a pension or not.
• How financially literate respondents were.
• The length of time that respondents were given to engage with the stimulus material.
• The complexity of the concepts being explained.
• The amount of text presented on a page.
• The inclusion of mathematical calculations.

Positive comments were made about the usefulness of the stimulus material. It was valued for being an informative piece of literature which contained a breadth of information. The personalised nature of the stage three materials appeared to be effective in helping respondents relate to the material and seemed to make more impact on respondents at this stage. That said, it worked less well in circumstances where it was not possible to match the characteristics of the respondent with the material. It was also less useful for respondents who had already taken out pensions and who were aware of the benefits of pensions; more work would need to be done to design materials which would make people in these circumstances increase their pension contributions.

Graphics were thought to be effective when they served a purpose and aided comprehension by illustrating the text. When it was not immediately obvious what the graphics were representing, they were seen to be superfluous and rather than aid understanding they detracted from the message which was being presented. The graphics from stage two and the comparative graphics in stage three were thought to be effective.

Presenting the messages in the form of a story was an effective way to engage respondents and helped to aid their understanding. They commented on the fact that the information in the stage three stimulus material was presented in a logical way. Whilst the audio track was only used as a tool to facilitate the discussion, it did help respondents to absorb the information. One negative comment about the stimulus material related to the amount of information which was presented to respondents; it was sometimes felt to be overwhelming and there was doubt about whether respondents would have read all the information if the material had been sent in the post.

Impacts of stage three materials

The primary impact of the materials was in helping to inform people about pensions and messages about retirement. The degree to which this occurred depended on respondents’ knowledge prior to the research. For those with limited or no knowledge, they were, for example, made aware of the existence of the state second pension, learnt how a money purchase pension operates and were made aware of the existence of tax relief and how it impacts on pension funds. For those who already knew something about pensions, the material helped to consolidate
and build on their previous knowledge. The act of informing people addressed previous misconceptions about pensions, for example respondents were surprised by the performance of the pension in comparison with other investments.

The materials enhanced respondents’ understanding of the importance of saving for retirement and starting at an early age in order to have sufficient income at this stage.

The profile of pensions was raised by challenging respondents’ negative views and principally their lack of trust. As a result of seeing the material, respondents’ were made aware of the favourable performance of a pension. Positive views of the stakeholder pension were also expressed because it offered flexibility managing contributions. In addition, the materials helped to ground ideas about investing in property and savings and forced respondents to consider whether these investments would provide sufficient income in retirement.

Respondents suggesting that they would do something as a result of seeing the materials were more exceptional. There were, however, cases where respondents commented that the materials encouraged them to review their existing retirement arrangements. There were also cases where people said they would take out a pension or raise their pension contributions as a result of seeing the stimulus materials.

**Recommendations and policy implications**

Encouraging the take up of pensions requires overcoming formidable barriers. In particular, these include the public mistrust of pensions, people’s preference for other investments and their inability to realise the need to plan for their future. Even where people are committed to pensions, the uptake of a pension depends on whether they believe they can afford to pay into a pension, whether they can visualise their retirement and know how to choose a pension that will suit their needs.

Information alone is unlikely to trigger behaviour changes. However, it does have a valuable role in making people aware of the range of pensions available, showing how different pensions work, and showing how much people need to save in order to provide themselves with sufficient income in retirement. It can also address misconceptions by showing how pensions compare with other investments and showing the benefits of pensions.

The credibility of information is critical to overcome the climate of scepticism regarding pensions. For this reason, the coverage in the materials needs to be balanced. It cannot be skewed in favour of one method of saving for retirement and must avoid encouraging inappropriate investments.

The information must be targeted at individuals appropriately as otherwise it may end up discouraging people of thinking about retirement. People vary in what they
want to know and the depth of coverage which they need due to the fact that there are varying degrees of commitment to the idea of a pension and differences in the levels of financial literacy, age and life circumstances.

The information must be written in accessible language and jargon must be avoided where possible as this can result in alienating people. Graphical illustrations can aid understanding and break up the text, but they need to be clearly labelled, relevant to the text and easy to follow.

In terms of delivering the information, it must be done in a way in which it is manageable for people to digest, for example by drip feeding the information to people. The use of the narrative in the stage three stimulus material helped respondents to make links between the different stimulus sheets and stitch the facts together. Interaction is also key when delivering information to enable people to ask questions and to ensure they engage fully with the information.
1 Introduction

1.1 Background

Changing patterns of demography indicate that people can now look forward to a longer and healthier retirement than ever before. In 1960 a man aged 65 could expect to live until he was 77. Today, on average he can expect to live until he is 89 years and by 2050 it is predicted that this may increase to 91 years. Whilst increased life expectancy is to be celebrated, this phenomenon has intensified concerns about whether people are making effective financial plans for this time.

Recent Government estimates suggest that there are likely to be around three million people\(^2\) under saving for retirement or whose plans for early retirement will result in them having insufficient income in retirement. A further group of between five to ten million people\(^3\) may need to consider saving more or working longer to meet expected levels of income in retirement.

Despite the need to increase financial provision for this time, research has shown that there is a low level of public knowledge and understanding about pensions and financial information (Hedges, 1998; Mayhew, 2003)\(^4\). Irrespective of the role played by other barriers to saving, such as lack of resources, this lack of knowledge about pensions could have serious implications for decisions people make about their retirement. Furthermore, research has shown (Mayhew, 2003)\(^5\) that people who expressed lower levels of knowledge were more likely to be at risk of under saving for retirement.

---


\(^3\) DWP Green Paper (2002); ‘Simplicity, Security and Choice: Working and saving for retirement’.


The Informed Choice programme is a central pillar of the Government’s pension reform strategy. The programme aims to equip individuals with clear information tailored to their own circumstances so as to enable them to understand their own position with regards to pension arrangements and help plan for retirement. Informed Choice aims to get people thinking about what their future retirement income is expected to be, what pensions and saving provisions they currently have, and what else they can do to ensure they will enjoy a secure retirement. As a result, people may be prompted to take different forms of action regarding their pension arrangements, for example, increase the amount they currently pay into their pension, plan to work a few years longer or take out a private pension. The key objectives of the Informed Choice strategy are to increase:

- Individuals’ appreciation of the value of saving for retirement and subsequently looking to act on this understanding.
- Individuals’ awareness of their potential financial situation in retirement.
- Individuals’ awareness of the retirement options available to them.
- Individuals’ financial literacy.
- Employers’ understanding of the benefits of pension provision for them.

1.2 Aims of the research

Department for Work and Pensions (DWP) commissioned BMRB Social Research to carry out research which would inform the Government’s Informed Choice Strategy. The primary aim of this research was to find more effective and creative ways of communicating information about pensions and other financial issues relating to retirement.

Using an iterative qualitative design, the research:

- Explored aspirations and views about retirement and the way in which members of the public plan for this time.
- Assessed public understanding of pensions information and terminology; identifying the terms and phrases that caused confusion.
- Explored the factors that encourage people to take an interest in their financial affairs and save more for retirement.
- Investigated the role and salience of written information sources in promoting messages about retirement.
- Investigated how to develop more effective and creative ways of communicating information relating to pensions and saving for retirement; and explored the potential for these messages to address the barriers and help to encourage people to improve their retirement provision; and finally.
- Sought to make recommendations about the style and content of future provision of pension/retirement information.
1.3 Research design

Following a short developmental stage, the research was carried out over three iterative stages, shown in Figure 1.1 below. In this way we were able to test and refine various messages about pensions over the different stages. A series of information sheets were shaped and developed during the three consecutive stages, each taking into consideration the impact of the messages on respondents at the previous stage.

Figure 1.1  The iterative research process

<table>
<thead>
<tr>
<th>Developmental work:</th>
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<tr>
<td>Familiarisation with background literature</td>
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<td>13 interviews with stakeholders</td>
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<td>Assess understanding</td>
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<td>23 depth interviews and 2 focus groups</td>
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<td>8 focus groups</td>
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<td>Develop materials</td>
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<td>27 interviews</td>
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<td>Midlands</td>
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Each section below briefly outlines the focus and design of the different stages of the research process.
1.3.1 Developmental stage

In order to understand the policy and information context for this research, as well as to investigate the range of pensions’ materials that are currently available, a brief developmental stage was carried out between February and March 2004. The findings from this stage are summarised below and described in more detail in a separate report, which can be found in Appendix A.

As part of this stage, telephone and face-to-face interviews were carried out with a range of stakeholders who have an interest in this area. A total of 13 individuals were consulted, representing a range of interests including both pension, communication and marketing specialists from the private and voluntary sector.

These respondents were consulted about the range of information that is currently available about pensions; the information needs of the public; ways of stimulating an interest in pensions and saving for retirement; and advice on how to communicate information about pensions.

1.3.1.1 Summary of findings from developmental stage

- Respondents believed that the general public have a lack of understanding regarding pensions, largely due to the complexities and technical details of pensions.
- They believe the general public are uninterested in the subject of pensions and prefer to spend money on current expenditures rather than plan for the future.
- The general public only require basic knowledge about their pension: how much they would need to contribute, how much it is likely to be worth when they retire and what they need to do to increase it.
- It was felt that the following key messages ought to be delivered to the general public:
  - The fact that the state pensions will not be enough to live off in retirement.
  - The importance of starting a pension as soon as possible.
  - The tax advantages of using a pension to save for retirement.
- Written information should be kept simple, both in terms of the language used and the layout of the information.

1.3.2 Stage 1

The primary aim of the first stage of the research was to assess views, knowledge and understanding of pensions and financial information relating to retirement. In order to facilitate the discussion surrounding understanding and awareness of pensions, respondents were shown cards with the names of different types of pensions written on them, such as ‘personal pension’ and ‘basic state pension’ and cards with different names for the two types of pension scheme: ‘money purchase schemes’ and ‘salary-related-schemes’. In each case, respondents were asked to explain what they knew about each of the concepts.
In addition to assessing knowledge and understanding we also tested respondents’ reactions to some simple messages about pensions. Previous research carried out by DWP and discussion with individuals from the Informed Choice programme had highlighted some areas around which it was thought to be beneficial to produce stimulus material. Three stimulus sheets were designed by Alan Hedges in conjunction with BMRB. These sheets were entitled:

- How ‘money purchase’ pensions work.
- Effects of starting at different ages.
- Pensions and tax.

The sheets were simple word processed text, without colour or graphics and there was no order to which the stimulus sheets were presented to respondents at this stage. A copy of these sheets can be found in Appendix C.

In view of the dual aims of this stage a combination of depth interviews and focus groups were used. Two focus groups and 23 depth interviews were carried out in London with a cross section of people who either did and or did not have a pension. Amongst those respondents who had pensions, there was a mix of people with different types of pension.

1.3.3 Stage 2

In stage two, the research moved away from directly exploring understanding and awareness of pensions and focused on developing more effective ways of communicating information about pensions. The development of the stimulus material in stage two was informed by respondents’ reactions to the stimulus materials in stage one. A wider range of materials were developed by Alan Hedges in conjunction with BMRB. They were entitled:

- Deciding what you need.
- Working out what you’ll have to live on.
- How ‘salary-related’ pensions work.
- How ‘money purchase’ pensions work.
- More about annuities.
- Making use of ‘free money’.
- The importance of starting early.
- Rate of return.
- Protecting pensions.
- Possible sources of help, advice or information.

During this stage, we worked alongside a graphic designer, Robin Arkle, to improve the design and layout of the sheets. Two sets of the materials were produced: one
for high earners and one for low earners. These sets of material were identical apart from variations in the figures shown in the examples. A copy of the set of stimulus sheets for low earners can be found in Appendix D.

In stage one the materials had not been presented in any particular order. In stage two, the materials began to take a loose order with the sheets about planning for retirement being presented to respondents first, followed by the other sheets. However, it was recognised that the order in which sheets were presented should reflect the circumstances and interests of individual respondents. For example, the sheet entitled ‘More about annuities’ was only shown to respondents who expressed an interest in this area.

As the primary aim of this stage was to inform the development of the stimulus sheets, focus groups were used for this stage. A total of eight focus groups were carried out in the North of England with people who either had no pension provision or who were deemed to have insufficient pension provision.

### 1.3.4 Stage 3

The stimulus sheets were further developed in stage three to take into account the comments made by respondents in stage two. We worked alongside two graphic designers, Pat Kahn and David Shaw, in this stage.

The following sheets were developed and shown to respondents:

- *State pension forecast.*
- *Sizing up how much you need.*
- *Comparing ways of saving for retirement.*
- *Extra money for pensions.*
- *Using savings to provide retirement income.*
- *Getting retirement income from property.*
- *Pension options.*
- *Choices about your eventual pension.*
- *What type of money purchase pension?*
- *Starting early.*

Instead of presenting a series of separate information sheets, the stimulus sheets were linked together in the form of a story describing someone who was thinking about retirement. Five different versions of the story were produced, based on three fictional individuals: Craig aged 25 years, Dean aged 30 years and Clara aged 40 years.

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6 See Technical Appendix (Appendix B) for profile of sample.
In the cases of Dean and Clara, additional variants were produced covering two different income levels (Dean earning £15,000 and £25,000 and Clara earning £16,000 and £25,000). In addition to the variation in income, it was decided that we should reflect both single person and family households, therefore Craig and Clara were single and Dean was married with children. The materials were individually tailored to reflect the different income levels of the fictional individuals. Copies of the set of stimulus material following Craig’s story are included in Appendix F.

The following table shows the differences between the fictional characters:

<table>
<thead>
<tr>
<th>Name</th>
<th>Craig Lo</th>
<th>Dean Lo¹</th>
<th>Dean Hi²</th>
<th>Clara Lo</th>
<th>Clara Hi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>25</td>
<td>30</td>
<td>30</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Marital status</td>
<td>Single</td>
<td>Married</td>
<td>Married</td>
<td>Single</td>
<td>Single</td>
</tr>
<tr>
<td>Spouse’s name</td>
<td>Annie</td>
<td>Annie</td>
<td>He's earning</td>
<td>Annie</td>
<td>Annie</td>
</tr>
<tr>
<td>Working status</td>
<td>Earning</td>
<td>He's earning</td>
<td>He's earning</td>
<td>Earning</td>
<td>Earning</td>
</tr>
<tr>
<td>Current annual earnings</td>
<td>13,000</td>
<td>15,000</td>
<td>25,000</td>
<td>16,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Wife’s earnings</td>
<td>–</td>
<td>Nil</td>
<td>Nil</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Retirement age</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>NI record</td>
<td>Full</td>
<td>Full</td>
<td>Full</td>
<td>Full</td>
<td>Full</td>
</tr>
<tr>
<td>Contracted out</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Other pensions</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Small occ pen</td>
<td>Small occ pen</td>
</tr>
</tbody>
</table>

¹ The ‘Lo’ in ‘Dean Lo’ and ‘Clara Lo’ means low income.
² The ‘Hi’ in ‘Dean Hi’ and ‘Clara Hi’ means high income.

We used an actor to record an audio story of each of the fictional characters which was also used to link the different stimulus sheets together. The relevant audio guide was then played to respondents in the interviews on a portable CD player. Copies of the script introducing the stimulus sheets about Craig are included in Appendix E.

The decision about which set of stimulus material to show a respondent was based on the age of the respondent and the income bracket that most closely related to their circumstances. As far as possible individuals were matched to the version that most closely resembled their individual circumstances. That said, because we were not able to offer variations on gender and marital status it was not possible to achieve a perfect match in all cases. In circumstances where, for example, the respondent was within Clara’s age group but was male and married with children it sometimes proved difficult to use the audio story and occasionally the audio tape was dispensed with after the introduction.

In view of the need to assess the impact of these materials, in-depth interviews were used. A total of 27 interviews were carried out in the Midlands with similar respondents as in stage two (i.e. those without a pension and those with insufficient pension provision).
1.3.5 Sample design and selection

As is usual in qualitative research, the sample was designed to ensure full coverage of the key sub-groups within the target population, in order to identify and explain variations in the nature of experiences and views between them. In order to achieve this, the sample was purposively selected according to a range of characteristics identified as relevant to the respondents including: age, gender, employment status, income level, pension status and ethnicity. In doing this it has been possible to provide robust explanations from which wider inferences can be drawn to the wider population, although no attempt has been made to draw numerical conclusions from the research.

In order to achieve a spread of geographical location, it was decided that each stage of the research would take place in a different location: London, the North of England and the Midlands.

In order to address the aims of the research, the sample was restricted at stage two and three to those who had no pension provision and those who were at risk of under-saving for retirement. In practice, however, it proved difficult to identify people who had made insufficient provision for their retirement. In stage three, we also limited the sample to those with money purchase pensions because there was felt to be less concern regarding the provision which salary related pensions produce.

The sample was recruited by our network of recruiters and eligibility for the research was determined using a short screening interview.

1.3.6 The interviews and group discussions

All interviews and group discussions were exploratory and interactive in form so that questioning could be responsive to the experiences and circumstances of the individuals involved. They were based on a topic guide, which outlined the key themes and issues to be addressed. Although topic guides ensured systematic coverage of key points across interviews, they were used flexibly to allow issues of relevance for respondents to be covered. Copies of the topic guides have not been included in this report due to the fact that much of the coverage of the guides was based on the stimulus material, which can be found in the appendices.

All interviews and group discussions were tape-recorded, with permission, and transcribed in verbatim to allow detailed analysis.

1.4 Report Outline

The report is divided into three main sections. The first section of the report (Chapter 2) is a contextual chapter which illustrate respondents’ views and experiences of
pensions. As will be seen, these findings helped to inform the shape of the materials developed. The second section of the report (Chapters 3 – 8) has been structured around the messages which were presented in the stimulus material. It is for this reason that they each take a message in turn, show how that message evolved and developed throughout the three stages of the research and discuss reactions to these messages. Where relevant, reference is made to the appropriate stimulus sheets and a full set can be found in the appendix of this report. The third section of the report (Chapters 9 and 10) concentrates on the findings from the third stage of the research. The final chapter draws on findings from the developmental and main stages of the research.

The report is divided into the following chapters:

- **Chapter 2** describes respondents’ views about **saving for retirement** and the **actual preparations** they had put in place at the time of the research. It also describes respondents’ **negative views** of pensions and the reasons for them.

- **Chapter 3** discusses the development of the message about **retirement planning** which sought to help respondents work out how much income they might need in retirement.

- **Chapter 4** addresses people’s **lack of understanding of pensions concepts**. This chapter explains how stimulus sheets on money purchase pensions, salary related pensions and annuities were developed.

- **Chapter 5** presents the message about the **importance of saving early** and shows how stimulus sheets about this message evolved from stage one to three.

- **Chapter 6** discusses how stimulus sheets were designed to highlight the **benefits of pensions** to respondents.

- **Chapter 7** focuses on respondents’ **concerns about the rates of return from pensions** and how stimulus sheets were developed to try and tackle these concerns. It also describes how respondents’ compared pensions with other investments and the ways in which stimulus sheets were produced to address **other methods of saving for retirement**.

- **Chapter 8** illustrates the messages developed about the **protection and control of pensions**.

- **Chapter 9** presents respondents views of the stage three stimulus material.

- **Chapter 10** examines the impacts arising from the stage three stimulus sheets.

- **Chapter 11** reflects upon the key messages raised throughout the report and draws some conclusions about the role, design and use of information to inform people about pensions and saving for retirement.

The appendices are divided into the following sections:

- **Appendix A** is the developmental report describing the developmental interviews with stakeholders.
• Appendix B is a technical appendix to this report.
• Appendix C is a copy of the stimulus material from stage one.
• Appendix D is a copy of the stimulus material from stage two for low earners.
• Appendix E is a copy of the script of the audio recording introducing the character of Craig to respondents in stage three.
• Appendix F is a copy of the stimulus material from stage three following the fictional character of Craig.
2 Preparing for retirement

This next chapter considers the preparations that respondents from all three stages of the research had made for their retirement (Section 2.1) and the factors that influenced these preparations (Section 2.2). It outlines participants’ lack of understanding and negative views of pensions. As will be seen in Chapters 3 to 8 this helped to inform the shape of the messages that were developed in the research.

2.1 Preparations for retirement

The importance of saving for retirement was widely emphasised by respondents, particularly by those who believed that the state pension would not exist when they retired, or would not provide sufficient income to live on. This belief had been fuelled by media stories and newspaper articles.

Despite recognising that retirement planning was important, there appeared to be a lack of thorough preparation given to this time. Even where financial arrangements had been put in place, there seemed to be little appreciation about how these investments were performing and, more importantly, what level of income they would deliver for retirement. That said, there were respondents who did not feel they needed to make any plans for their retirement as they believed that they would be able to rely on the state pension to support them.

It is important to note that in stages two and three, however, that the research was primarily focusing on people who were deemed to be at risk of under saving for retirement, therefore the lack of retirement planning was in some respects unsurprising.

2.1.1 Pension preparations

Where preparations had been made for retirement, these typically involved taking out a pension. As previously noted, the sample was selected to ensure the inclusion of people with a range of different pension arrangements. Also, irrespective of current provision, respondents in the sample sometimes had frozen pensions from a previous job.
It appeared that respondents had stumbled into taking out a pension as a result of a vague belief that it was something they ought to do rather than thinking about it in great depth. As respondents appeared to be generally confused about pensions they were willing to accept guidance about which pension to choose when it was offered to them by a source they felt able to trust. Those people, who were sold on the idea of a pension and where their company offered one, were generally happy to accept the company pension. In circumstances where company pensions were not offered, respondents generally purchased pensions with familiar companies, for example they took out a pension with their bank.

Whilst self-employed respondents had financial knowledge from running their business, they demonstrated a similar lack of understanding about pensions as other respondents. Unlike company employees, self-employed respondents were required to investigate their own pension arrangements and therefore a pension was not something they could fall into; they had to actively seek out information about it.

Respondents varied in terms of the age when they started making preparations for their retirement, although it appeared to be more unusual for the younger respondents (under 25) to have started paying into a pension. Where this had occurred, it appeared to have been done at the suggestion of a parent.

There was a lack of awareness of whether respondents’ employers paid contributions into their pension scheme. That said, people who owned a company pension were more likely to know whether an employer contributed or not. There was also limited awareness amongst respondents of the level of employer contributions.

It was clear that despite having taken a pension out, there often appeared to be little appreciation about whether respondents were making the appropriate payments or how the pension was building up. Indeed, it was said that in some cases people were blindly paying into a pension each month without considering the value of their fund.

‘…with your pension… you don’t know where it’s going and you just assume that somewhere along the line you will get it back, hopefully with interest.’

(Depth: Stage 1, Female, aged 41 – 50, Employed, Salary related scheme, over £25K combined income, London)

In this way respondents appeared to forget about their pension and were unlikely to review it unless their circumstances had changed in some way, such as if they moved jobs, or if they were nearing retirement. Their lack of concern about how it was performing seemed to be driven by a hope that it would provide for them once they retired, although they were not basing this on any evidence. Even those who were concerned that their pension would not provide an adequate income in retirement seemed to have done little to investigate this situation.

In other circumstances it appeared that a lack of understanding had prevented people doing anything to monitor or review the progress of their pension. For
example, there were people with money purchase pensions, who were not making use of the private pension forecasts they received every year. This was attributed to their lack of understanding about private pension forecasts which were found to be confusing. Instead, they continued to pay in to a pension without having a clear idea about how much their pension was worth or what their pension would eventually pay out.

2.1.2 Negative views of pensions

This next section considers respondents’ views of pensions. Views about pensions revolved around the concern about the return of the pension, feelings of helplessness, and a lack of transparency. Respondents recurrently viewed pensions as being a ‘gamble’ and a ‘risky’ investment. Not surprisingly, these views underpinned their reluctance to either start a pension, or to save more for their retirement. As such, the evidence presented provides important learning about the issues that need to be addressed in order to encourage people to take out a pension.

2.1.2.1 Concerns about the rates of return from pensions

The absence of a guaranteed return from a pension was a primary concern for respondents. Pensions were typically described as an unpredictable and unstable investment and likened to a ‘gamble’, unlike a savings or a bank account.

This lack of faith in pensions had, in part, been fuelled by negative media stories which had either shown pensions under-performing due to fluctuations in the stock market, or employers going into receivership or bankruptcy, leaving people with no pension in retirement:

‘I don’t think these pension schemes are a good idea coz a lot of people have lost their life savings.’

(Group: Stage 2, aged 31 – 65, Employed and Self-employed, No pension, Less than £25K combined income, North of England)

In addition, their views had been coloured by the experience of watching friends and family members receive smaller pensions in retirement than had been expected:

‘…my father has not long had his private pension…and I was really alarmed at how much he got out of that. He took a cash amount and then the rest is to buy the pension fund whatever and it’s terrible.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

Respondents were angered at the prospect of ending up with a poor return from a pension. Underpinning their frustration was a sense of injustice that people should find themselves in this situation after paying into a pension throughout their working life:
‘…imagine those people paid for years, they obviously decided they were
going to get a pension and they were banking on this and they put away their
money, they must be absolutely devastated so…you think there’s no
guarantees…’

(Depth: Stage 1, Male, aged 51 – 65, Employed, No pension, £10 – 20K
individual income, London)

Another perceived inequity relating to the return of a pension was the fact that the
pension fund is lost if the individual dies shortly after they have retired. Respondents
were conscious that if an individual died within a few years of retiring, then they
would not have received all the money they had invested:

‘…the thing that puts me off the pension side of it is you can only have so much
of your money out at the end, where, well, you’re assuming that you’re gonna
live to a ripe old age and be able to recoup the other amount of money back,
but you never know…’

(Depth: Stage 3, Female, aged 31 – 40, Employed, Money purchase
pension, Less than £30K combined income, Midlands)

In contrast, Hedges (1998) found individuals often had very low expectations
regarding the performance of their pension. It was also emphasised that the lack of
guarantees about the final return of a pension made planning for retirement rather
difficult.

Another factor which heightened their concerns was the lack of protection or a
’safety net’ to support those whose pension did not deliver an adequate income in
retirement.

Concerns about the performance of pensions were generally expressed by owners
of money purchase schemes. Concerns about pension companies’ misusing or
mismanaging pension funds were articulated by owners of both money purchase
and salary-related-schemes. When respondents where made aware of how the
different pension schemes operate, this sometimes led respondents to consider that
the salary related scheme was better than the money purchase scheme. It was also
believed that the salary related pension would produce a larger pension in
retirement.

2.1.2.2 A lack of personal control

The lack of control that a person has over their pension was another recurrent
criticism that also contributed to a lack confidence in this form of investment. This
was raised in a number of different ways:

• The pension, unlike other forms of investment which respondents were familiar
with, **required people to surrender control of their money and place trust**
in a pension company to manage their money. Although this troubled
respondents, they did also acknowledge that they were not equipped with the
knowledge to manage their pension fund themselves:
‘Trusting somebody else to float what I’m giving them on you know the open market frightens me. But I don’t understand stocks and shares enough…’

(Depth: Stage 3, Female, aged 31 – 40, Employed, No pension, over £30K combined income, Midlands)

The issue of control was particularly pertinent when respondents imagined that their pension was under-performing, because they believed themselves to be helpless in this situation.

- Respondents also complained that they had no control over when they could access money from their pension fund, unlike other forms of investment:

  ‘…your money being locked is the only thing that does make me uncomfortable.’

  (Depth: Stage 3, Female, aged 31 – 40, Self-employed, Money purchase pension, less than £30K combined income, Midlands)

The idea of savings being locked away was not a favourable idea for respondents who imagined that there may be occasions when they would need the money, for example if they were made redundant or if they required money to buy property.

‘Even though they are going to pay out at the very end, what if you get stuck half way between, say about 50, and you’re not retired yet and you need money to pay something off, where do you get the money?, you can’t take it out of your pension, can you?’

(Depth: Stage 3, Male, aged 21 – 30, Self-employed, No pension, £15 – 25K individual income, Midlands)

They also disliked the idea that their pension would be drip-fed to them as an income in retirement.

- The lack of control over the level of contributions (and the opportunity to vary them at different points) was another concern raised by respondents.

2.1.2.3 Lack of transparency

Another criticism of pensions as a method of investment was an apparent lack of transparency about what happens to a pension fund. Respondents commented that they felt like their contributions were disappearing into ‘a black hole’ because they were not aware of what was happening to their money. They felt it was difficult to keep track of how their pension was performing because they only received annual statements which they often did not understand. For example, when respondents compared pensions with savings accounts, they commented on the fact that it was easier to monitor how much money they had in a savings account whereas they did not have an idea of how much they would get back from a pension.

2.1.3 Other forms of investment

Pensions aside, respondents spoke of their intent or preference to use other forms of investment to generate retirement income such as property or savings’ accounts.
This preference for other investments was generally based on a perception rather than on an intimate knowledge of these investments. It was clear that in most cases respondents did not have a formal saving or investment strategy in place to ensure that these types of investments would provide for them during their retirement. Also there was a lack of appreciation about how much they should invest in order to generate an income in retirement through these means.

There was sometimes a belief amongst self-employed respondents (which may or may not have been well founded) that their business assets would pay for retirement. In other cases, self-employed respondents said they would work beyond retirement age either out of choice or a reluctant acceptance.

2.1.3.1 Savings

Where savings accounts were mentioned, these related to ISAs and savings accounts from building societies and financial institutions which offer higher rates of interest, rather than the standard bank account which respondents knew offered minimal interest:

‘I wouldn’t even consider a bank ‘cos the interest rates it’s just like dead money really isn’t it, just sat there, it doesn’t particularly make much.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, No pension, over £30K combined income, Midlands)

Although there were respondents who had savings accounts, they were not paying into these on a regular basis. Also, as the stimulus sheets exploring the advantages and disadvantages of savings highlighted, they had no appreciation of how much they would need to save in order to provide them with an income in retirement. Unlike pensions however, they were more aware of the value of their savings.

Amongst the more financially literate were respondents who viewed these savings as part of a package of investments which would make up their retirement income, potentially in addition to their pension and their property.

2.1.3.2 Property

Where respondents believed they would be able to rely on the income from a property in retirement, there was a lack of consideration about how they would do this. People thought about this in different ways:

- Viewing it as a reduction in their expenditure in retirement as they would have paid off a mortgage.
- Planning to downsize their home in retirement in order to release sufficient capital to live off.
- Seriously considering ‘buy to let’ as an option for generating retirement income.
2.2 Factors influencing retirement preparations

A number of factors appeared to have a bearing on whether people had made preparations for retirement or not.

Unsurprisingly, **age or getting older** was a catalyst for respondents making preparations as the prospect of retirement became more of a reality. Respondents’ concerns about retirement also increased as they got older, as they began to consider whether the provisions they had made for retirement would be sufficient:

‘I get conscious pangs of guilt…I never used to worry about it, but I think as I’m getting older…it’s something I do think about more and more now.’

(Depth: Stage 1, Male, aged 31 – 40, Employed, Salary related scheme, over £25K combined income, London)

However, age or the prospect of getting older did not necessarily prompt all respondents to take action and make provisions for retirement. For example, there were people who appeared reluctant to consider retirement and as a result they were ill-prepared for their future. It was said that retirement brought with it unattractive associations of getting older, being in poor health, infirm and inactive.

As well as expressing some reluctance, respondents also reported finding it **difficult to imagine the reality of retirement** due to the fact that it involved conceptualising an unfamiliar situation in the future. At best, they were able to envisage retirement as being a time in their life when they would not have to work but they had not been able to think beyond this.

The younger respondents, in particular, perceived retirement to be a long way in the future and as a result did not think they needed to consider it yet:

‘I don’t want to think about it, obviously I will a few years down the line or something, I’ll start thinking about it…’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, under 25K combined income, London)

Indeed it was clear that retirement sometimes appeared to be too far off for people to contemplate arriving at this point in their life. Also the unpredictable nature of life was mentioned and this had left people wondering whether they would even reach retirement age:

‘…you don’t know what’s around the corner, anything can happen at any time. You might just live to see 100, you might not even live to see 30…’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, 10 – 20K individual income, London)

It was also emphasised by respondents of all age groups that young people may have **more pressing concerns about the future** such as paying off student loans, finding work, buying a house and having children and that these inevitably take precedence over retirement:
‘…currently I’m at work and I’m still living at home and still thinking about do I want to buy my own car, when do I want to move out, when can I afford to move out. I’m always constantly thinking about money, so it is something I do think about a lot. But again, I think a pension does not come into my age group yet.’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, 10 – 20K individual income, London)

In fact, young people who had thought about retirement and begun to make provisions were thought by their friends to be unusual.

In addition to finding it difficult to conceptualise retirement, it was also said to be difficult to think about financial matters in retirement. In particular, respondents reported finding it difficult to visualise how much income they would require in retirement or how much they would need to save in order to obtain a certain level of income. The unpredictable effect of inflation was also said to have confounded their difficulty planning for retirement:

‘When you try working out your money in later life you don’t know how much stuff is going to cost…’

(Group: Stage 2, aged 21 – 65, Self-employed, Money purchase pension, Less than £30K combined income, North of England)

Levels of income and the ability to save was another key factor which affected respondents’ ability to make provisions for retirement. It was said by these respondents that a lack of sufficient income had prevented them making preparations for the future, irrespective of whether they wanted to or not:

‘The bottom line is that we do all know that we should be saving for the future, but if you haven’t got the finances to do it now, what can you do about it, there’s nothing…’

(Group: Stage 2, aged 31 – 65, Employed and Self-employed, No pension, Less than £25K combined income, North of England)

A lack of income was cited as a recurrent reason for having no provision for retirement. It appeared that this had resulted from either having no disposable income or from having other priorities for their disposable income. Respondents were often preoccupied with more immediate concerns than retirement and were saving for something in the short-term such as a house or a car.

Clearly, affordability is a relative concept and people earning the same amount of money had very different uses for their income. However, saving for retirement was often seen to be a choice for respondents between ‘spending’ now and ‘saving’ now and involved them trying to balance the value of their current quality of life with the value of their quality of life in the future. Not surprisingly, views about this depended on how close respondents were to retirement. Respondents who were unable to imagine reaching retirement questioned the value of saving for this time and stated a preference for spending the money they earned now. Other respondents
thought they would prefer to spend their income at an age when they could enjoy it in good health rather than have income to spend in their retirement:

‘…you can enjoy it while you’re young enough to enjoy, rather than still get a good pay out at 95, but I’ll be a dribbling wreck in the corner and it won’t be coming to me it will be coming to this nursing home…’

(Group: Stage 2, aged 18 – 30, Employed, Money purchase and salary related pensions, Less than £25K combined income, North of England)

A lack of awareness of the urgency to save for retirement also prevented respondents from making provision for this time. Respondents often postponed the decision to think about retirement because they believed that there would always be a more appropriate time to start saving for retirement:

‘You think about it and think I’ll deal with it another time and then that other time don’t come’

(Group: Stage 2, aged 31 – 65, Employed and Self-employed, No pension, Less than £25K combined income, North of England)

Changing circumstances or an increase in responsibilities, such as having a child, was another trigger to encouraging people to make preparations or review existing preparations for retirement.

Respondents also exhibited a lack of confidence in planning for retirement. They often felt that they did not have enough information about how to save for retirement and this sometimes resulted in respondents choosing to do nothing rather than make an uninformed choice.

There were also some respondents who expressed reservations about some of the methods through which they could save for retirement and this had affected their willingness to plan for this time. In particular, there were concerns about taking out a pension. Clearly the extent of negative views about pensions had a key role to play in deterring respondents from opting for a pension. A particular barrier, concerned the return that a person could expect from a pension. It was evident that a lack of confidence in securing a decent return from a pension had deterred people from either taking one out, or increasing their contributions into one. In some cases, people discriminated between the return of a pension per se with the return of a pension for people in particular circumstances. In this way, older respondents were put off the idea of a pension as they felt it was too late to be of value and would not provide a sufficient income for retirement.

Employment status did not seem to have an influence on respondents’ retirement preparations. The retirement preparations of self-employed respondents did not differ widely from the employed respondents.

8 The self-employed respondents were drawn from a wide variety of different businesses.

9 Unemployed people were not included in this research.
As with employed respondents, being unable to afford a pension was also a key reason for why self-employed respondents had chosen not to take out a pension. For them, a reluctance to tie up working capital in pensions was a reason why they chose not to pay into a pension.

2.3 Chapter summary

- There was a lack of retirement planning reported by respondents.

- Where respondents had taken out a pension, they gave little consideration to the level of their contributions or how the pension would perform in the future.

- Underpinning respondents’ lack of preparation seemed to be a reluctance to consider this stage of an individual’s life as well as a difficulty in thinking about it. In particular, respondents found it hard to think about their finances in retirement; they had no concept of how much money they would require in retirement or what they would need to save in order to attain a certain level of income in retirement.

- Reservations about pensions, in particular concerns about the return from pensions, permeated respondents’ thinking.
Message: Deciding what you need in retirement

This chapter traces the development of the message about retirement planning. The first stimulus sheets appeared in stage two of the research and were based on the difficulties people had reported with retirement planning in stage one. These sheets focused on suggesting different approaches which respondents could use to help them think about retirement. In stage three, these sheets were refined to further aid people and an illustration of the basic state pension was added.

3.1 Understanding of retirement planning

As discussed in Chapter 2, one of the findings from stage one of the research was that respondents found it hard to calculate how much income they would need to live on in retirement or how much they would need to save in order to attain this level of income. It was also clear from a practical point of view that, where financial provision had been made for retirement, respondents did not know the value of these investments. As a consequence they felt ill-equipped to develop a saving strategy for their retirement.

With this in mind, sheets were designed to address planning for retirement in stage two of the research.

3.2 Stage two: ‘Deciding what you need’ and ‘Working out what you’ll have to live on’

Two stimulus sheets were designed to try and enable respondents to plan for their retirement.

‘Deciding what you need’ suggested different ways for respondents to think about how much income they might need in retirement. This sheet suggested that one approach might be to base their retirement income on their final salary in the last years of their working life:
If your pension was two-thirds of what you earned in the last years of work, you’d have about £67 for every £100 you used to have (if the pension was your only income). Is that something you’d be comfortable with?

What if your pension was only half what you earned just before retirement? Or less?

(Extract from ‘Deciding what you need’, Stage 2)

It also suggested ways in which respondents could work out how much income they might need in retirement (by working out a budget) and put forward the idea of saving a proportion of their income in the form of a pension. The final section on this sheet explained the concept of inflation to help respondents appreciate the value of their money in the future.

‘Working out what you’ll have to live on’ illustrated the different sources of income that people might draw on in retirement including the basic state pension, a personal pension, savings and investments, as well as any part-time earnings. The sheet also sought to raise awareness of pension forecasts, by explaining to respondents that they can get forecasts for both their state and personal pension.

Whilst aspects of these sheets were useful, it was clear that retirement planning remained difficult for respondents because it required them to think about abstract and alien concepts and the sheets did not fully address these problems. In ‘Deciding what you need’, the approaches provided useful guidance about concrete ways to plan for retirement, such as the proportion of income that needs to be saved. Respondents, however, could not always understand how this guidance related to their personal circumstances or who was making these suggestions. There was therefore felt to be a need for personalised information about how much an individual with certain characteristics would need to save and what size of pension this would produce in order to ground the suggestions and give them a context.

3.3 Stage three

As planning for retirement remained a difficulty for individuals, the stimulus sheets in stage three were developed to try and help respondents further in this area. Although the whole set of stimulus sheets in stage three focused on retirement planning by taking an individual through their retirement options, two sheets in particular concentrated on helping respondents decide what level of income they might need in retirement: ‘State pension forecast’ and ‘Sizing up what you need’.

3.3.1 ‘State pension forecast’

The primary aim of the ‘State pension forecast’ sheet was to provide respondents with a concrete illustration to assist with their retirement planning. The subsidiary aim was to combat any misconceptions or lack of understanding regarding the state pension. The stimulus sheet set out to inform respondents about the state pension and give an illustration of an approximate retirement income they could expect to
get from their state pension. In light of respondents’ requirements in stage two for more personalised information, three versions of the sheet were designed and tailored to the age and income of the three hypothetical characters: Craig, Dean and Clara. The additional state pension of the three characters therefore differed, with Craig receiving less Additional State Pension than Dean or Clara due to his low income.

Here’s what Craig’s State Pension forecast says:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Your weekly amount of basic</td>
<td>£79.60</td>
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<tr>
<td>State Pension:</td>
<td></td>
</tr>
<tr>
<td>Your weekly amount of</td>
<td>£51.85</td>
</tr>
<tr>
<td>Additional State Pension:</td>
<td></td>
</tr>
<tr>
<td>Your total weekly amount of</td>
<td>£131.45</td>
</tr>
<tr>
<td>State Pension:</td>
<td></td>
</tr>
</tbody>
</table>

Extract from ‘State pension forecast’, Stage 3

Respondents were shown the version which was deemed to be as close to their personal situation as possible. The sheet was used as a prompt to make respondents consider whether the basic state pension would provide them with sufficient income in retirement.

The ‘basic state pension’ was a term that was widely recognised and understood. Also, respondents seemed to be aware that their National Insurance Contributions (NICs) are the payments they make to the Government which count towards their state pension. Less clearly understood was the link between the amount of NICs and the level of pension received. However, the receipt of letters from the Inland Revenue asking whether a person wished to make additional payments to cover periods of time when they had not paid NICs had sometimes made people aware of this link. There were also some female respondents who were aware that they had not made full NICs throughout their lifetime and were concerned about the size of their state pension.

Respondents of all ages were unaware of how much their state pension would be when they retired. Indeed, there was some confusion, often driven by the media, about whether there would be a state pension for people who retire in the future.

‘…it is going to be phased out isn’t it…well this is what the papers say…whether it’ll happen I don’t know.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, 10 – 20K individual income, Midlands)

Also, after reading how current NICs are being used to pay the basic state pension of pensioners today another respondent questioned what money would be available to pay for his basic state pension when he retired.

Even if the state pension did not exist there was a belief that the Government would have to provide some form of support for individuals when they retired:
‘I know there will be no state pension when we retire, but I can’t see them [saying], you [are] not [going to] get anything. You can’t stop working and then them say you, you can’t have anything. I just presume you’ll go onto some kind of Income Support.’

(Group: Stage 2, aged 18 – 30, Employed and Self-employed, No pension, More than £25K combined income, North of England)

Where people believed there would be a state pension, views varied about whether it would be sufficient to support them in retirement. Prior to reading the stimulus there was a general concern that the state pension would not provide people with enough income, although they had no idea how much they would be entitled to.

There was also a lack of understanding about the difference between a ‘basic state pension’ and a ‘private pension’. This had resulted in some respondents not grasping that it would be possible to have a combination of both types of pension in retirement. As an example of this confusion, a female respondent wondered whether she would lose her rights to a basic state pension if she took out a private pension.

There was a widespread lack of awareness and understanding surrounding the ‘state second pension’. Typically, the state second pension was a new concept, which people found confusing. Whilst there was awareness of the term ‘contracting out’, this had not always been linked to the state second pension. In the case of those with pensions, people were often unsure whether they had contracted in or out.

State pension forecasts was another topic that people seemed very unclear about and nobody appeared to have seen a forecast of their own state pension. When respondents were shown the stimulus sheet, the estimated size of the state pension produced different reactions. Where respondents imagined that the state pension would be their only source of retirement income, the size of the state pension was not thought to be sufficient to provide a ‘happy retirement’ because it was thought the majority of the pension would be taken up paying bills:

‘Well you probably could survive on it … if you have to but to actually enjoy your retirement it wouldn’t happen would it at all if you had no other money. So no, I don’t think it would be enough for a happy retirement.’

(Depth: Stage 3, Male, aged 31 – 40, Self-employed, No pension, Less than £30K combined income, Midlands)

As a result of seeing the stimulus sheet, these respondents commented on the fact that they did not feel able to rely on the state pension and that it encouraged them to consider other options for providing income in retirement:

‘It certainly encourages you to check it out and look into it and see if there is anything better for you.’

(Depth: Stage 3, Male, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)
In contrast, respondents who had imagined that there would not be any state pension when they retired were pleased about the prospect of receiving this and did not think it was a trivial amount of money. They were however viewing the money as an added extra to their present arrangements, rather than viewing it as their sole retirement income.

It was decided that it was particularly important that a description of ‘today’s money’ be included in the stimulus sheet because people need to understand this term if they are to be able to make use of their state pension and personal pension forecasts.

All these figures are in today’s money.

It’s important to remember that it’ll cost more to buy the same goods in 30 or 40 years’ time than it does today, because of inflation. If prices went on rising at today’s average of 2½% a year, then £1,000 would only buy Craig what £380 does today when he retires in 40 years’ time. This is why pension forecasts are often shown in ‘today’s money’.

This gives an idea what your pension is likely to buy, because you can think of what it would buy at today’s prices. But it doesn’t tell you how many pound notes you’ll eventually get – the actual payment will be higher, but it’ll cost you more to buy the same goods.

(Extract from ‘State pension forecast’, Stage 3)

The degree to which people understood the term ‘today’s money’ varied from those who found it easy to grasp to those who were unable to understand the concept. Respondents were struck that they had not considered whether an illustration was expressed in today’s money or a projection of a future amount.

3.3.2 ‘Sizing up how much you need’

This sheet was designed from the sheet in stage two called ‘Deciding what you need’. It remained similar in design to the first version of the sheet suggesting guidelines to help respondents plan for the future by:

- Working out a budget.
- Basing it on your final income.
- Saving a proportion of income.

In its initial format in stage two, this sheet was found to be too ‘wordy’ and therefore the sheet was pared down in stage three to contain the minimum amount of information. An example of the guideline about working out a budget from stage two is shown below and it can be seen how this was edited to produce the version which appeared in the stage three:
Work out a budget

What do you spend now? What would you expect to spend less on after you retire? Are there things you might need to spend more on?

- You’ll need to feed, house and clothe yourself
- You’ll want recreation, holidays, transport, healthcare, heat light and phone...
- What are you prepared to do without or cut back on?
- What do you want to be able to spend fairly freely on?

(Extract from ‘Deciding what you need’, Stage 2)

Working out a budget

What do you spend now?

What would you expect to spend less on after you retire?
And are there things you might need to spend more on

(Extract from ‘Sizing up what you need’, Stage 3)

Graphics were also added to the section about saving a proportion of income. These graphics are shown below and visually depict the proportion of an individual’s income that one sixth or one tenth represents:
Whilst this sheet was an improvement on its stage two counterpart, it again did not fully address the difficulties people had with retirement planning. It became clear that information sheets alone would not combat these difficulties due to the fact that this kind of forward planning remains an elusive and daunting task.

As in stage two, respondents commented on the fact that it is useful to have an indication of how much income it is necessary to save in order to achieve a certain level of retirement income:

‘…that’s a good way of putting it for people…it’s easy to understand for them.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, Less than £50K combined income, Midlands)

There were, however, different views about how realistic it would be to save the proportions of income suggested, in particular the guideline suggesting someone should save £1 out of every £6 earned. Respondents believed that it depended on the personal circumstances and lifestyle of an individual as to what they would be able to afford, or indeed want, to save. Amongst the sample there were people who stated that they usually spent their entire income, whereas there were also people who said they liked to ‘squirrel away’ money for the future.

Another view was that the sheet was rather too abstract and in this case there was a request for more explicit and personal advice about how much they personally needed to save in the form of a pension. There were also specific questions, such as whether a company car should be included as part of a person’s salary when calculating the proportion of income that ought to be contributed to a pension.
There was a debate about how much income people needed in retirement. It seemed that respondents who imagined their expenditure would be lower in retirement (because they would have no mortgage to pay and those with children imagined that they would have become financially independent) believed that it would be possible to survive on two thirds of their final salary. In contrast two thirds was felt to be too low for those people who considered the additional expenditures they might need to take on in retirement such as to cover their health and leisure. That said neither group of respondents had any sense of whether their present financial preparations, where indeed these existed, would provide them with the income which they believed they would require. Nor did they have a sense of what their final salary might be.

The graphics were not always thought to be particularly effective and it was not immediately obvious to all respondents what they represented. Indeed they occasionally appeared to detract from the message of the stimulus material because people were concentrating on trying to work out the graphics rather than reading the message.

3.4 Chapter summary

- **Stage one** of the research highlighted that people had limited understanding of how much income they would need in retirement or how much money they would need to save in the form of a pension in order to realise this income.

- Stimulus sheets were designed in **stage two** which highlighted different ways which individuals could think about how much they might need in retirement. These approaches were entitled ‘base it on your final income’, ‘work out a budget’, and ‘save a proportion of income’.

- The sheets were developed in **stage three** to include an illustration of the state pension and graphics were added to depict the different saving suggestions. Three versions of the sheets were produced so that respondents could be shown the sheet which best matched their personal characteristics.

- The approaches, or guidelines, were useful tools to help respondents think more about retirement, however the difficulties respondents had with conceptualising their retirement finances were unlikely to be addressed solely by information sheets.
4 Message: Addressing lack of understanding of pensions concepts

The low level of awareness and understanding about pensions has been widely documented and was also a finding which was reiterated in this research. In stage one we specifically sought to investigate awareness and understanding of pensions so as to inform the development of the stimulus materials (Section 4.1). Based on this evidence sheets were developed to explain how money purchase pensions operate (Section 4.2), annuities (Section 4.3), final salary-related-schemes (Section 4.4) and a list of institutions and advisers where people could seek information and advice about pensions (Section 4.5).

4.1 Awareness and understanding of pensions

4.1.1 Stage one: Specific pension terminology

In order to build on previous research as well as to inform the shape and coverage of the messages to be developed we explored understanding of specific pension concepts and terminology (primarily during stage one of the research).

Respondents' spontaneous awareness and understanding was explored before using show cards with the names of different types of pension to stimulate discussion and gauge more detailed understanding. These cards are shown below. Respondents were asked which terms they had heard of and which terms they understood and could explain.
In common with previous evidence, respondents generally displayed limited awareness and understanding of pension concepts. Not surprisingly, awareness of pensions terminology was higher where the term itself offered a simple explanation of what the pension concept was. For example, respondents were generally able to say that a ‘company pension’ or an ‘occupational pension’ was offered to an employee through their employer, whereas a ‘personal pension’ and a ‘private pension’ were connected to individuals. Those respondents who had pensions were also generally able to identify the type of pension they owned, such as whether it was a company pension or a personal pension.

Generally, other terminology was less well-known. There were a range of factors which affected respondents’ understanding and these are discussed in more detail in Section 4.1.2. Beyond having heard the name a ‘stakeholder pension’, respondents’ knowledge was limited and they were unable to explain the characteristics of this type of pension. Awareness of terms such as ‘SERPS’ and ‘superannuation’ was also generally limited to those who had direct experience of these types of pension. Even when respondents were aware of the terms, they did not always understand what they meant. Awareness and understanding of the ‘state pension’ and the ‘state second pension’ is discussed in Chapter 3.

The following show cards with the names of different types of pension scheme were also shown to respondents:
As with the different types of pension, there was limited awareness amongst respondents of the different pension scheme names, or the range of names used to describe the two different types of scheme. People sometimes guessed that the ‘salary related scheme’ and ‘final salary scheme’ were in some way related and that such a pension would be linked to the person’s salary. However terms such as ‘defined benefit scheme’, ‘defined contribution scheme’ and ‘money purchase scheme’ were not generally understood by respondents.

Respondents often needed to know how a pension scheme operated in addition to the name of the type of scheme before they could identify their own type of pension. For example, some owners of final salary schemes were able to identify their pension scheme when they heard that the scheme was dependent on a percentage of their final salary, although there was less recognition that it was also dependent on the number of years of service which an individual had worked. There were also respondents who on hearing further information about the different pension schemes were still unable to define which scheme they owned.

4.1.2 Factors affecting understanding

There were a number of factors which affected levels of understanding. The age of respondents was clearly an issue which had an impact on understanding. Younger respondents, for example, often displayed limited understanding, as has been discussed in Chapter 2. In comparison, older respondents who were approaching retirement often displayed more awareness and understanding of pension concepts. Having said this, there were also older respondents within the sample who still displayed limited understanding.

Closely linked to age was whether respondents possessed a pension or not and this too was a clear factor which affected their level of awareness and understanding. People who owned pensions inevitably displayed a greater level of understanding than those who did not have them. Through the act of owning a pension they had come into more contact with information about pensions and learned how they operate. That said, pensions were not well understood even amongst this group of respondents.

Another factor which contributed to respondents’ understanding was their ability to engage with the subject of pensions. As a subject, it was often found to be complicated and was interesting:

‘I know I get half way down an article, if it’s a fairly long article I think oh blimey, this is a bit heavy going, I don’t quite understand that.’

(Depth: Stage 1, Male, aged 31 – 40, Employed, Salary related scheme, over £25K combined income, London)
4.2 Money purchase pensions

4.2.1 Stage one: ‘How ‘money purchase’ pensions work’

The need to have a basic understanding of how a pension works was felt to be important information that people require to help make plans for their retirement. In view of this, as well as the body of research which has emphasised the difficulty people have understanding pensions, a simple explanation about how a money purchase pension scheme operates was tested out in stage one. This sheet is shown below:

Jane pays money into a personal pension:
- The money goes into her pension fund – what many people call a ‘pot’ of money.
- The pension company invests that money on her behalf.
- The pot gets bigger:
  - because Jane goes on paying in as the years go by
  - also because the value of the invested money grows
- When the stock market does well and interest rates are high the fund grows more quickly

When Jane finally decides to retire:
- The pension company works out how much there is in Jane’s pot – that’s called the ‘fund value’. Let’s say it was £100,000
- That fund is then used to buy an ‘annuity’:
  - ‘Annuity’ means that a pension company takes the money in the pot, and in return agrees to pay Jane a pension for the rest of her life
- The more money there is in the pot the bigger the pension
- But the amount also depends on the level of ‘annuity rates’ at the time Jane retires:
  - For example if the annuity rate was 5% she would get £5 of pension a year for every £100 in her pot
  - So Jane’s pot of £100,000 would buy her a pension of £5,000 a year until she died

‘How ‘money purchase’ pensions work’, Stage 1

Generally, respondents could not spontaneously describe in detail how money purchase schemes operate. Those with this type of pension knew that they paid contributions into their pension and were generally aware that this money was
invested in the stock market on their behalf. Beyond this they were unable to expand further on what happened to their money.

Also, whilst they could generally account for how much they were contributing to their pension, they could not recall the approximate value of their pension fund stated on their yearly forecast, or the estimated amount of pension it would give them in retirement. As noted in Chapter 2 they were unlikely to be making use of their personal pension forecasts to plan the level of income they would ideally like to retire on, or calculate what their pension contributions ought to be in order to achieve this amount.

A further lack of understanding existed amongst respondents regarding the appropriateness of different pension schemes for different individuals. Respondents were unaware that in certain situations a money purchase scheme might in the long run produce a larger pension for an individual, depending on their circumstances, rather than a salary-related scheme. For example, someone who has not worked for many years in a company or someone who may retire on a relatively small salary may potentially benefit more from a money purchase pension. There was a tendency for respondents, when they were aware of the different types of scheme, to assume that the salary related scheme was always the better scheme.

Furthermore it was clear that respondents who did not have this type of pension were much less aware of how money purchase pensions operate. Indeed these people lacked awareness about the basic principles governing these types of pensions. For example, they were unaware that they would not be able to access that money until they retired or that they would not be entitled to withdraw the whole fund of money when they retired:

’I don’t understand…they’re taking her pot back and giving her a pension, why don’t she just keep the pot herself and spend the money as she wants to.’

(Depth: Stage 1, Female, aged 31 – 40, Employed, Money purchase scheme, over £10 – £20K individual income, London)

There were also some more common areas of uncertainty, with people asking questions about what happens in situations where people have to suspend their payments to a pension. Examples raised in this context were people changing jobs or being made redundant.

Whilst respondents found this sheet helpful, it was clear that it sometimes perpetuated their negative views about pensions. A key concern was the return of the pension which was felt to be very low (£5,000 a year) and unlikely to provide sufficient income in retirement. As a result, respondents sometimes indicated that, based on this illustration, they would invest their money elsewhere.

Another problem with the sheet was that it made people aware (or reminded people) of certain aspects of a pension which they did not like. One characteristic which caused particular frustration was the fact that the pension fund is generally lost when a pensioner dies rather than being passed onto relatives. Other aspects
that people did not like included not being able to access their entire pension fund when they retire and that the growth of the pension fund is dependent on the performance of the stock market. Respondents were also angered by the thought that a pension company would continue to make a profit from their pension fund once they retired due to the fact that the pension company maintains control of the pension fund, and does not pass the profit onto the owner.

On the other hand, it did remind some people of positive aspects of the pension: the fact that it offers a guaranteed income in retirement:

‘There is the main benefit that you know when you retire you’re going to have some sort of fixed income coming in all the time…’

(Depth: Stage 1, Male, aged 31 – 40, Employed, Salary related scheme, over £25K combined income, London)

As with the other stimulus sheets in stage one, the explanation of the money purchase pension was presented as word processed text on an A4. The aim of the research at this stage was to focus on the content and not to test out the aesthetic appearance of the sheets, however, due to the difficulty some people had engaging with the material it was felt that more consideration needed to be given to the design of the sheet in order to aid comprehension.

Where people understood the explanation, they said it was simple and clear and easy to follow. However there were respondents who were unfamiliar with some of the terminology which was used and struggled to understand the explanation:

‘…for someone who doesn’t know all about these things about shares and investment and stocks or whatever, I don’t understand these words, they’re really alien words for me…’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, 10 – 20K individual income, London)

In particular the term ‘annuity’ was thought to be a difficult term to understand. This is discussed in more detail in Section 4.3.

Whilst respondents favoured simple explanations because they appreciated the complexity of the subject, there were respondents who criticised it for being rather patronising:

‘…I don’t really understand this, but by putting it with “Jane pays” or whatever, it’s making it sound a bit, ‘you don’t understand, so we are going to put it like a three year old’…’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, 10 – 20K individual income, London)

4.2.2 Stage two: ‘How ‘money purchase’ pensions work’

The sheet ‘How money purchase pensions work’ was developed in stage two to try and combat the issues raised by respondents in stage one.
In order to avoid people being distracted with the return of the pension, the example used was slightly increased to £6,000 as a result of an annuity rate of 6% rather than the 5% rate in stage one. Respondents who had concerns about the return of this pension were also directed to the sheets about tax relief and employer contributions. This was intended to show respondents how much this pension would have actually cost the individual and emphasise the additional contribution that a person received from the Government and, in some cases, the employer.

In order to combat respondents’ preoccupation with the fact that the pension fund is lost when a pensioner dies, a sentence was added to the end of the sheet explaining that the longer an individual lives, the more total pension they will receive:

The longer Jane lives after retiring, the more total pension she would have received. If she lived to age 75, she would have been paid £60,000 in pension. By age 85 she would have been paid £120,000, and £180,000 by age 95.

(Extract from ‘How money purchase pensions work’, Stage 2)

The aim of this sentence was to highlight the converse argument which respondents failed to see: that the longer someone lives, the more money they will receive from the pension fund.

Apart from these minor changes, the sheet in stage two remained similar in format to the stage one version. When respondents were shown the stage two version, comments made by respondents were similar to the ones made by respondents in stage one. In particular, they continued to be concerned about the return of the pension.

**4.2.3 Stage three: ‘Pension options’**

This sheet was a re-working of the ‘How money purchase pensions work’ sheet which featured in the previous stages of the research. The basic explanation of the money purchase pension on the sheet remained the same however the information was given a context; thus it showed how much money an individual had paid into a pension over the years and the size of the pension which the individual received when they retired:
Suppose Craig decides to pay £1 for every £10 he earns into a money purchase pension. To start with that’ll be £25 a week, out of his earnings of £250 a week. It’ll go up as and when his earnings go up.

As we’ve seen, the Government will add £7 a week to Craig’s £25, so £32 a week goes into his pension.

This money goes into his pension fund – what many people call a ‘pot’ of money. The pension company invests that money on his behalf.

Over the years his pot gets bigger – his payments mount up and the invested money grows in value. If the stock market does well or interest rates are high the pot grows faster.

(Extract from ‘Pension Options’, Stage 3)

Thus as well as explaining how a pension operates, this sheet was also trying to help respondents with their retirement planning by giving them an indication of what they need to pay into a pension in order to get a certain return. The sheet also tried to deal with the concerns raised about the return of the pension by emphasising the additional income from the state pension:

**In today’s money this pension works out at nearly £240 a week.**

If we add this to the forecast state pension of about £131 we get a total pension income of £371 a week in today’s money.

That’s more than Craig earns now, but it’s about two-thirds of his estimated 2044 earnings. So when he retires he’d have nearly £70 for every £100 he’d been earning at the end of his working life.

(Extract from ‘Pension Options’, Stage 3)

Initially, respondents were not as distracted by the return of the pension on this sheet as other respondents had been in the previous stages, because they commented on the fact that they would be satisfied to receive a similar size pension to the one illustrated on the sheet. When they were shown what the pension would be worth in today’s money, they did then begin to have concerns about the return of the pension. However, when they were shown how their retirement income could be boosted by their state pension, they began to feel more satisfied that their private pension and their state pension combined would provide them with sufficient income in retirement.

There were respondents who thought this sheet was ‘a compelling document to make you buy a pension’ because it showed an affordable way to save money for retirement and showed a good return on the invested money. This view, however, was not shared by all respondents. There was a view that the person on the sheet had made what was deemed to be quite high weekly payments into their pension and that some people would not be able to afford similar weekly payments and thus would not accrue a similar size pension fund:
‘...if you can afford it then that’s fine but are they allowed to have breaks...if they suddenly lose their job...get made redundant and have to go for a low paid job...’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, Less than £50K combined income, Midlands)

A recurring theme with respondents was the fact that the sheet was an estimate of the return of a pension and was not a guarantee. Some respondents said the sheet shows a ‘rosy’ picture of a pension performing well, whereas there is also the possibility that it might not perform well. Respondents believed it was important therefore to present a balanced picture of pensions, stressing the negative aspects of pensions as well as the positive aspects.

‘Upsides are nice and everyone wants to hear about them, but they need to hear about the downsides.’

(Depth: Stage 3, Male, aged 41 – 55, Employed, Money purchase pension, Less than £20 – 40K individual income, Midlands)

Although assumptions were included in bullet points at the end of the sheet, there were respondents who did not believe this message was prominent enough.

4.3 Annuities

4.3.1 Stage one, two and three: ‘More about annuities’ and ‘Choices about your eventual pension’

As awareness and knowledge was closely connected to experience, it was often difficult for respondents (who had not reached retirement age) spontaneously to explain what would happen to a money purchase pension when a person retired.

In stage one, the concept of the annuity was introduced and briefly explained in the sheet ‘How money purchase pensions operate’. Whilst the terms ‘annuity’ and ‘annuity rate’ were not new words for those people who had pensions, they were however generally new concepts to respondents. It was clear that respondents had not given annuities much consideration and were surprised to discover that the annuity rate was key to their pension. It was also clear that the concept of the annuity was one which respondents had difficulty grasping.

A sheet giving more information about annuities was included in the set of stage two stimulus materials. It was decided that this sheet would only be shown to respondents who expressed an interest in finding out more about annuities because there was a concern about the time required to explain this to people who were already struggling with the basic explanation of how a pension works. This sheet explained how an annuity worked, the type of annuities which are available and highlighted the choices people have when they retire (i.e. that a percentage of the fund can be taken as a cash free lump sum).
Information about annuities also appeared in stage three in the stimulus sheet entitled ‘Choices about your eventual pension’. One concern which had been raised about pensions was the fact that the return of the pension cannot be guaranteed, therefore this sheet stressed to respondents that the annuity does offer certainty once an individual has retired because it provides that individual with a monthly income. This was an appealing characteristic for respondents who were not preoccupied with how the pension fund performs. However, when this information was presented to respondents who were concerned about the return of the pension, it made little impact on them as it did not give them the guarantees they required. There were also financially literate respondents who commented on the fact that the value of a fixed pension would be devalued over the years due to inflation.

4.4 Salary-related-schemes

4.4.1 Stage two and three: ‘How salary-related-schemes work’ and ‘Pension options’

This research primarily concentrated on money purchase schemes as these are likely to be more common in the future. There were also felt to be fewer concerns about salary-related-schemes. For these reasons, information about how salary-related-schemes work was not included in the stage one set of stimulus material.

It was however thought to be necessary to include a sheet in stage two called ‘How salary-related-schemes work’ as some of the people in the research had these schemes and found it hard relating only to money purchase schemes.

The sheet contained an example of the type of pension return a fictitious character would receive in retirement and was only shown to respondents who had this type of pension. It was thought to be generally straightforward although amongst the sample there were people who clearly found it hard to fully understand the calculations.

A paragraph explaining these schemes was also included in the ‘Pension Options’ sheet in stage three, however by this stage it was decided that it was not necessary to interview people who owned salary-related-schemes.

4.5 Stage two: ‘Possible sources of help, advice or information’

The final sheet in the stage two set of stimulus material was a list of institutions and formal and informal advisers from whom individuals could potentially seek advice and information about pensions. It was clear from stage one that respondents lacked understanding of pensions and were not certain where they could go to inform their understanding. It was thought that this sheet could offer them guidance in this area.
It depended on the circumstances and characteristics of the individual as to where they felt comfortable seeking advice or information. It was important to respondents that the information came from an unbiased source, or a source which did not have a personal agenda. For respondents who had faith in the Government or their bank, then this was the institution they imagined seeking information from, whereas for some respondents they could only imagine receiving unbiased information from a family member or a friend. What was clear was that respondents’ views about pensions were particularly influenced by hearing negative stories about pensions in the media or by being told personal stories about pensions from friends or family.

4.6 Chapter summary

- Respondents displayed a lack of awareness and understanding about pensions in line with findings from previous research.

- The stimulus sheets in stages 1 – 3 attempted to explain a number of key pension concepts to respondents: how money purchase pensions operate, annuities, how salary related pensions operate.

- **Information about money purchase pensions:**
  - Explaining how a money purchase pension operates in isolation and out of context can perpetuate some negative views of pensions.
  - If the return of a pension illustration is not deemed to be sufficient then people will question the value of taking out a pension.
  - Respondents were not sufficiently interested in learning how a pension operates to engage with the information when presented in its simplest format in stage one. The information was more effective when it was presented as one sheet in a series of sheets which told a story as in stage three.

- **Information about annuities:**
  - Respondents reacted to this information in a range of ways from finding it too complicated to grasp to those who were curious to find out more.
  - In order to understand money purchase pensions, information sheets need to contain at least basic information about annuities for those people who are interested; however this information will not be understood or digested by everyone.
5 Message: Emphasising the importance of saving early

This chapter looks at the development of the message about the importance of saving early. The way in which this information was developed during stages 1 – 3 and views of the different versions of the sheets are described in the following sections.

5.1 Stage one: ‘Effects of starting at different ages’

The beneficial impact of starting a pension early was a key message that we wanted to convey to respondents, particularly as it was felt that people are at risk of under saving for retirement. It was decided that this message would mainly be targeted at younger people due to the nature of the message, however the sheet which was designed was shown to all respondents in stage one.

In order to assess awareness about the effects of starting early, a guessing game was used to introduce this message to respondents in stage one. They were asked to guess the difference in size of a pension of someone starting at age 20 and someone starting a pension at age 40. The stimulus sheet which was designed for stage one is displayed below. As money purchase pensions are now more widely available than salary-related schemes and the returns from money purchase schemes are of greater concern, it was felt to be necessary to design this sheet using a money purchase pension:
How much difference does it make if you start paying into a pension early in your life?

- Kerry started paying into her pension at age 40, 20 years before she retired
- During that 20 years she paid in a steady £1,000 a year
- That means £20,000 went into her pot altogether
- She finally got a pension of £750 a year.

- Debbie started paying in 20 years earlier – at age 20, 40 years before she retired
- During that 40 years she paid in the same amount Kerry, a steady £1000 a year
- That means £40,000 went into her pot altogether
- Guess what her pension was a year, on the same basis as Kerry.

(Extract from ‘Effects of starting at different ages’, Stage 2)

Respondents were generally aware that it is better to start a pension at an early age as they realise that there will be more contributions made to the fund. However, as the guessing game revealed, respondents were generally unaware of the extent of the benefit of starting early because they did not take into consideration the effects of compound growth. They initially assumed that the person who had paid into her pension for twice as long would end up with a pension which was double that of the first person. When they considered the example in more detail, they did think the pension would be more than double. They were, however, generally surprised that it was as much as four or five times more than the pension of the first person (Debbie would probably get a pension of £3,000 or £4,000 a year). Respondents also presumed that people could pay more into their pension later in life when they had more disposable income and ‘catch up’ the difference.

After being shown the extent of the benefit, respondents of all ages were able to appreciate the benefits of starting at an early age:

‘...if it weren’t for a friend of mine telling me what to do and pushing me, I probably wouldn’t have started now, but if I’d read something like this, then maybe I would have, it’s best to start early, the more you put in, the more you’re getting back, definitely...’

(Depth: Stage 1, Male, aged 22 – 30, Employed, Money purchase pension, £20 – 50K individual income, London)

There were respondents who thought that starting a pension early was beneficial because it would give an individual enough income in retirement which would mean that they would not have to work to supplement their retirement income. For these respondents, the steady income that a pension offers represented security in retirement:
‘…you just want to make sure that when you are older, you’re going to be sorted, so you don’t have to work…’

(Depth: Stage 1, Male, aged 22 – 30, Self-employed, Money purchase pension, £20 – 50K individual income, London)

Respondents who expressed concerns about the return of the pension did not think the pension offered them security.

Respondents were of the view that this information would be more likely to act as an incentive for young rather than older people to start a pension. It was felt to be less of an incentive for older people and it sometimes raised doubt about the value of people over a certain age taking a pension out. Indeed, older respondents nearing retirement sometimes wondered whether they would be financially better off relying solely on provision from the state. These respondents were aware that taking out a personal pension could potentially affect their entitlements to certain benefits and render them worse off than if they had chosen to do nothing.

This sheet produced a discussion about the age at which people can afford to pay into a pension. Respondents commented on the fact that whilst the sheet might act as an incentive to start a pension this would only occur where a person could afford to do so. In particular, it was felt that whilst it would be most beneficial for young people to start a pension, they were the people who would be least likely to afford contributions because they may be saddled with debts from their education:

‘…you can’t try and convince a girl who is struggling to pay her bills, and just got out of university, to invest £100 a month, which is basically what it is, a £1,000 a year, into a pension that she could get £5,000 of that in 40 years time.’

(Depth: Stage 1, Female, aged 41 – 50, Self-employed, Money purchase pension, £20 – 50K individual income, London)

That said, an inability to afford pension contributions was not cited as the main reason why young people had not started a pension; those without pensions commented on the fact that they had never given pensions much consideration and prior to seeing the stimulus sheet imagined pensions were the concern of older people:

‘I don’t really know what goes on in how to set up a pension or anything like that, but I know that you do it at the age of around 40/50. I’ve never actually thought about doing it, it’s not something I talk about with friends or anything.’

(Depth: Stage 1, Female, aged 18 – 21, Employed, No pension, £10 – 20K individual income, London)

A contrasting and more exceptional view was that because young people have fewer responsibilities they can afford to pay more into a pension than older people.
As with the other sheets in stage one, the size of the pension (£3,000-£4,000), was commented on and sometimes detracted from the message of the stimulus material and resulted in putting these people off pensions altogether. The guessing game, however, proved a useful way to engage respondents and raise awareness of the extent of the benefit of starting early.

Other comments about the stage one stimulus sheet related to respondents requiring more information which was specifically relevant to their personal circumstances, for example illustrations based on how much individuals earned. Other suggestions for how to personalise the information involved using the respondent’s name or gender.

5.2 Stage two: ‘The importance of starting early’

As the guessing game had been effective in engaging respondents, it was decided that this would be repeated in stage two. Some changes were made to the sheet in light of the responses from stage one.

Additional information was added to the stimulus sheet detailing the amount of contributions Debbie and Kerry paid per month and the return from both women’s final pension was increased so as not to detract from the message. In order to do this however, their contributions were increased to £100 a month.

A separate sheet was added showing the answer to the guessing game. Instead of merely presenting the answer as text, it was decided that the answer would be depicted pictorially using proportionally sized money bags to show the different sizes of pension fund. This method was used to test out whether graphics helped respondents to engage more with the stimulus materials than text alone. The graphics which were used are shown in Figure 5.1.
Respondents commented that the graphics helped them to understand the stimulus sheet and showed the stark difference between starting a pension at aged 40 and starting a pension at aged 20:

‘You can’t escape it, it’s showing you the difference.’

(Group: Stage 2, aged 18 – 30, Employed and Self-employed, No pension, More than £25K combined income, North of England)

Respondents with strong negative views of pensions were sceptical about how realistic the example was because they did not believe Debbie would have been able to make £100 monthly contributions throughout her life. They also doubted whether the pension fund would have performed as favourably as it did:

‘I don’t think it works out at that. I don’t – it may do if things run as they’re supposed to run.’

(Group: Stage 2, aged 18 – 30, Employed, No pension, Less than £25K combined income, North of England)
As with stage one, a debate ensued about the practicalities of affording similar pension contributions themselves. There were respondents who felt they would ‘miss’ £100 a month if they matched the monthly contributions which Debbie and Kerry had paid into their pensions. Respondents also felt that at different times of their life they might want to reduce their contributions to cover other financial commitments and circumstances:

‘...you might be able to afford it at 20, but at 30, you’ve got kids on board and mortgage to pay, your finances change don’t they.’

(Group: Stage 2, aged 31 – 65, Employed and Self-employed, No pension, Less than £25K combined income, North of England)

Amongst the group of respondents who did not have negative views of pensions and took on board the message about the benefits of starting early, there were respondents who erroneously imagined that starting at an early age might mean that they would be able to retire early. This was connected to respondents’ lack of understanding about how much they would need to contribute to a pension and the size of pension that this would produce.

In terms of how to improve the sheet, there were respondents who questioned why Debbie’s pension was so much larger than Kerry’s pension and thought that the sheet could contain some information about interest rates and compound growth. There was also a suggestion that an example be designed which could be shown to older people because they did not feel that the example of Debbie and Kerry was relevant to them.

5.3 Stage three: ‘Starting early’

Whilst the guessing game used in stages one and two was effective in engaging respondents, the message did not appear to instil in respondents the urgency with which they needed to start a pension in order to build up sufficient income in retirement. Respondents believed that they could postpone making any formal arrangements until later, because they did not fully appreciate the amount of money they would have to save in order to provide themselves with sufficient income in retirement.

Therefore it was decided that the message about starting early would be presented to respondents in a different way in stage three, namely by showing the proportion of income they would need to save if they started saving for their pension at different points in their life.

Three versions of the sheet were designed so that they could be shown to people of different ages. Whilst it was decided at the beginning of the research that this message would mainly be targeted at younger people due to the nature of the message, it is not clear what age it becomes meaningless to highlight this message.
The graphics used in the stage three stimulus sheet are shown below. These graphics illustrate the proportion of income people may need to save at different ages in order to get around two-thirds of their salary in retirement:

**Figure 5.2  Extract from ‘The importance of starting early’, Stage 3**

When respondents saw information presented in this way, they unsurprisingly stated a preference for the option to save a smaller proportion of their income. They were often surprised by the difference that starting at an earlier age had:

‘…it’s amazing what a difference ten years makes.’

(Depth: Stage 3, Male, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

As these sheets were shown to all respondents, this sheet combined with the messages from the other stimulus sheets left the impression with some of the older respondents that they could receive a pension equal to that of someone who had been saving for a pension all their life, without fully appreciating how much they would need to save in order to achieve this:

‘When you listen to Dean’s case and looking at all the illustrations and the text…at 31 you’re still going to get a nice return if you start putting some money in. So, it’s not a lost cause…but it’s definitely making me think and it’s gotta be about now to sort summat out.’

(Depth: Stage 3, Male, aged 31 – 40, Self-employed, No pension, Less than £30K combined income, Midlands)
It was therefore important that this message only be shown to people who would truly benefit from contributing into a pension so as not to give them a false hope that they would end up with a satisfactory pension.

5.4 Chapter summary

- The guessing game was a useful way of engaging respondents in stage one and two.

- Respondents were not aware of the extent of the benefit of starting a pension early because they did not take the effects of compound growth into consideration.

- Whilst respondents appreciated that it is beneficial to start paying into a pension from an early age, they wondered about the practicalities of paying into a pension throughout their entire working life.

- It is important that information about starting early be shown to the appropriately aged audience and does not erroneously lead older people to imagine that they can ‘catch up’.
6 Message: Highlighting the benefits of pensions

In order to counteract negative views of pensions, messages were present highlighting the benefits of pensions and the development of these is covered in this chapter. In stage one of the research, the benefit of tax relief was presented to respondents (section 6.1). The benefit of employer contributions was added to tax relief in stage 2 (section 6.2) and stage three (section 6.3).

6.1 Stage one: ‘Pensions and tax’

Another message which was presented to respondents in stage one was about tax relief on pension contributions, in order to raise awareness of this benefit and to test out how easily respondents grasped this concept. A sheet was therefore developed which sought to demonstrate how tax relief was calculated for a basic and higher rate taxpayer. It presented tax relief as a reduction in the amount of money that an individual pays into their pension. This sheet is shown below:

- A taxpayer who pays money into a pension scheme gets tax relief on the payments
- Here are two examples which show how this works
- Arthur earns £18,000 a year, which makes him a basic rate taxpayer:
  - This means he pays 22p in the pound on most of his taxable income
  - In the current tax year he put £1,500 into his pension scheme
  - So the Government actually knocks £330 (22p x 1,500) off his tax bill
  - The result is that:
    - £1,500 goes into Arthur’s pension pot
    - Arthur himself actually pays £1,170 of that
    - And the Government pays the other £330
Angus earns £42,000 a year, which makes him a higher rate taxpayer
- This means he pays a top rate of 40p in the pound on his taxable income
- In the current tax year he put £3,000 into his pension scheme
- So the Government actually knocks £1,200 (40p x 3,000) off his tax bill
- The result is that:
  - £3,000 goes into Angus’ pension pot
  - Angus himself actually pays £1,800 of that
  - And the government pays the other £1,200

('Pensions and tax', Stage 1)

It was clear that there was a lack of awareness of tax relief on pension contributions. Awareness was, however, dependent on whether respondents did or did not have a pension. Those with pensions were generally aware that they received tax relief on their pension contributions, whilst those without pensions were surprised to discover this.

That said, respondents did not generally know how much tax relief they received, even when they were aware of the concept. When the issue of tax was raised, respondents often became distracted with the discovery that they would have to pay tax on their pension when they retired. Indeed, there was considerable comment about the injustice of people having to pay tax in retirement after having done this throughout their working life. Even when they were made aware of tax relief, some respondents continued to comment on the issue of being taxed as a pensioner and they did not appreciate the effect that compound interest would have on the tax relief in the pension fund. As a result they imagined that the tax collected on their pension would cancel the tax relief out.

It was believed that the concept might motivate people to consider taking out a pension as people preferred to make use of the tax relief rather than allow it to disappear into the Government’s ‘coffers’. It was clear, however, that tax relief was not always viewed as a benefit. There were respondents who viewed tax relief as a ‘nice gesture’ from the Government, but it did not dissuade them of their negative views of pensions. Another view which was expressed by respondents was that they found it difficult to be grateful to the Government for giving tax relief on money which they believed to be their own ‘hard-earned’ money. In addition, they said that the benefits of tax relief were negated by them having to pay tax on their pension. Tax relief was, however, felt to be more of an incentive for higher tax payers than basic rate taxpayers because they would receive proportionally more tax relief.

In terms of the accessibility of the sheet, it was clear that people sometimes struggled with the explanation of tax relief because it involved understanding complicated calculations.
6.2 Stage two: Making use of ‘free money’

As there were respondents who had found the explanation of tax relief in stage one complicated, we tried to simplify the explanation and also use graphics to assist with the explanation in stage two. As with stage one, tax relief was again presented as a reduction in the amount of money which an individual would pay into their pension, rather than an additional amount of money which would be invested in their pension.

In order to combat respondents’ lack of enthusiasm regarding tax relief, it was decided that it would be useful to show respondents other sources of ‘free money’ which were available to them. Therefore in stage two the benefit of ‘free money’ from employer contributions was also presented to respondents. The sheet attempted to show that out of a yearly pension contribution of £1,500, potentially only £585 may have been paid directly into the fund by the individual. This illustration is shown below.

**Figure 6.1 Extract from ‘Making use of free money’, Stage 2**

<table>
<thead>
<tr>
<th>Free money from employer contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers also often contribute money to occupational pension schemes – usually at least a matching contribution, sometimes more.</td>
</tr>
<tr>
<td>If Arthur’s employer matches his payments, then:</td>
</tr>
<tr>
<td>£1500 goes into Arthur’s pension pot</td>
</tr>
<tr>
<td>Arthur himself only pays £585 of that</td>
</tr>
<tr>
<td>His employer also pays £585</td>
</tr>
<tr>
<td>And the government pays the other £330</td>
</tr>
</tbody>
</table>

Separate examples showing the free money for higher rate taxpayers were included in the set of stimulus sheets which were designed for higher earners. The benefits of tax relief and employer contributions were also presented in the ‘Rate of return’ sheet. Views of this sheet are explained in more detail in Chapter 7.

Awareness of the existence of employer contributions tended to be linked to experience with respondents who received employer contributions being more aware of this benefit than respondents who did not own a pension. However, unless respondents had been personally informed that their employer offered pension contributions, they did not know whether their employer offered this benefit.
Respondents who were aware were not always clear about the percentage that their employer was contributing. Typically, respondents had not actively investigated their entitlements and sometimes just assumed that their employer did not offer this benefit. Despite this, there were also respondents who wondered whether employers were required to make contributions to company pension schemes.

Similar views which had been expressed by respondents about tax relief in stage one were expressed in this stage. Whilst respondents thought any additional money was beneficial, they did not think tax relief alone would be enough to persuade them to take out a pension or increase their contributions. When tax relief was presented with employer contributions, respondents thought that it was worth taking advantage of employer contributions if they were available to them. Respondents who were self-employed or whose company did not offer contributions were obviously unable to take advantage of this benefit and this diminished the impact of this message on them.

There were also respondents for whom the benefit of tax relief and employer contributions was not enough to override their concerns about pensions. In particular, these respondents could not look beyond their concerns about the return of the pension and the fact that pensions offer no guarantees.

Graphics were thought to be a useful way to illustrate the message and aided respondents understanding of how tax relief operates.

6.3 Stage three: ‘Extra money for pensions’

In stage three, it was decided that tax relief and employer contributions ought to be presented as ‘extra money’ which can boost people’s pension because of the dislike of the term ‘free money’. Therefore for the tax relief example, the sheet in stage three showed that if Craig saved £25 a week in a pension then the Government would add £7 through tax relief, thus it was explained that Craig’s £25 payment actually puts £32 into his pension. The following diagram was used to illustrate this:

**Figure 6.2 Extract from ‘Extra money for pensions’, Stage 3**
This differed from the way tax relief was presented in stage two which showed what proportion of someone’s yearly contributions into their pension is made up of tax relief, as shown below:

**Figure 6.3 Extract from ‘Making use of free money’, Stage 2**

Free money from tax breaks
Arthur earns £15,000 a year, so he’s a basic rate taxpayer:
This means he pays 22p in the pound on much of his income
This year he puts £1500 into his pension scheme
So the government actually knocks £330 (22p x 1500)
off his income tax

The result is that:

£1500 goes into Arthur’s pension pot

Arthur himself only pays £1170 of that

And the government pays the other £330

As will be seen in the next chapter, the benefits of pensions were presented together (rather than in isolation) in order to try to overcome concerns about pensions.

### 6.4 Chapter summary

- Stimulus material was developed to highlight the benefits of pensions to discover if this would counteract respondents’ strong negative views of pensions.

- **Stage one** presented the benefit of tax relief and the benefit of employer contributions was added to the stimulus sheets in **stage two and three**.

- Respondents did not think that the benefit of tax relief in isolation would motivate them to take out a pension or increase their contributions.

- The combined benefits of tax relief and employer contributions were thought to be worthwhile if respondents were able to take advantage of both of these benefits. This was not possible for people who were self-employed or whose company did not offer employer contributions.
7 Message: Considering other methods of saving for retirement

In order to address negative views about pensions, messages were developed to help people consider other methods of saving for retirement and compare these with a pension. This chapter discusses the development of this message. It first appeared in the stimulus material in stage two comparing the return of the pension with a bank deposit account (Section 7.1). This sheet was further developed in stage two and three to include a comparison with property (Section 7.2 and Section 7.3). In stage three additional sheets were added to help consider the reality of using savings or property as retirement income (Section 7.4).

7.1 Stage two: ‘Rate of return’

One recurring theme from the stage one research was respondents’ preference for other forms of investment, primarily property but also savings accounts, due to the poor image of pensions. Respondents recurrently viewed pensions as being a ‘gamble’ and a ‘risky’ investment because they did not have faith in the rate of return from the pension. A preference was sometimes made, for example, for the security of the savings account even if the return on their money was better from the pension. It appeared that the risks attached to investing money in a pension outweighed the potential rewards. Property, on the other hand, had the reputation of providing a higher return than a pension and so it appeared that the risks were worth taking.

In order to help people judge pensions fairly against other forms of investment, in stage two we designed a sheet which compared the average performance of a pension with the performance of a bank deposit account between 1971 and 2002. At this stage, the comparison with property was felt to be a complex comparison and there were concerns about doing it justice.
This sheet was also developed to show the difference that extra money from tax relief and employer contributions made on the pension fund. This demonstrated that the pension fund performed better than the bank account and also highlighted the difference that ‘free money’ (which is not available for other investments) can make. This explanation is shown below:

**Tax breaks**

The Government pays nearly a quarter of the money taxpayers put into pensions by knocking it off their income tax: and considerably more in the case of higher rate taxpayers (who get two-fifths of the money back)

This means that:

- If a basic rate taxpayer put in £1,200 it would actually add £1,538 to their pot. This would increase their pension fund to £522,461
- With higher rate taxpayers the difference would be greater – their pension fund would grow to £679,200
- In both cases the bank account would stay at £170,760, because this ‘free’ money wouldn’t be available if you didn’t pay the money into your pension.

(Extract from ‘Rate of return’, Stage two)

### 7.2 Stage three: ‘Comparing ways of saving for retirement’

The ‘rate of return’ sheet in stage two showed that respondents continued to express a preference for other forms of investment, particularly property. It was therefore decided that the comparison with property could not be ignored and a sheet was developed which compared pensions with property and a bank account. As with the sheet in stage two, the aim was to combat negative perceptions regarding the return of the pension by showing how an average pension performed between 1971 and 2002 compared to property and a bank deposit account.

As graphics had worked effectively when deployed on the stage two sheets, we introduced graphics in this sheet to represent visually that the pension performed better than property and a bank deposit account within the chosen period of time. Although the sheet did clearly state the point that had we compared more recent times i.e. 1997 to 2002, property would have performed best. However as saving for retirement involves long-term investments, we wanted to illustrate what had happened over a longer period of time. An example of the graphics used in this sheet is shown in Figure 7.1.
This sheet served as the first sheet in a sequence of comparison sheets followed by ‘Extra money for pensions’ which showed how tax relief and employer contributions impacted on the pension fund.

This sheet did aid respondents’ appreciation of the value of the pension as respondents were surprised that the pension had performed better than the bank account or the property. This made some respondents think more favourably of pensions than they had previously done. Respondents with strong negative views of pensions were sceptical about the performance of the pension and wanted more explanation about why the pension had performed better. This is a point that should be considered when developing such comparisons further. More work could be done to highlight other benefits of property, such as the money saved from not renting or buy to let income, in order to present a more balanced comparison of these methods of saving.

A few respondents raised the point that the comparison was a historical comparison and therefore this did not necessarily mean that the pension would perform favourably in the future:

‘I know they can’t forecast what’s going to happen but it doesn’t look like it’s gonna do the same as what it did do.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

Respondents who expressed strong preferences for other forms of investment were also not persuaded by the sheet.
7.3 Stage three: ‘Extra money for pensions’

Based on the ‘Making use of free money’ and the ‘Rate of return’ sheets in stage two, ‘Extra money for pensions’ developed the idea of presenting the benefits of pensions together rather than in isolation in order to try and combat respondents concerns about the return of the pension and give strength to the message about pensions. Its aim was to highlight the unknown benefits of pensions and the impact this has on the value of the final pension.

This revised sheet showed the effect that tax relief and employer contributions have on the return of the pension by using the comparative graphics which were used in ‘Comparing ways for saving for retirement’. When the additional benefits were added to the example, this improved the performance of the pension whereas the bank account and the property example remained static. The comparative chart showing the effects of tax relief on the pension fund is shown below:

**Figure 7.2 Extract from ‘Extra money for pensions’, Stage 3**

![Comparison chart showing the additional effects of tax relief and employer contributions on the pension fund.](image)

These comparative charts showing the additional effects of tax relief and employer contributions on the pension fund had an impact on respondents:

‘Well from what this says you get more money, I suppose that’s where you wanna put your money.’

(Depth: Stage 3, Male, aged 21 – 30, Employed, No pension, £10 – 20K individual income, Midlands)

‘…it’s the sort of thing that if this was in a brochure and you were worried about pension, you’d think it was quite good.’

(Depth: Stage 3, Male, aged 21 – 30, Employed, Money purchase pension, £10 -20K individual income, Midlands)
As with the ‘Comparing ways for saving for retirement’, there were respondents who expressed some cynicism about the performance of the pension, as well as respondents with preferences for other forms of investment who did not sway from their initial preference.

7.4 Stage three: ‘Using savings to provide retirement income’ and ‘Getting retirement income from property’

Throughout stages one and two of the research, respondents were preoccupied with the idea of investing in property and savings, but often had not considered how this would work in practice. ‘Using savings to provide retirement income’ and ‘Getting retirement income from property’ \(^{10}\) were designed to address the reality of trying to use retirement income from both these investments.

‘Using savings to provide retirement income’ aimed to provide a balanced account of how this would work. It also addressed the pros and cons of savings, because findings from stage two showed that respondents were wary about information which was seen to be biased towards pensions and they questioned the motives of such information. When respondents where shown the stimulus sheet, it was clear that they did not appreciate how much they would actually have to save in order to be able to use this income in retirement:

‘…that’s, you know, obviously a tremendous amount of money you need to get this weekly figure of 200 or 350 a week.’

(Depth: Stage 3, Male, aged 31 – 40, Employed, No pension, Less than £30K combined income, Midlands)

Respondents also did not appreciate that they would only be able to live off the interest from their savings if they were to preserve their investment.

‘Getting retirement income from property’ showed the range of options available to people to try and make property work to fund their retirement. It became clear whilst going through the property options that respondents had not given much thought to how they would use property to provide them with retirement income. As a consequence, the sheet did appear to go some way to tempering respondents’ ideas about property:

‘…goes a little way to diluting people’s excited thoughts about property being the be all and end all.’

(Depth: Stage 3, Male, aged 41 – 50, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

\(^{10}\) These stimulus sheets are found in Appendix F.
These sheets did make respondents review the positive aspects of pensions. For example, it reinforced the idea that a pension provides a fixed income in retirement and thus can offer people a sense of financial security. There were also respondents who viewed a pension as a secure savings’ vehicle and therefore appreciated the lack of access they had to their savings until retirement:

‘You don’t think about that money [in the pension], you’re paying it each month and you forget about it, so if you were putting it in a bank you would see something you want to buy and you would just get the money out.’

(Depth: Stage 3, Female, aged 21 – 30, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

7.5 Chapter summary

- Respondents recurrently viewed pensions as being a ‘gamble’ and a ‘risky’ investment because they did not have faith in the rate of return from the pension.

- The stimulus sheets attempted to show respondents that by taking out a pension they can access ‘extra’ money which would not otherwise be available to them if they chose to save for retirement through other means. This extra money in turn boosts the value of the pension fund.

- Presenting the advantages of pensions together was an effective tool because it strengthened the message about pensions.

- The comparison charts in the stage three stimulus material did aid respondents’ appreciation of the value of the pension when compared with other investments:
  - Some scepticism remained amongst respondents about pensions. They questioned how the comparison charts had been calculated and commented on the comparison being retrospective, which provides no guarantee that a pension will perform as well in the future.
  - More work could be done to highlight other benefits of property in order to present a more balanced comparison of these methods of saving.

- The sheets discussing the advantages and disadvantages of the different methods of saving for retirement did make respondents think realistically about these methods and whether property or a savings’ account would provide them with enough income in retirement.
8 Message: Protection and control

In order to help address the lack of protection and control that people have over their pension, a sheet was designed in stage two which sought to make respondents aware of a protection scheme for final salary schemes and this is discussed in Section 9.1. In stage three of the research, sheets were designed to tackle the issue of control (Section 9.2).

8.1 Stage two: ‘Protecting pensions’

One of the concerns about pensions which was raised in the first stage of the research was the lack of security surrounding pensions and the unpredictability of the return of the pension. With this in mind, a ‘Protecting pensions’ sheet was designed to explain that the Government is setting up a Pension Protection Fund (PPF) to protect members of employers’ salary-related schemes. Whilst this fund does not protect money purchase pensions, as pension pots in money purchase schemes are not exposed to the same risk of collapse, it was thought to be useful to have a sheet explaining that there is some protection for some pension holders.

In reality however, the information given about PPF in this sheet frustrated respondents who owned money purchase pensions. These respondents could not understand why certain pension funds were protected and others were not. There were also respondents who thought that the cost of the protection fund would be borne by the scheme members themselves. Therefore two recommendations that can be taken for anyone wishing to develop messages about PPF in future are that they should clearly explain; the rationale behind only protecting final salary schemes, and how the PPF is funded.
8.2 Stage three: ‘Choices about your eventual income’ and ‘What type of money purchase pension?’

‘Choices about your eventual income’ was developed from the ‘More about annuities’ sheet in stage two. It was intended to address the concerns raised about the lack of personal control people have by showing the range of options that are available to people when they take out a pension. For example:

- A choice of taking a tax-free lump sum on retirement.
- A choice of annuity and the option to ‘shop around’.

When respondents were able to understand how annuities operated, they were positive about being able to shop around for their annuity and began to think about which type of annuity they would choose. For example, male respondents with partners thought they would choose the two-partner annuity rate because they liked the security of knowing that their partner would continue to be provided for if they were to die first.

‘What type of money purchase pension?’ continued this theme by highlighting to people that some pensions give people the option to control their own pension. This sheet also highlighted the flexible nature of stakeholder pensions; lack of flexibility had been another negative comment which some respondents had made about pensions.

Respondents liked the flexible nature of the stakeholder pension because they felt they would be able to vary their contributions according to what they could afford. There were, however, also respondents who felt that without the discipline of regular contributions, they might end up contributing too little.

‘What type of money purchase pension?’ also showed respondents that they could choose to control their own pension by picking their own investments based on how risky these were deemed to be. This sheet also highlighted the ‘self-drive’ option to respondents. An extract from this sheet is shown below:

**Controlling your own pension**

Some people feel they don’t know what happens to their payments or how they’re invested. They’d like more control of what happens to the money they pay in.

Some stakeholder and personal pension schemes let you choose your own balance between investments which are:

- very safe but don’t grow so fast
- likely to grow faster but also a bit riskier
And there are also new ‘self-drive’ options called **Self Invested Personal Pensions** (SIPPS). With these you can decide for yourself what investments to include in your pension. And you can switch them around later if you want to. From 2006 you’ll even be able to put property into SIPPS.

*(Extract from ‘What type of money purchase pension?’, Stage three)*

Whilst the option to choose a package of investments which were safer or riskier was appealing to respondents, the ‘self-drive’ option was generally felt to offer them too much control. For this reason respondents felt that they would rather leave the operation of the pension fund to the ‘experts’. Respondents with pensions occasionally remembered having made certain choices about their pension investments when they bought their pensions.

### 8.3 Chapter summary

- In stage two a message was developed to inform people about a scheme being set up to protect people who are members of employers’ salary-related pensions. This sheet did not work well and ended up frustrating respondents who owned money purchase pensions.

- In stage three, stimulus sheets were designed to deal with respondents’ concerns regarding the control of pensions, however further consideration is needed to tackle respondents concerns in this area.
By stage three, the stimulus materials seemed to be working well. Respondents generally found them helpful, informative and easy to read. The language was described as easy to understand and devoid of jargon, although there was limited time to explore this. It was also clear that improvements to the layout of the materials and the wider use of graphics to break up the text had assisted comprehension. Presenting the materials in a logical story helped respondents to piece the information together in a more meaningful way. That said, some of the concepts associated with pensions, such as annuities, were still difficult for some people to grasp. Furthermore, it was clear certain sheets worked better than others.

Views of the stage three stimulus materials are reported in this chapter. Respondents assessed these in terms of the content of the material, the design and the presentation. Their comments were often bound up with the impact that the material had made on them, which is the subject of the next chapter.

9.1 Views of content

Views of the content of the material broadly divided between respondents’ comprehension of the material and its relevance and usefulness. These issues are discussed below:

9.1.1 Ease of comprehension

By stage three, respondents generally found the materials easy to read and understand. They said the use of simple ‘plain English’ to explain basic pension concepts had aided their comprehension of the information. They also differentiated the materials from other pensions literature which was thought to be full of ‘jargon’:
‘The text was really simple and the examples of the money are good. A lot of pension things are all so much jargon and all these words you don’t really understand.’

(Depth: Stage 3, Female, aged 21 – 30, Self-employed, No pension, £7.5 – 20K individual income, Midlands)

Those who were most positive said it was the first time they had seen information about pensions which had been so easy to understand and digest. As a consequence of this, they suggested that the materials would make a useful booklet for people who are starting to think about saving for their retirement:

‘…it’s very well explained, it does explain lots of things that you weren’t certain about, it sort of clarified them about pensions, because I don’t think that anyone has got a sheet that you know there you are, sit down, it’s all jargon, it’s [the stimulus material] very good…’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, Less than £50K combined income, Midlands)

Respondents recurrently emphasised the need for the information to be pitched at an appropriate level. Typically, they stated a preference for material which erred on the side of simplicity, so as to help people wade through the minefield of information about pensions. These comments were made by respondents with and without pensions as well as respondents with different levels of financial literacy. That said, respondents with higher levels of financial literacy, were in less need of basic information about pensions explained in simple language. Occasionally, the most financially literate described the way in which the information had been presented as rather over-simplistic and even a little patronising.

Despite respondents’ positive remarks about how the use of simple language had aided understanding, it was evident that this was not always borne out in practice. When people were asked to explain what they thought the text was saying, it was clear that they had not always grasped the concept. This, for example, sometimes happened when they were asked about annuities and the additional state pension.

Language aside, ease of comprehension was also affected by a number of other factors:

- **Whetherto a person had a pension or not.** Respondents with pensions were able to grasp concepts more quickly than those without pensions, because they already had a basic knowledge and were not required to try and understand completely alien concepts. Having said that, there were respondents who had stumbled into purchasing a pension and displayed limited knowledge and understanding of pensions.

- **How financially literate respondents were.** As would be expected, respondents varied according to their levels of financial literacy and this had a considerable impact on their comprehension of the materials.
• The length of time that respondents were given to engage with the stimulus material also had an impact on their ability to understand the material. Respondents were taken through the material at a quick pace because there was a lot of material to show respondents. In our opinion, if they had been allowed more time to peruse the material, then this may have aided their understanding.

• The complexity of the concepts being explained – there were some concepts which respondents struggled to understand, because the concepts themselves were complex ones and basic language could not necessarily illuminate them. The concept of ‘annuities’, in particular, was a difficult one;

• The amount of text presented on a page – it was clear that dense blocks of text, even when they were comprised of basic language, deterred comprehension. Blocks of text were reduced as much as possible or turned into bullet points. Also, from stage two, we worked alongside a graphic designer who laid out the text in a more visually friendly way and used visual representations to amplify and explain the text. Views of these graphics are discussed in Section 9.2.1. In spite of these changes, it was clear that some respondents had difficulty understanding all the material being presented;

• The inclusion of even the simplest arithmetical calculations, for example when illustrating tax relief, adversely affected the ability of some respondents to comprehend sections of the material.

9.1.2 Usefulness

Comments regarding the usefulness of the stimulus materials were also positive. Respondents found the materials ‘helpful’ because they were seen to be an informative source of literature which contained a wealth of information about pensions in an easily accessible format. As there was felt to be a lack of simple information available, respondents thought the materials would be of particular value.

In terms of the breadth of information provided, views ranged from respondents indicating that it covered everything that they needed to know about pensions, to those who thought that the material provided a useful introductory guide. In the case of the latter view, respondents felt that further information might be required after people had grasped these basic concepts.

The materials informed people in different ways depending on their previous knowledge. Respondents who were less informed about pensions said they had learned a great deal from the material. Others highlighted specific topics that they had usefully learned from them. For example, it raised certain respondents’ awareness and understanding of annuities and the range of choices which are available to individuals when they retire. The material also raised awareness of the different types of pension scheme and the characteristics of the stakeholder pension:
‘...in my head I thought you had to put down a big lump sum first of all, or whatever. It’s shown that it’s flexible as well, which I didn’t realise. That has been useful.’

(Depth: Stage 3, Female, aged 21 – 30, Self-employed, No pension, £7.5 – 20K individual income, Midlands)

In addition, as has been shown earlier in the report, the material had confronted respondents’ notions about the use of property or savings as retirement income. Indeed it had informed (and surprised) people about what they would need to do to generate income from these types of investments:

‘...you wouldn’t realise how much you have to save.’

(Depth: Stage 3, Male, aged 41 – 55, Employed, No pension, Less than £30K combined income, Midlands)

The material was also seen to be useful for giving people the tools and guidance to enable them to make their own decisions and plans about their future. This was felt to be in contrast with other pensions literature which simply says how much a person can expect to get out of a pension.

‘...it doesn’t just say this is what you’re gonna get like it lump it...it’s a case of this is what you’re gonna get, this is how to work it out in today’s money, you know, are you gonna be alright, aren’t you gonna be alright and if you’re not then these are the methods that you can use in order to make it up, which I think’s really good.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

Respondents commented on the fact that it is useful to have an indication about how much they need to pay into a pension in order to achieve a certain level of retirement income. A criticism of other advice or information they had received about pensions was that they were never given an indication of how much they needed to save and therefore they had no understanding of the relationship between what they paid into their pension and what they would get out. Whilst some respondents found these savings’ guidelines useful, there were also respondents who wanted more explicit and personal advice about how much they personally needed to save in the form of a pension. There were specific questions, such as whether a company car should be included as part of a person’s salary when calculating the proportion of income that ought to be contributed to a pension.

As further testament to the usefulness of the materials, respondents sometimes asked whether they could keep the document as a information resource. They suggested that the material in its entirety would make a helpful booklet and thought that it would be useful to hand out similar booklets at school.

That said, it became clear that the materials were potentially of most benefit to those respondents who had very little financial knowledge. Within this group were people who did and did not have a pension although typically it included the latter.
Respondents with pensions were often aware of the merits of having a pension; instead they needed to be persuaded of the benefits of putting more money into their pension.

9.2 Views of design

Comments about the design of the materials covered the use of graphics, presentation and the layout of the individual sheets:

9.2.1 The use of graphics

In general, graphics were found to be effective where they served a purpose and aided comprehension by amplifying and illustrating the text. As discussed in the previous chapter, graphics had been added to the stimulus material in stage two to aid the explanation of some of the more complex pension concepts. In addition, they had been used to break up the passages of dense text. It was clear that the sheets with less text and diagrams received more favourable comments than the sheets which were solely comprised of text. Without graphics, the sheets could appear quite daunting and, as a result, respondents found the information harder to take in. Respondents sometimes looked visibly relieved when they arrived at the sheets which had graphics on them in stage two. For this reason graphics were much more widely used in stage three.

In stage two, the graphics appeared to aid respondents’ understanding of tax relief and the extent of the impact of starting early. These graphics are shown below:

Figure 9.1 Extract from ‘Making use of free money’ and ‘Starting early’, Stage 2

Free money from tax breaks
Arthur earns £15,000 a year, so he’s a basic rate taxpayer: This means he pays 22p in the pound on much of his income
This year he puts £1500 into his pension scheme So the government actually knocks £330 (22p x 1500) off his income tax
The result is that: £1500 goes into Arthur’s pension pot
Arthur himself only pays £1170 of that And the government pays the other £330

Kerry put £100 a month into her pot for 20 years: Kerry finally got a pension of about £64 a week (£3310 a year)

Debbie put £100 a month into her pot for 40 years: Debbie finally got a pension of about £250 a week (£12,947 a year).

Arthur’s final pot
£15,000 at age 60
£1,500
£1,170
£330

Kerry’s final pot
£24,000
£58,000
£1,500
£1,170
£330

Debbie’s final pot
£48,000
£16,000 at age 60
£1,500
£1,170
£330
In stage three, it was obvious that not all of the graphics worked as well. In fact there were some graphics which were thought to be confusing and did not add to the text. The graphics used to compare different types of investments appeared to work the best and made an impact on respondents. An example of these graphics is shown below:

**Figure 9.2 Extract from ‘Comparing ways of saving for retirement’, Stage 3**

Respondents commented on how their eyes were drawn straight away to the comparison chart and they could immediately see the performance of the pension against other forms of investment. Whilst they were effective, respondents did still comment on the need for text to explain the diagrams and fill in additional information. For example, a respondent commented on the fact that the diagrams on their own could look like a marketing exercise for a private company.

The graphics which were thought to be less effective were the graphics indicating how much respondents ought to try and save for retirement and the graphics showing contributions into a pension. Example of these graphics are shown below:

**Figure 9.3 Extract from ‘Sizing up how much you need’ and ‘Extra money for pensions’, Stage three**
Unlike the comparative graphics, it was not immediately obvious to respondents what these graphics were representing and some people found them to be confusing:

‘Why a load of circles and a bloke standing there with his arm…I really don’t see…unless one arm is handing out his pound and the rest is the £6, it just seems ridiculous.’

(Depth: Stage 3, Male, aged 21 – 30, Self-employed, No pension, £15 – 25K individual income, Midlands)

In this case, it was clear that these graphics were not always aiding the message which the stimulus material was trying to explain.

9.2.2 Presentation and layout of the materials

The act of engaging people and actually getting them to read the material was seen to be a big hurdle in the provision of information of this kind. For this reason, the presentation and layout of the material was felt to be the critical issue as, if it did not attract and entice people to read it, then it would not matter how useful and interesting the content of the material was.

‘…the only, I suppose, criticism I think is, I suppose, you have got to sit down and read these and I don’t think you are going to get many people I suppose in their early 20s that would sit down and read this kind of information…’

(Depth: Stage 3, Male, aged 21 – 30, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

9.2.2.1 Lay out

Where made, comments about the layout of the material related to it being ‘attractive’ and ‘well laid out’. The use of colour, shaded boxes and graphics was also felt to be visually appealing.

Respondents emphasised the need to make the material more eye-catching in order to engage people. As a general rule, it was felt that this could partly be achieved by increasing the graphics and reducing the amount of text, although it is also important to emphasise that the material was designed as stimulus material and not publicity material.

9.2.2.2 Presentation

As previously described, the order with which the stimulus material was shown to respondents changed throughout the three stages. Initially, in the first stage, the sheets were not linked together, however by the final stage of the research, the materials were rearranged into the form of a story, introducing respondents to a fictional character thinking about retirement. Five different sets of material were produced which were based on three individuals, reflecting variations in income, gender, relationship status and age.

When shown the sets of materials in stage three, respondents commented on the
logical way in which the materials were presented. The step by step approach, taking someone through their retirement options, was thought to be a useful way to present the information because it mimicked the decision-making process which people face in real life. It was also clear that using a story had helped to engage respondents and aid their understanding, as it had helped to set the material in context and made it more personally relevant.

A further development in the materials, which could be discerned by stage three, was the stringing together of messages rather than presenting them in isolation. When messages were presented together, it was evident that this boosted the impact of these messages. For example, tax relief was not seen to be a huge benefit when presented in isolation in stage one. However, when the extent of the impact that tax relief had on the size of the pension fund was demonstrated to people, the message received a more favourable response.

9.2.2.3 Tailoring messages to individual circumstances

Where possible, respondents were matched to one of the five sets of material depending on their characteristics. When it was possible to match respondents to a set of material it appeared to be an effective way of presenting the material, as the illustrations had more relevance for them. In cases where the scenario reflected or even mirrored a respondent’s personal situation, then this enhanced the impact of the messages which were being delivered in the material. In circumstances where it was not possible to match respondents to the sets of scenarios, this sometimes detracted from the messages which were being presented, for example when a married man (with children) was shown the scenario of a single woman.

In stage three we used an audio track to tell the story to direct respondents to consider different stimulus sheets. The audio track was used as a tool to facilitate the discussion rather than something which was being tested in its own right. That said, there were comments about how the audio track had helped individuals to absorb information. The need to vary the way information is presented was recurrently mentioned by respondents who found the subject of pensions confusing and boring.

It was evident that the audio track was more useful in the introductory stages of the interview; once respondents understood the format of the interview, they were able to read through the stimulus sheets themselves. Sometimes the time factor meant that the audio track had to be dispensed with in order to complete the interview. Whilst it was generally not seen to be patronising, there were respondents who did not appreciate the use of the audio track and one respondent described it as being ‘a bit Janet and John for me’.

9.2.2.4 Amount of information

The amount of material shown to respondents was sometimes felt to be rather overwhelming. Respondents imagined that they might not read a booklet like this if it was sent to them, as the amount of information would seem daunting. Respondents said it was therefore useful to have the opportunity to talk through the
materials in person. In addition, it was felt that this would also ensure that there would be someone to ask questions of and receive clarification about information they did not understand.

9.2.2.5 The balance of information

The balance of the information presented was also raised in the discussion about presentation. There were comments made by some respondents that the material appeared to be trying to persuade people to take out a pension. In stage two respondents were sometimes frustrated by the thought that the material was pushing pensions above other forms of investment. In stage three respondents appreciated that they were shown a more balanced presentation of the different options available to people. There was still some cynicism, however, expressed by respondents about the performance of the pension against other forms of investment, notably about property, and questions about how the comparison had been calculated.

9.3 Chapter summary

- The stage three materials were thought to be easy to understand and were not thought to contain jargon, which other information about pensions was often accused of containing.

- A range of factors, such as whether respondents did or did not have a pension, how financially literate they were and the complexity of the concepts were factors which affected whether respondents understood the materials.

- The materials were useful in informing respondents about pensions and providing them with guidance to enable them to make their own decisions.

- Tailoring messages to the individual circumstances of the respondents made the information more relevant to the respondents and helped them to engage with the information.
10 Impacts of the stage three materials

This chapter of the report considers the impacts of the stage three materials on respondents. It begins by identifying the various impacts reported and then considers the factors that affected the extent to which an impact was made. As would be expected, the primary impact identified by respondents was being informed about pensions. Aside from this, the materials seemed to have confronted respondents’ negative views and mistrust of pensions. More exceptionally, respondents suggested that as a consequence of reading the materials they were going to either review or change their financial arrangements for retirement in some way.

10.1 Nature of impact

Respondents varied as to whether they identified any impacts as a result of taking part in the research. Where impacts were mentioned they were of three types: informing respondents about pensions, raising the profile of pensions by confronting respondents’ mistrust about them and encouraging respondents to review or change their retirement arrangements in some way. That said, there were some people who were unable to discern any tangible impact arising from their participation in the research.

The impacts are each discussed in the sections below:

10.1.1 Informed people about pensions

The primary way in which the materials had made an impact on respondents was in informing them about pensions. As would be expected, the degree to which this had occurred depended on their knowledge about pensions prior to the research. For those with limited or no knowledge of pensions the learning was greatest. Respondents’ knowledge was improved across a range of the following areas:

• The existence of the State Second Pension, although confusion still remained regarding how it was calculated.
The estimated size of an individual respondent’s State Pension (based on the examples used in the scenarios).

How a money purchase pension operates (something which was not previously understood by people), although the concept of the annuity remained difficult for some respondents.

The existence of tax relief, the approximate amount of tax relief and how this impacts on the pension fund.

The nature of the stakeholder pension and the fact that it offers a degree of flexibility.

Choices about an individual’s eventual pension, e.g. shopping around for an annuity, a tax-free lump sum.

10.1.2 Addressed misconceptions

As a consequence of being informed about pensions, respondents were sometimes surprised to discover that they had underestimated the return from a ‘money purchase’ pension. In this way the materials had helped to address misconceptions about the poor performance of a pension in contrast with other investments, property in particular. After considering the sheet entitled ‘Comparing ways of saving for retirement’, respondents expressed their surprise at how the pension had performed:

‘It’s a bit shocking really. I would have thought that a property would be a lot better off, it’s made me think a lot more about it.’

(Depth: Stage 3, Female, aged 21 – 30, Employed, No pension, £10 – 20K individual income, Midlands)

Whilst the material did address the biased perceptions of some respondents in this area, the stimulus sheets were being shown to respondents in a climate of scepticism regarding pensions. It was clear that there were respondents who remained sceptical and questioned the validity of the figures:

‘If those are the true figures, then fair play, that shows that pensions have done better.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, Less than £50K combined income, Midlands)

There were also respondents who were unable to believe that the pension performed better than property, particularly if the property was situated in the South East, and said that they required further evidence of this before they would be convinced.

Another way in which the material had addressed misconceptions about the return was through showing the range of financial benefits that are attached to a pension, such as tax relief and employer contributions, and the combined effect of these.
10.1.3 Consolidated existing knowledge

Respondents who already knew something about pensions said the material had helped to **consolidate and build on their previous knowledge**. For example, respondents may have been aware of the existence of tax relief, however they did not know how it was worked out and what effect it would have on their pension fund.

10.1.4 Raised the profile of pensions

Another way in which the material had made an impact was in raising the profile of pensions by challenging respondents’ negative views and lack of trust. This was most evident in the way their views about the performance of the pension improved. The combined impacts of the sheets on ‘Extra money for pensions’ and ‘Comparing ways of saving for retirement’ had resulted in respondents being more favourably disposed to the idea of a pension:

‘Well, yes, it does look good when you look at it like that, there’s no doubt about that.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

‘...it’s the sort of thing that if this was in a brochure and you were worried about pensions, you’d think it was quite good.’

(Depth: Stage 3, Male, aged 21 – 30, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

On being shown the impact that tax relief had on the performance of the pension, some respondents thought this was a ‘big incentive to put as much as you can into a pension’. In addition to this, when the effect of employer contributions was demonstrated to respondents, some thought the performance of the pension was ‘quite staggering’.

The illustration contained in the ‘Pension options’ sheet further reinforced the idea that a pension might produce a satisfactory income in retirement.

In some cases, respondents’ concerns about the loss of control from a pension were allayed after learning about the stakeholder pension described in ‘What types of money purchase pension?’ Being able to vary contributions was viewed by these respondents as beneficial and suggested a flexibility which they had not previously associated with a pension scheme. In contrast, there were respondents who viewed this flexibility rather more suspiciously as they were conscious that altering payments could negatively affect the size of the pension fund:
‘I don’t like the bit where if times are hard you don’t have to pay in ’cos my times are always hard so I don’t think I would be you know probably disciplined enough to, and then you always think well I’ll make that up at a later date but I don’t think I’d be disciplined enough to do that.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, No pension, over £30K combined income, Midlands)

Generally, however, respondents did not have this foresight when thinking about their pension, and therefore there was sometimes the danger that some respondents took on board the positive aspects of the messages from the stimulus material without seeing this in the context of the whole picture.

The sequence of comparative sheets in the booklet of stimulus sheets also elevated the profile of pensions by aiding respondents’ appreciation of the value of the pension as a product in its own right and the value of the pension when compared with other investments. Discussing the advantages and disadvantages of using property and savings as retirement income (‘Using savings to provide retirement income’ and ‘Getting retirement income from property’) grounded respondents’ ideas about these types of investments and forced them to think realistically about how they would use these investments and whether they would provide them with sufficient income in retirement:

‘…goes a little way to diluting people’s excited thoughts about property being the be all and end all.’

(Depth: Stage 3, Male, aged 41 – 50, Employed, Money purchase pension, £10 – 20K individual income, Midlands)

‘…that’s, you know, obviously a tremendous amount of money [savings] you need to get this weekly figure of 200 or 350 a week.’

(Depth: Stage 3, Male, aged 31 – 40, Employed, No pension, Less than £30K combined income, Midlands)

Going through the retirement options made some respondents come to the conclusion that even though they did not have extremely positive views about pensions, it may be the only option to provide them with sufficient income in retirement.

10.1.5 Encouraged to review financial arrangements

As a consequence of reading the materials, respondents sometimes said they were encouraged to review their financial arrangements for retirement. For those without a pension, the material had encouraged them to consider taking out a pension, whilst those with pensions were considering about whether to increase their contributions into their pension:

‘Well from what this says, you get more money. I suppose that’s where you wanna put your money.’

(Depth: Stage 3, Male, aged 21 – 30, Employed, No pension, £10 – 20K individual income, Midlands)
It had done this in two specific ways:

- **Emphasised the importance of saving for retirement**

  For respondents without a pension, the ‘State pension forecast’ sheet had impressed on them the need to make their own provisions for the future in order to have sufficient income in retirement:

  ‘…it certainly encourages you to check it out and look into it and see if there is anything better for you.’

  (Depth: Stage 3, Male, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

- **Emphasised the importance of starting early**

  The ‘Starting early’ sheet was effective in emphasising the importance of starting a pension early. Respondents were surprised to discover the extent to which starting early had an impact on the size of the pension fund:

  ‘…it’s amazing what difference ten years makes.’

  (Depth: Stage 3, Male, aged 31 – 40, Employed, Money purchase pension, Less than £30K combined income, Midlands)

  This sheet was also effective in stressing the urgency of starting to save in the form of a pension rather than continuing to postpone the decision; it made respondents realise that they cannot afford to delay the decision, even if they are slightly older:

  ‘When you listen to Dean’s case and looking at all the illustrations and the text, you know…at 31 you’re still going to get a nice return…if you start putting some money in. So, it’s not like a lost cause…but it’s definitely making me think, and it’s gotta be about now…to sort summat out.’

  (Depth: Stage 3, Male, aged 31 – 40, Self-employed, No pension, Less than £30K combined income, Midlands)

**10.1.6 Encouraged to change pension arrangements**

More exceptionally, respondents suggested they were going to change their pension arrangements as a result of seeing the stimulus material. On these occasions, respondents said that the material had either encouraged them to revise their pension arrangements or to take out a pension as a result of seeing the information:

‘…makes me want to go and get one, to get it sorted.’

(Depth: Stage 3, Female, aged 21 – 30, Employed, No pension, £10 – 20K individual income, Midlands)

‘In black and white like that it’s a very compelling document to make you buy a pension.’

(Depth: Stage 3, Male, aged 41 – 55, Self-employed, Money purchase pension, Less than £30K combined income, Midlands)
Clearly without re-contacting respondents it is impossible to tell whether these respondents implemented their plans. It is also probable that other factors will have contributed to such a decision. This issue is discussed in the final chapter.

10.2 Factors affecting whether an impact was made

The degree to which an impact was identified depended on a number of related factors that are outlined in this next section.

10.2.1 Age of the respondent

The age of the respondent was raised as a factor by those respondents who believed that the materials were tailored to a younger audience because they emphasised the importance of starting a pension at an early age. As a consequence, the information was felt to be less relevant as people got older. Indeed, respondents in these circumstances had sometimes been left with the impression that they could potentially be better putting their money into other investments because they have fewer years for a pension fund to build up, but also because they could adversely affect their benefits in retirement.

Having said this, the material did not always alienate the older respondents and there was an example of a 50 year old respondent who said that he would purchase a pension as a result of seeing the information. Whether this was the best course of action for him was obviously debatable. The variable diagrams in the ‘Starting early’ sheet whilst emphasising the benefit of starting early did also suggest to some older respondents that it was not ‘too late’ for them to start paying into a pension. This message combined with the positive message about the performance of the pension could potentially mislead respondents.

10.2.2 Level of disposable income

Perceptions about the level of disposable income which respondents had was a factor which affected whether respondents felt they were able to take any action as a result of seeing the information. Respondents were sometimes able to appreciate the benefits of the pension and yet were unable to take advantage of these because they could not afford to purchase a pension or increase their pension contributions:

‘…nobody ever puts enough in [to a pension] do they?…but I can’t physically afford any more.’

(Depth: Stage 3, Female, aged 31 – 40, Employed, Money purchase pension, Less than £50K combined income, Midlands)

Respondents who noticed that the example in the ‘Pension options’ sheet was based on weekly rather than monthly contributions sometimes commented on the high level of these contributions. They did not believe that they would be able to match the contributions in the example, thus realising that their eventual pension would be smaller than the one in the example.
10.2.3 Prior knowledge about pensions

As already mentioned, the extent to which the materials made an impact on respondents depended on their prior knowledge about the subject. Not surprisingly knowledge was closely linked to the experience of having a pension or not. In this way respondents with the most limited knowledge (although not exclusively) tended to be those without pensions. The stimulus material therefore appeared to be particularly effective in raising the awareness and knowledge of pensions amongst this group of respondents.

In contrast, respondents with more knowledge found it easier to understand the materials as the concepts were familiar. In these cases the materials had helped to broaden and consolidate their knowledge about pensions.

10.2.4 Whether a person had a pension or not

In view of the coverage of the materials it is not surprising that the impact of the materials appeared to be greatest on those respondents who did not have any current pension provision. Whilst there were some respondents who indicated that they would raise their pension contributions, it was clear that the material was more effective in persuading people to consider starting a pension.

10.2.5 Degree of financial literacy of the respondent

The ability to understand and process information was also affected by an individual’s degree of financial literacy. It was clear that some respondents struggled with some concepts in the stimulus material, such as annuities. There were also respondents who found it difficult to understand information when it was presented in certain formats, for example they struggled with mathematical examples. Whether respondents did or did not have a pension and the age of respondents were factors which were connected to individual’s financial literacy and their ability to take in information.

10.2.6 Views about pensions

Personal views about pensions and how they compare with other forms of investment also affected whether the material had an impact on respondents. Some respondents simply did not accept the messages presented in the stimulus material and found the evidence about the performance of the pension compared with other investments ‘a difficult one to swallow’:

‘I just don’t agree with the pension one… I mean it looks good there but I know people who’ve done that and got nothing.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, No pension, Less than £50K combined income, Midlands)

There were respondents who, in spite of seeing the material, still believed that property would perform better than a pension in the long run. This, however, is not necessarily a failing of the materials as the purpose of the material was not to
persuade people that one type of investment is better than another, but rather that they are aware of the facts so that they are able to make an informed choice.

It was also clear that some respondents’ concerns about pensions were so strong that the stimulus material had not managed to dissuade them of their concerns. In particular, they were concerned about the level of risk attached to investing in a pension which they did not always associate with other forms of investment:

‘…that sounds all very well but with property it is money which is there in the bank straightaway…whereas you could have paid in £41,600 [to a pension] and only collected £2,000 or something.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, No pension, £10 – 20K individual income, Midlands)

Even though there was some acceptance of the messages presented about pensions, there were comments made about the retrospective nature of the evidence which did not provide any guarantees about the trend continuing in the future. With this in mind, respondents believed that property was a better investment than a pension because the value of the pension could decline but the property remains standing:

‘…they’re not guarantees you know and this is the problem, nothing’s guaranteed is it. You take your chances with whatever you do really…and I just say property’s still the best eventually. Bricks and mortar, they’ll still be standing…’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, 10 – 20K individual income, Midlands)

This led some respondents to comment that they would rather have less money in their bank account or have a lesser return from their property and yet have the feeling of security which they associate with these forms of investment:

‘I am really really sceptical with pensions and it’s only because of things that have happened. Okay you get less with property, you get less with your bank deposit or Building Society but it’s there and you can leave it.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, No pension, Less than £50K combined income, Midlands)

Lack of faith in the performance of a pension either resulted in people wishing to invest elsewhere or it resulted in them wishing to spread their investments, assuming they had the income. When respondents had limited income at their disposal to invest, a question mark potentially hung over whether they were putting enough money away for their retirement:

‘You’ve got to put a fair amount in pensions, but I don’t think it’s worth investing it all in pensions, you’ve got to put it in other places as well.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, £10 – 20K individual income, Midlands)
‘I just hope they [pensions] do pay out what they say they are going to… there are lots of people with pensions and they aren’t moaning but they may have had the good years, we don’t know what the finances are going to be like in the next few years, you know the stock market and everything, it doesn’t hurt to put a little bit, I wouldn’t put a lot, I wouldn’t put everything into it, maybe save a little bit and put something into your property.’

(Depth: Stage 3, Female, aged 41 – 55, Employed, Money purchase pension, Less than £50K combined income, Midlands)

10.2.7 Other factors

Finally, there were other factors which affected the impact of the material on respondents. In particular, the impact of the stimulus sheet explaining the effect of employer contributions on the pension fund was limited to those respondents whose employers offered contributions. Whilst the extent of the impact was not lost on respondents, it was seen to be a bittersweet message by those who were unable to take advantage of this benefit.

10.3 Chapter summary

- The stage three materials had a range of impacts, ranging from informing people about pensions to raising the profile of pensions.
- Respondents also said that as a result of seeing the materials they would review their financial arrangements.
- In a smaller number of cases, a number of respondents said they would change their financial arrangements.
11 Recommendations and policy implications

This final chapter draws together some of the key themes arising from this research and makes some recommendations on how to communicate information about pensions effectively. In doing this it also presents the suggestions made by participants in the developmental and main stages of the research.

11.1 Key themes from the research

We turn to some of the key themes that have arisen from the research, with a particular focus on those which have implications for the future development of information about pensions and saving for retirement.

11.1.1 Difficulties planning for retirement

The importance of saving for retirement was widely endorsed by respondents, particularly by those who believed that the state pension could no longer be relied on. Despite this recognition there appeared to be a lack of planning for this time. Even where financial arrangements had been put in place, there was little appreciation about how these investments were performing and, more importantly, what level of income they would deliver for retirement.

Apart from being reluctant to plan for retirement, people clearly found it difficult to imagine what life would be like in the future. At best, they imagined they would have more time for holidays and other leisure pursuits, but they had difficulty thinking beyond this. As a result they had no idea about how much money they would require in retirement, or what they would need to save in order to attain a certain level of income. Clearly the younger the individual the more remote and detached they were from retirement, hence the greater the difficulty visualising what life would be like.
11.1.2 **Barriers to pensions investment**

Previous research (Mayhew 2002 and Hedges 1996) has shown that there are a number of barriers to pensions investment. This research has both confirmed and contributed to this evidence, particularly by displaying the poor image that pensions now have, and the extent to which the public mistrust them. A decade ago pensions were viewed as generally a good and necessary investment to make, even if there were concerns about their complexity and affordability. Now trust in the whole concept of a pension has been eroded and it is no longer seen to be the sound investment it once was. Respondents in this research recurrently viewed pensions investment as *‘a gamble’* and *‘risky’*. As a consequence, they were reluctant either to start a pension, or to top up an existing pension scheme.

The primary concern underpinning respondents’ views was that a pension is no longer seen to offer a secure and reliable income in retirement. This lack of faith appeared to have been fuelled by negative stories in the media about pensions schemes under performing, collapsing, being mis-sold and mismanaged. Also accounts of relatives and friends receiving a smaller pension than they had expected had added credence to the media reports.

Other barriers cited echo previous research (Mayhew, 2002; Hedges, 1996) evidence:

- **affordability** – whether people feel they can afford a pension irrespective of whether they actually can. In some cases people may really not have enough resources, but in others they may just exaggerate the cost in their minds, since it is clear respondents often do not understand how much a pension would cost them;

- **other spending priorities** – such as saving for a house or a car, or in the case of young people, paying off debts acquired through their education;

- **preference for other types of investment, typically property** – which are perceived to offer a better return than a pension and appear to be more within an individual’s personal control;

- **do not perceive there is a need to take out a pension** – although this can affect people of all ages, it was particularly evident amongst young people, particularly before the age of 25, who found the idea of a pension rather too remote for them;

- **too late to take out a pension** – there is a perception that investing in a pension might not be the best course of action for all people, particularly older people. In these circumstances, there might not be enough time before retirement to allow a pension fund to grow. Furthermore, starting a pension at this stage might adversely affect the benefits these people are entitled to in retirement;

- **lack of confidence** in knowing what to do about the future and where a pension might fit in can result in people doing nothing;
• inertia – people find it hard to get round to doing something positive, even if they know what they should do. Inertia is that much more of an obstacle when they are not certain what to do, and where the outcome is a long way away.

Arguably, underpinning many of these barriers is a lack of knowledge and understanding of the way in which pensions work. In common with previous research, these findings show that respondents generally displayed limited awareness and understanding of this subject. Indeed, the language and terms used to describe pensions were alien to all but the most financially literate – and this applies both to the state and the private sector. The detail required as part of the legal explanations can be confusing, particularly as people often do not read the small print. Furthermore, the unwieldy length and boring nature of most pensions’ literature was felt to be a further barrier to understanding.

11.2 Overcoming the barriers to pensions investment

It is clear that encouraging the take up of pensions investment requires overcoming some formidable barriers.

Foremost amongst these barriers is the need to find some way to address the lack of trust that people have in pensions providing a good and secure return. In order to confront respondents’ preference for other investments, there is a need to help them understand how investments in property translate into retirement income. The evidence from this research suggests people often have not thought through the level of investment needed to provide an income by these other means, and were often quite surprised when given examples. The materials in stage three helped to address this, although respondents who were most sold on the idea of property were less easily persuaded of the benefits of pensions and the drawbacks of investing in property.

In addition, there is a need to convince people of the need to plan for the future otherwise they are unlikely to consider the idea of a pension. Those who find it difficult to think beyond their current situation and envisage their retirement – particularly if it is a remote time in the future (as in the case of young people), may not be easily convinced. Equally, those who have a false sense of security that the Government will look after them in the future will need to be persuaded that this might not be the most prudent option.

There is also a need to help people to understand the advantages of starting early with pensions investment – and conversely the risks attached to leaving it until later.

Even where people are committed to the idea of having a pension, the decision will inevitably depend on whether they believe they can afford one. Being able to make an informed judgement about the cost of a pension will involve getting people to appreciate how much they need to put into a pension, in order to get a certain return from it. It also depends on them being able to assess their needs in the future and to find and select a pension that suits them.
In the box below, suggestions made during the developmental and main stage of the research for stimulating an investment in pensions are outlined. As can be seen, a key theme running through their suggestions was the need to change the pensions ‘product’ in some way so as to make choice, access and use simpler.

**Suggestions for stimulating an investment in pensions**

- **Simplifying and increasing transparency** of pensions – making it more obvious to people what sort of pension they have, and what it might mean in terms of eventual payout.

- **Increasing the flexibility and control** – introducing a pensions system which provides easier access to funds either in terms of transferring or freezing money. For example, the experts in the developmental stage referred to a product available in the USA where it is possible to save and borrow against a pension (401K plan).

- **Reducing the administrative procedures** and streamlining the application process, as the amount of paperwork involved can put people off.

- **Reducing the choice of pensions available.**

- **Providing simpler ‘Off the shelf’ pension products**, like for insurance.

- **Introducing a compulsory element**, so as to ensure people cannot prioritise their expenditure on other needs;

- **Introducing ‘Automatic membership’ of a pension** fund which would result in staff having to opt out rather than opt in to a pension scheme;

- **Increasing the regulations and penalties** for pensions companies so as to protect people.

- **Increasing the financial incentives** by, for example offering additional tax relief. Another suggestion was concerned with offering a voucher scheme like the Child Trust Fund for pensions.

11.3 The role and value of information

Information on its own is unlikely to result in many people taking out a pension or increasing their contributions, but it does have a valuable contributory role as lack of understanding clearly underpins a number of the barriers to taking out a pension. Insofar as this is the case, it seems likely that improving understanding and confidence will help to reduce or remove some of the inhibitors to action.

However, the research also suggests that much depends on the nature of the information, and the way it is delivered. This is covered in the remaining sections.
11.3.1 Nature of the information

There seem to be a number of topics that need communicating in simple and clear terms:

**Making people aware of the value of a pension**

- The importance of making some provision for retirement, because for most people the state pension alone is unlikely to give the level of retirement provision they need.

- Addressing misconceptions about pensions by, for example, showing how pensions compare with other investments (notably property) or by showing the benefits of investing in a pension, e.g. tax relief.

- Emphasising the benefits of pensions – both the tax advantages of using a pension to save for retirement and employer contributions where available.

**Assessing needs and planning**

- Guidance about how to plan and assess needs; the key is to get people thinking about when they will retire and what they want from their retirement.

- Better understanding of the pension value of entitlements already bought.

- How to calculate how much a pension will cost for a particular output.

- The importance of starting a pension as soon as possible by illustrating the impact of doing so.

**Choosing a pension**

- The range of different pensions that are available.

- Basic information about how different pensions work, as well as the impact of the differences.

- How to take out a pension – this was not something we explored in this research, but it is clear that this kind of practical guidance would be appreciated.

11.4 Who should provide information

The evidence shows that information about pensions should be provided by a variety of sources in order that the public can choose those they trust most. Typically the list of respondents’ trusted sources included informal contacts, such as a parent or other family member, and friends, who they believe will provide unbiased accounts and will not be peddling a particular agenda. Views were divided about whether they would use information provided by the Government, someone at their bank or an Independent Financial Advisor (IFA).

Experts involved in the developmental stage identified a range of sources for providing information about pensions including: the Government, employers, IFAs, trade bodies (unions), consumer organisations, community groups, post offices,
Which, or Citizen’s Advice Bureau. Also, it was thought that people might feel
comfortable approaching Sure Start centres, community shopping centres and
supermarkets, religious meetings or community networks (particularly for minority
ethnic communities). Local advocates were suggested in preference to DWP staff.
Another idea was to place independent advisors in banks.

11.5 Suggestions about the delivery of information

In terms of the way information is delivered it is clear that there is a need to:

• Deliver information in a manageable way which is easy to digest otherwise it
  may be put people off reading it. This can happen if there is:
  – a lot of information;
  – dense, solid or unbroken text;
  – poorly structured or poorly laid out material;
  – jargon or difficult language.

The problem with pensions is that there is a lot of information to convey, much of it
is potentially relevant, and most of it is complex and dry in nature. It was evident that
by the end of some of our interviews, respondents were feeling rather overwhelmed
with the amount of information that they had been asked to digest (although
clearly, outside the research environment, people will vary as to whether they read
information in one or more sittings).

Clearly people will vary both in terms of what they will want to know about pensions
as well as the amount of detail required. Those who are more financially literate may
require more detailed and sophisticated information, whereas those with less
knowledge will not want ‘chapter and verse’ about pensions. Equally, people who
are less convinced of the value of a pension may require something very short about
the benefits of having one in order to attract their attention.

People initially need to think about the concept of a pension and should not be
overwhelmed with other messages, e.g. about types of pension. Information should
be layered – initially basic, then signpost people to different levels of information
(starting at the minimal level and building up). In order to achieve this there needs to
be a flexible mechanism for delivering information, so people can access as much or
as little information that they require.

11.5.1 Ordering of information

The information also needs to be delivered in a way which helps people to stitch facts
together in a logical and coherent narrative so that they can make sense of the
information. This means that the ordering of information is crucial to understanding
and a series of disjointed pieces of information will not aid understanding or engage
people. Clearly there needs to be some flexibility in the ordering of information as
this will be dictated by the personal circumstances of the individual and their particular requirements. By stage three the ordering of the stimulus materials appeared to be navigating people fairly well through the topics (and enabled people to understand the process they need to go through to review and make decisions about pensions). It was also clear that the ordering had helped to make an impact on respondents’ views about pensions in relation to other investments. The box below shows the order in which the stage three stimulus sheets were presented to respondents.

<table>
<thead>
<tr>
<th>Order in which sheets were shown to respondents in Stage three</th>
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</thead>
<tbody>
<tr>
<td>• State pension forecast</td>
</tr>
<tr>
<td>• Sizing up how much you need</td>
</tr>
<tr>
<td>• Comparing ways of saving for retirement</td>
</tr>
<tr>
<td>• Extra money for pensions</td>
</tr>
<tr>
<td>• Using savings to provide retirement income</td>
</tr>
<tr>
<td>• Getting retirement income from property</td>
</tr>
<tr>
<td>• Pension options</td>
</tr>
<tr>
<td>• Choices about your eventual pension</td>
</tr>
<tr>
<td>• What type of money purchase pension?</td>
</tr>
<tr>
<td>• Starting early</td>
</tr>
</tbody>
</table>

With a complex field like pensions, we also found that giving people information is also apt to raise other questions in their minds. This can be dislocating if their train of thought does not match the flow of information presented. There is therefore a need to find a way of being able to answer questions as they arise. For this reason respondents often suggested this type of information should be conveyed in person. It was clear that taking people through the materials did aid their understanding and engagement with the subject. Indeed, respondents sometimes emphasised the need to guide people through this type of information in a similar manner as had happened during the research, as it had been easier to relate to. As it is unlikely that it will be possible for people to have a face-to-face briefing, perhaps a helpline or some other type of interactive medium could be used to assist in this way. A helpline was recurrently suggested by participants in all stages of the research.

IT-based interactive media (i.e. a website) could be a helpful way to convey this information for those who are computer literate. This would help to maintain a narrative structure, while giving people choices about the path they take through the information, and the level of depth they want. It also becomes possible to tailor a story more closely to individual characteristics (e.g. age, income level, gender, employment status). It would also make it possible to combine elements of information about pensions with a pension calculating facility, so people could take in information, enter aspects of their circumstances and preferences, and read out

Recommendations and policy implications
information about what retirement income different types of pension investment might bring them. Conceivably, a game-like programme could be devised which might appeal to the youngest people in the target group.

Specific suggestions that were raised by respondents in all stages of the research can be seen in the box below.

<table>
<thead>
<tr>
<th>Respondents’ suggestions for delivering information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Experts’ suggestions</strong></td>
</tr>
<tr>
<td>• Use of Internet pension forecast models, where people can experiment inputting their own figures.</td>
</tr>
<tr>
<td>• Sending out a leaflet to highlight the need to save for retirement or send a forecast out at regular intervals. Approach people at ‘watershed’ moments such as: January (New Year’s resolutions), landmark birthdays (thinking emotionally about life changes) and the birth of a first child. Those just leaving school/university should be encouraged to join an employer’s pension scheme as a worthwhile investment;</td>
</tr>
<tr>
<td>• Employers should be legally obliged to offer staff time off for a Financial Health Check, when they could receive independent financial advice.</td>
</tr>
<tr>
<td>• Communicate financial information in schools, before young people have other commitments.</td>
</tr>
<tr>
<td>• Creating a national Finance Advisors’ network (who advise but do not sell products).</td>
</tr>
<tr>
<td><strong>Respondents’ suggestions</strong></td>
</tr>
<tr>
<td>• Use of the media to promote as well as inform people. In the case of promotion, respondents suggested stressing the negative messages and using shock tactics such as showing people what will happen to them if they do not save for retirement. In this way they suggested a television advert might show an old couple suffering financially in their retirement. Advertisements on public transport was another suggestion.</td>
</tr>
<tr>
<td>• Provide information via the Internet.</td>
</tr>
<tr>
<td>• Introduce in the school curriculum or as young people are leaving.</td>
</tr>
<tr>
<td>• Introduce in the workplace either on notice boards as briefings to new employees as well as existing staff.</td>
</tr>
<tr>
<td>• Leaflets, CD’s, booklets at different outlets, such as the post office, or via post, e.g. at key points in life, with tax returns.</td>
</tr>
<tr>
<td>• Through banks – when opening a bank account or when a person converts from child to adult bank account.</td>
</tr>
</tbody>
</table>
11.6 Suggestions about the approach

We now turn to consider some basic principles which will be important to guide the design of future materials about pensions and saving for retirement.

11.6.1 The need for balanced coverage

In a climate where people are sceptical and often cynical, the credibility of information is critical otherwise it may be ignored. Credibility is difficult to achieve in a context where most of the players are seen to be untrustworthy and to have their own agendas.

At different stages of the research we found that some of the information we were giving was suspiciously regarded, because it was felt to be favouring pensions. This sometimes happened (for example) in stage two when we were showing comparative performance data for pensions and savings. The stage three materials appeared to raise fewer concerns about balance, although questions were asked about what the property illustration was based on. Furthermore, people who were very committed to the idea of investing in property were rather more dubious about the illustration used and the comparative performance of the pension against investing in property. More work could be done to highlight other benefits of property, such as money saved from not renting or buy to let income, in order to present a more balanced comparison of these methods of saving.

There is also a need to balance the range of options being presented so that information avoids encouraging inappropriate investments. It may not be appropriate to encourage people to opt for a pension in particular circumstances. For example, people on low incomes may damage Pension Credit entitlement without building up a worthwhile entitlement.

It is helpful to also approach the provision of financial information from the perspective of managing the whole lifestyle and working experience. In this way, people will see their pensions investment as one part of their finances.

11.6.2 Layout and design

Graphical illustrations can aid understanding as well as break up the text. In the research we have shown examples of where the graphics we developed aided understanding. In other cases, it was clear that people found them harder to decode and sometimes they detracted from the message being explained. Graphics can also be used to help make information look friendlier by breaking up blocks of text. Irrespective of how graphics are used, they need to be clearly labelled and easy to follow.

The experts suggested the font used should be large, with lots of white space and not too much text, but we did not have the chance to test these devices in this research. Also, they emphasised the need for colour coded sections and other visual cues to help people navigate documents.
11.6.3 The need to target appropriately – one size won’t fit all

It was clear from this research that there is a need to target information appropriately otherwise it may discourage its audience. For example, showing a pension forecast or illustration for someone with a much higher or lower income might alienate the audience and only serve to confirm their negative views. In this way it was suggested there should be tailored messages for different types of people – men/women, self-employed, young people, low income earners. Where the scenarios used in stage three closely fitted the circumstances of respondents, it was evident that they related more easily to the text. That said, where the scenarios bore little relation to an individual situation the opposite occurred.

11.6.4 The need for concrete and specific information

Too much general information is currently automatically given out about pensions (such as legal regulations), which the customer rarely reads/understands. This needs to be reduced and simplified into short and concise ‘Key Facts’.

The format should be kept simple. Using examples rather than lines of text would make the message easier to understand: ‘if you invest x a month, you will get y tax relief a month and can expect a pension of z in 40 years time’. Not too much detail or caveats should be included, but instead illustrate through contrasting stories (perhaps with photographs, as the experts suggested) of people who make provision at different ages and of those who do not (although photographs were not tested in this research). That said, there is a need to be cautious about how such information is interpreted, as people may take financial illustrations as a promise rather than a guide.

Simple guidelines are very useful for giving people something to think concretely about. For example, they were helpful in providing a rough estimate of what proportion of an individual’s salary should be invested into a pension.

11.6.5 The need for plain simple language

Documents should be written using simple language and short, easy questions, without being patronising or too dry. Descriptions, information and instructions ought to be written in plain accessible language, avoiding jargon where possible and abbreviations like ‘Tel no.’ and ‘PO Box’ which can be confusing.

Clearly, there is a tension between finding an appropriate level to pitch materials at, but generally they need to focus on those with least knowledge.

11.7 Final remarks

Lack of usable information and (more particularly) understanding is an important inhibitor to pensions investment – but it is by no means the only factor, and powerful obstacles often remain even once people are better informed.
The evidence of this study is that it is possible, but by no means easy, to give the public much better information and understanding than they already possess. In some cases, this seems likely to be enabling and motivating when it comes to taking decisions and action about retirement income. But providing the right information is a large task, and will require not only carefully crafted materials, but also very considerable resources. People need:

- Joined-up stories, coherent narratives which aid understanding and make them feel more confident about handling pensions.
- Information as relevant as possible to their own situation and options.
- Materials which are very simply and clearly expressed, and also well-structured.
- Vivid and graphic presentation to direct attention, get key points across and give them meaning and impact.
- Much better understanding of their own situation – what their existing entitlements are worth, how much they might need in retirement, and what it would cost to bridge any gap.
- Forecasts of both private and state pensions which are more accessible, more comprehensible and more meaningful.
- Trusted and affordable help and advice – at least about how to assess their situation and how to move forward to positive decision-making.
- Guidance about when pensions investment is not in their best interest, in the light of possible effects on Pension Credit or other entitlements.
- The real effects of starting late need to be brought home, as does the real impact of tax relief and employer contributions.

Moreover the research was operating in conditions which would rarely apply in the real world, where communications have to compete for attention with many other priorities and distractions, often more appealing and less off-putting than pensions.

Most of the stage three materials worked well with some exceptions, such as the sheets on planning and annuities. That said the materials do not offer a definitive solution to encouraging pensions investment. Furthermore the materials produced were more effective at addressing those without pensions rather than those with insufficient investments.

However, the research does provide several useful recommendations on: what people’s information needs are, the types of messages that should be conveyed to encourage retirement planning, the barriers to saving, and how these can be addressed.
Appendix A
Conveying information on pensions and saving for retirement

Summary of the developmental stage

1 Introduction

In order to understand the policy and information context for this research, as well as to investigate the range of pensions materials that are currently available, a brief developmental stage was carried out between February and March 2004.

As part of this stage, telephone and face-to-face interviews were carried out with a range of stakeholders who have an interest in this area. A total of 13 individuals were consulted, representing a range of interests including both pension, communication and marketing specialists from the private and voluntary sector.

All interviews were carried out by members of the research team. Telephone interviews lasted about 30/40 minutes and face-to-face interviews lasted about an hour. In each case interviews were based on topic guides, listing the key themes to be addressed and the specific issues for coverage, although these were tailored to take account of the respondent’s relevant experience and reason for inclusion within the study.
Interviews covered: the nature of any information/material respondents provide about pensions and how these were developed; perceptions about public understanding of pensions; views about the information needs of the public; suggestions for stimulating an interest in pensions; and advice on communicating information about pensions.

This short report summarises some of the key findings arising from these interviews.

2 Public understanding of pensions

The low level of public understanding about pensions and financial information was widely emphasised by respondents. Underpinning this lack of understanding was felt to be two key factors:

- The complex nature of pensions, as well as the technical and legalistic nature of the language used to describe them. Respondents generally thought the issue of pensions was too complex for the average person to comprehend.

- The low interest and priority attached to pensions by members of the public who are not close to retirement age. This was mentioned in relation to the population as a whole as well as for particular subgroups of the population such as the young and women who leave the finances in their relationship up to their partners (and as a result may not attach any importance to it for themselves).

It was said that whilst most people realise they need to do something about a pension, they find excuses to put off thinking about it because they are more preoccupied with using their disposable income for other more immediate expenditure and needs. Also, for the average person, debt management is felt to be the key financial priority, followed by short to medium term saving. Pensions have a long-term rather than an immediate impact and so they are regarded as less important than other forms of expenditure. Also, for those on below medium salaries, there is less clarity about whether it is worth saving a small amount into a pension, as it could push individuals over the limit for state benefits. Pensions and saving for retirement tends towards the end of the priority list, although it was recognised that this alters as people get older.

Even in circumstances where people do appear to understand the need for a pension (and that there may be a pensions problem when they retire), their disinclination to take action is justified by a sense that the state will ensure they are provided for.

In terms of what people do know it was said that there is awareness about:

- the current retirement age;
- that National Insurance funds the basic state pension;
- the existence of private pensions, although there is a lack of trust that they will always pay a return.
There are much lower levels of understanding about:

- the contributory nature of the basic state pension;
- terms like contracting in/out;
- the basic principles or the technicalities of other pensions schemes;
- tax relief, especially among low income groups, who often are not aware of the existence of this.

3 Information respondents provided or used

As would be expected, the type of information respondents provided varied according to their respective roles and the target groups they worked with, or represented. Much of what was discussed seemed to relate more to companies (including both employers and employees) rather than the general public, although the DWP and Financial Services Authority (FSA) leaflets were mentioned in relation to the latter.

Pensions companies, for example, reported that they provided a wide range of information on pensions for Independent Financial Advisors (IFAs), employers and employees. This ranged from more traditional printed material (mailouts, flyers, and posters) to face-to-face and telephone presentations. In the case of the latter, group presentations were said to be the most common way of communicating with company employees – the basics are conveyed verbally and employees receive a pack to take away and read to decide whether to take up a pension. New technology methods were also apparent, for example, accessing information on secure websites and sending hyperlinks to employees’ email addresses, as well as sending information on CD-ROMs.

The approach taken varied according to the information that was available about individuals (e.g. whether there were email addresses for employees) and their levels of knowledge. For example, it was said that employees who were more financially aware (such as those on higher salaries) would only need factual information to make an informed decision. In contrast those with lower levels of awareness would need face-to-face contact, so as to be able to explain the concepts more easily.

The interests of employers were catered for through information (leaflets and guidelines on pension scheme provision) and training schemes to assist employers (rather than members of the public) running their pension schemes.

In some cases, pensions advisory bodies said they produced a small range of simple leaflets which were either sent out, or could be collected from their office or via their website. Otherwise, generalist services published magazines (for subscribers only), financial guides, advice packs, factsheets as well as an on-line information resource. In addition, a communication specialist had produced a simple glossary of financial and pension terms which was available on-line.
4 Barriers to informing the public about pensions

A number of barriers to informing the public about pensions were identified:

- The difficulty people have grasping the concept of a pension and how it operates. As a result they are more inclined to be put off taking out a pension by negative press stories about the poor return on a pension. The poor image that pensions have was also felt to result in a reluctance to access information about pensions. The lack of trust people have in pensions was often fuelled by ‘scare stories’ in the press. But also the idea that people are put off by the thought that money is ‘locked away’, out of their control unlike a savings account or ISAs, or investments in property.

- The complexity of the language and terminology used to describe pensions. A related issue was the changing nature of the language and terms used. It was said that by the time people understand a term, it is obsolete as new products have been developed.

- The unwieldy length and boring nature of most pensions literature. In particular, the detail required as part of the legal explanations was felt to be confusing, as well as the fact that people often avoid reading the small print. But also, the over-use of caveats and assumptions made.

- The way in which financial information can be misinterpreted, for example, members of the public may well take illustrative figures as a promise rather than a guide.

- The difficulty in trying to find a universal message which will apply to all people, as the benefits of pensions will vary according to individual circumstances.

- The low priority and interest that people attach to pensions.

5 Stimulating public interest in pensions

A number of suggestions were put forward for stimulating an interest in pensions. As will be seen, these were often concerned with changing the product rather than finding better ways to inform the public about pensions. That said, there is an underpinning message that more should be done to promote pensions in a more accessible way. However, this idea was tempered with some caution about whether the Government should be trying to encourage everyone to invest in a pension, in particular, those who have a very low income or who have debts to pay:

- A pensions system which provided more flexible access to funds – although the amount people could withdraw would need to be monitored carefully or it would defeat the objective of a pension. For example, it was said that in the USA it is possible to save and borrow against a pension (401K plan).

- An easier framework for transferring and freezing pensions.
• Reduce the administrative procedures and streamline the application process, as the amount of paperwork involved can put people off. Regulations are necessary to protect individuals, but people now do not bother to read all the paperwork they are given.

• Reduce the choice of pensions available – the public is faced with too many different types of pension and this is bewildering.

• Rename pensions as a ‘Retirement Savings Plan’ or ‘Afterwork planning’.

• A build up of trust in the pensions industry and in the Government is necessary to counteract negative press stories. This might be stimulated by creating a national Finance Advisors’ network (who advise but do not sell products), which would increase interaction with IFAs and as a result address some of the barriers.

• It might be helpful to communicate financial information in schools, before young people have other commitments, although there was concern that young people would not take in the information and it could turn them off pensions altogether.

• Advertising different types of pensions and highlighting the range of products available in the same way as mortgages.

• It was said that the only way to really get people to save for retirement was to make it compulsory, so as to ensure they did not prioritise other needs. In contrast, concerns were voiced that the Government should not ‘nanny’ people and force them to pay into a pension.

• Automatic membership of a pension fund which would result in staff having to opt out rather than opt in to a pension scheme.

• ‘Off the shelf’ pension products, like for insurance.

• Introduce a voucher scheme like the Child Trust Fund for pensions.

• Employers should be legally obliged to offer staff time off for a Financial Health Check, when they could receive independent financial advice.

6 Who should provide the information

The general feeling was that some information was required from the Government to compliment that which people get from employers. In this way, Government and employers should be seen to be working together. It was said, for example, that the Government’s role should be to provide clear information advising on overall money management in jargon free language that is available for all. There was, however, some concern voiced that the DWP ought to distance itself from the information, in case it resulted in negative publicity.

Pensions companies indicated a preference for communicating information through IFAs, rather than giving information themselves, as the information is seen as independent, with impartial endorsement of the product. In contrast, it was said that IFAs make issues more complicated, as they drown the customer with information, more than is initially needed.
Otherwise it was suggested that advice should be provided by trade bodies (unions), consumer organisations, community groups, post offices, Which, or Citizen’s Advice Bureau. Also, it was thought that people might feel comfortable approaching Sure Start centres, community shopping centres and supermarkets, religious meetings or community networks (particularly for minority ethnic communities). Local advocates were suggested in preference to DWP staff. Also, advice provided face-to-face was felt to be more effective in engaging and interesting people. Another idea was to place independent advisors in banks.

7 Information the public should know about pensions

People without a pension need generic advice on the purpose of a pension and the types available. When considering getting a pension, people usually only need to know the following pieces of information:

- how much it will cost;
- how much they will get when they retire;
- as a result of this information they may then need to know how much they have to pay to increase their pension;
- people do not normally want to know about the complexities of the product, although they should be aware of the links between different types of pensions (that they can be a member of an occupational pension and own a personal pension).

However, a minority of respondents felt the public needed to know a little more about how pensions worked:

- how their tax would be affected;
- what defined benefit and defined contribution were and the risks involved.

Although it was felt that the public does not need to know the detail about a pension, it would be helpful if they could judge:

- whether a scheme will be value for money;
- whether the product is flexible;
- the terms and conditions.

Some ideas of items that might be included in a pack for someone wishing to take out a pension were:

- A calculator sheet (for the individual to work out the type of contribution they ought to be making).
- A list of statistics, e.g. how much their contribution would break down as per week.
- As much clear information as was necessary for the employee to make an informed decision.
7.1 Key messages

One strong message was that **people cannot solely rely on the state pension anymore**, as it will not provide enough income to live on. It was suggested that the state pension should be renamed as a ‘top up pension’ to encourage people not to rely on it. Once people appreciate the likely decline in their living standard if they just rely on the state pension then it was suggested they might be ‘shocked’ into starting a pension.

A related suggestion was that the message should emphasise that a better standard of living be achieved in retirement by combining a personal and state pension.

Others felt these ‘shock tactics’ might put people off. In these cases they recommended **more positive messages linked to starting a pension as soon as possible**: ‘the sooner you start saving into a pension, the more you will have when you retire’ or ‘to get a large enough pension, you either have to put a lot of money in or start early’, or ‘that relatively small monetary sacrifices while young would stand a person in good stead in retirement.’

Another message emphasised the value of a long-term investment – ‘you won’t notice 5% from your salary now, but you will notice the difference when you retire’.

Also, **the tax advantages of saving** into a pension should be made more obvious: contributions go in tax-free, rather than from net pay. The Government should try to sell the idea of ‘**free money**’, as many people do not grasp the concept of tax relief. Repackaging ‘**tax relief**’ as ‘**matched funding**’ or ‘**deferred income**’ might also make the concept easier for people to grasp. Some pointed out that the pensions tax situation is complicated and they were not sure this should be the primary message: contributions are tax-free, but people pay tax when taking their pension.

There was also some feeling that it would be useful for the public to have a rough estimate of **what proportion of their salary they should put in a pension** (e.g. half your age as a proportion of your salary).

Another message was that if **an employer is contributing to the company pensions scheme, then it’s a good idea to take it up**. Employers should make their contribution clearer.

8 Suggestions for how to market and deliver information

A wide range of different ideas was suggested about how to approach the provision of information and reach out to the public. These are noted below:

- The nature and format of pensions communication needs to be tailored appropriately to the company or individual being targeted. In this way it was suggested there should be tailored messages for different types of people – men/women, self-employed, young people, low income earners.
• The key is to get people thinking about when they retire and what they want from their retirement. It was, however, noted that young people with debts should concentrate on paying those off first.

• People initially need to think about the concept of a pension and should not be overwhelmed with other messages, e.g. about types of pension. Information should be layered – initially basic, then signpost people to different levels of information (starting at the minimal level and building up).

• Too much information is currently automatically given out about pensions (legal regulations), which the customer rarely reads/understands. This needs to be reduced and simplified into a short and concise ‘Key Facts’ document (no more than two A4 sides) of really important facts with references of where to go for further information.

• Once interest is established, focus on priorities important to the individual. People need to know the key differences between different types of pension, as well as the impact of the differences. Retirement planning should be packaged as one part of general financial management. Greater publicity of Internet pension forecast models might be of use, where people can experiment inputting their own figures, although a website could not replace a face-to-face discussion with an IFA.

• Approach the provision of financial information from the perspective of managing the whole lifestyle and working experience. In this way, people will see their pensions investment as one part of their finances.

• Advice should concentrate on making people aware of opportunities to increase their wealth.

• The information a person needs to know depends on individual priorities, income, employment and lifestage.

• Some of the ‘watershed’ moments to approach people that were mentioned are: January (New Year’s resolutions), landmark birthdays (thinking emotionally about life changes) and the birth of their first child. Those just leaving school/university should be encouraged to join an employer’s pension scheme as a worthwhile investment. Workers with a pension need to be told which vehicles they could use to save more, as most people are not saving enough. Workers over 40 years required a stronger message than others, as their retirement was more imminent. One respondent cautioned against approaching people around Christmas.

• Pensions need to be marketed as a must-have product based on facts.

• Face-to-face information is a powerful tool, as it is difficult to convey such a complex message using just printed material, and people find it easier to relate to when it is delivered in person.
8.1 Pension statements

It was commonly suggested that sending a combined forecast of state and private benefits helped people to have a clearer idea of what the situation is likely to be when they retire (although it would need to be made clear the forecast was not guaranteed). If people were not satisfied with their forecasted amount, the information could list their options and a helpline number for queries.

Pension statements should quote in today’s money, so people do not have to think about inflation.

There should be as few figures as possible on the statement:

- what the individual paid that year;
- what their fund is worth now; and
- an estimate of what the fund could be worth when they retire (or express as a proportion of current salary);
- some people find it easier to deal in weekly rather than monthly or yearly amounts.

8.2 Tone and language

The difference between educating and informing people, rather than advising them, was also emphasised and highlighted (talk facts through but don’t push people in a direction). In this way, it was suggested that the literature produced should show the alternatives and not tell customers what to do.

The format should be kept simple, using examples rather than lines of text would make the message easier to understand: ‘if you invest x a month, you will get y tax relief a month and can expect a pension of z in 40 years time’. Not too much detail or caveats should be included, but instead illustrate through contrasting stories (perhaps with photographs) of people who make provision at different ages and of those who do not.

Documents should be written using simple language and short, easy questions, without being patronising or too dry. Descriptions, information and instructions ought to be written in plain English, avoiding abbreviations like ‘Tel no.’ and ‘PO Box’ which can be confusing.

The font used should be large, with lots of white space and minimal text. Colour coded sections and ‘sign and send’ options throughout would help people navigate.
documents. Tick box statements and options for people to stop reading at a certain point if they decide they want to take part would make it simpler.

Avoid using flow charts (also known as ‘decision trees’) to help people make decisions, as many people can find them off-putting.

Documents should be tested more before being issued to the public

9 Conclusion

Respondents generally felt the general public’s understanding of pensions was very poor – people were uninterested in the matter, preferring to spend money on current expenditures rather than plan for the future. The lack of understanding was largely due to the complexities and technical details of pensions, compounded by bad press stories on the subject. Also, there is an implicit assumption that the situation will not be as bad as when the person actually reached retirement.

In general, respondents felt that the public only needed to know the basics about their pension: how much they need to contribute, how much it is likely to be worth when they retire and what they need to do to increase it.

Key messages that should be put across included the following:

- That the state pension itself will not be enough to live off in retirement.
- The importance of starting a pension as soon as possible.
- The tax advantages of using a pension to save for retirement.

Ideas for stimulating the public’s interest in pensions centred on raising awareness and streamlining the paperwork. Others emphasised the need to build up the trust in the pensions industry and to introduce more flexible access to funds. Some respondents did feel the only way to really increase take up of pensions was to make it compulsory, or to introduce ‘automatic membership schemes’, where people have to opt out if they do not want to take part.

Face-to-face communication was felt to be more appropriately delivered by IFAs or existing third party bodies or community groups, although an overall message from the Government to supplement information from employers might also be useful.

Messages should be tailored towards different types of people, depending on the individual circumstances. Initially, the emphasis should be on getting over the concept of a pension and its overall importance. Only once that is established, should the elements of different pensions be brought up, and only key facts should be provided, unless the customer requests further information.

Any documents produced should be kept simple, both in terms of information, language and layout. Large font would be useful, as would colour coding and ‘sign posting’ to help people find their way around the form.
Appendix B
Technical appendix

A description of the study design and conduct is given in the introductory chapter of this report. This appendix provides further details of the profile of the respondents interviewed in this research and details about the analysis and presentation of the findings.

1 Profile of the sample

The profile of the sample can be seen in the table below. Each stage has been reported separately as the sample criteria and quotas set varied for each of the three stages. The reason for the variation relates both to the focus of the particular stage and target respondent group, as well as the challenges presented in trying to find people who met all the specified criteria. Furthermore any disparity in the distribution of the sample in first and second stage (such as for gender) occurred as a result of the unpredictable turnout at the group discussions.

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2 Analysis and presentation of findings

Verbatim transcripts, produced from the tape recordings of the interviews, were then subject to a rigorous content analysis, which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes, within a thematic matrix. Further classificatory and interpretative analyses were then derived from the analytic charts and these formed the basis of the findings reported in subsequent chapters.

In order to illuminate and enhance some of the issues raised in the research, a number of quotations are included in this report. These quotes are taken directly from the verbatim transcripts of the interviews carried out by BMRB for this research. All the quotations are anonymous, but have details on the individual’s gender, age, pension status and the geographic region where they live.

Adopting a qualitative approach has made it possible to report on the range of views, experiences and suggestions reported by respondents. The purposive nature of the sample design as well as the small sample size, however, means that the study cannot provide any statistical data relating to the prevalence of these views, experiences or suggestions.
Appendix C
Stimulus material from stage one

How money purchase pensions work – stimulus sheet

Jane pays money into a personal pension:

- The money goes into her pension fund – what many people call a ‘pot’ of money.
- The pension company invests that money on her behalf.
- The pot gets bigger:
  - because Jane goes on paying in as the years go by;
  - also because the value of the invested money grows.
- When the stock market does well and interest rates are high the fund grows more quickly.

When Jane finally decides to retire:

- The pension company works out how much there is in Jane’s pot – that’s called the ‘fund value’. Let’s say it was £100,000.
- That fund is then used to buy an ‘annuity’:
  - ‘Annuity’ means that a pension company takes the money in the pot, and in return agrees to pay Jane a pension for the rest of her life
- The more money there is in the pot the bigger the pension.
But the amount also depends on the level of ‘annuity rates’ at the time Jane retires:

– For example if the annuity rate was 5% she would get £5 of pension a year for every £100 in her pot.
– So Jane’s pot of £100,000 would buy her a pension of £5,000 a year until she died.

Effects of starting at different ages – stimulus sheet

How much difference does it make if you start paying into a pension early in your life?

• Kerry started paying into her pension at age 40, 20 years before she retired.
• During that 20 years she paid in a steady £1,000 a year.
• That means £20,000 went into her pot altogether.
• She finally got a pension of £750 a year.
• Debbie started paying in 20 years earlier – at age 20, 40 years before she retired
• During that 40 years she paid in the same amount as Kerry, a steady £1,000 a year.
• That means £40,000 went into her pot altogether.
• Guess what her pension was a year, on the same basis as Kerry.

Note: This example applies to money purchase or defined contribution schemes. Salary related schemes also usually pay out more for longer membership, but they work differently
Pensions and tax – stimulus sheet

- A taxpayer who pays money into a pension scheme gets tax relief on the payments.
- Here are two examples which show how this works

  • Arthur earns £18,000 a year, which makes him a basic rate taxpayer:
    - This means he pays 22p in the pound on most of his taxable income
    - In the current tax year he put £1,500 into his pension scheme
    - So the Government actually knocks £330 (22p x 1500) off his tax bill
    - The result is that:
      - £1,500 goes into Arthur’s pension pot
      - Arthur himself actually pays £1,170 of that
      - And the Government pays the other £330

  • Angus earns £42,000 a year, which makes him a higher rate taxpayer:
    - This means he pays a top rate of 40p in the pound on his taxable income
    - In the current tax year he put £3,000 into his pension scheme
    - So the Government actually knocks £1,200 (40p x 3000) off his tax bill
    - The result is that:
      - £3,000 goes into Angus’ pension pot
      - Angus himself actually pays £1,800 of that
      - And the Government pays the other £1,200
Appendix D
Stimulus material from stage two

Note – the figures relating to amounts of money that could be contributed in pensions, rates of return and levels of tax relief were altered during the research to be relevant to the ‘higher’ or ‘lower’ income bands of respondents they were shown to. The stimulus materials shown here were given to ‘lower’ income earners.
Deciding what you need

How can you decide what income you need to provide yourself with in retirement?

**Base it on your final income**

People get used to a certain standard of living. Many feel they can make do on less money in retirement than they earned while they were working – but how much less?

If your pension was two-thirds of what you earned in the last years of work, you’d have about £67 for every £100 you used to have (if the pension was your only income).

Is that something you’d be comfortable with?

What if your pension was only half what you earned just before retirement? Or less?

The younger you are, the harder you might find it to imagine what you might be earning in 30 or 40 years, but you need to plan for your pension from your earliest years in work.

What are other people earning now in a job you might expect to be doing later in life?

**Work out a budget**

What do you spend now? What would you expect to spend less on after you retire?

- You’ll need to feed, house and clothe yourself
- You’ll want recreation, holidays, transport, healthcare, heat light and phone...
- What are you prepared to do without or cut back on?
- What do you want to be able to spend fairly freely on?

**Save a proportion of income**

It’s sometimes said that people ought to put a proportion of their income into pensions throughout their working life.

- Some suggest putting away £1 out of every £6 you earn.
- Others suggest £1 out of every £8, or £1 out of £10.

**Think about rising prices**

People often find it hard to work out what money will be worth when they retire.

You may get forecasts of your expected pension from your pension provider.

It’s important to be clear whether these are in today’s money, or projections of what you might get in the future.

It’s sensible to assume that money will buy less by the time you retire, but no-one knows how much less.

You’d probably have to spend more to buy the same amount of goods and services after you retire. For example, in 20 years time £1000 would buy you only what £600 does today, if prices rise at an average of 2.5% a year.

At the moment prices are rising fairly slowly, but they sometimes went up much faster in the past. Even a slow rise makes a difference over a long period of time.
Working out what you’ll have to live on

When working out what you will actually have to live on when you retire remember to count in all your sources of income.

You may have any of the following:

**Pensions**
- the state retirement pension
  - perhaps including state second pension or SERPS
- a works or company pension
- a self employed pension
- a personal pension

**Other sources of income**
- from savings or investments
- from property or lettings
- from part-time earnings

You need to get some idea how much each of these is likely to pay you when you retire.

If you add all these together you’ll get an idea of what you’ll have to live on when you retire.

**Getting a forecast**

You can get a forecast of your state pension from the government’s Pension Service.

You can get a forecast of any personal or occupational pensions from your pension provider. Many send these out regularly each year, but otherwise you need to ask.

This should make it possible for you to work out how much you’re likely to get when you retire.

And by comparing that with what you think you’ll need to live on you should be able to work out whether you ought to put more money into pensions.
How ‘salary-related’ pensions work

The amount of pension you get from a salary-related scheme doesn’t depend directly on how much you have paid in, or on the performance of the scheme’s investments. It is fixed in advance by a formula laid down in the scheme rules.

Your pension will depend on three things:

■ Your final salary. Exactly what this means varies from scheme to scheme – sometimes the average of the last three years’ salaries. It also relates only to ‘pensionable salary’, which is again defined in the scheme rules.

■ An agreed fraction of your final salary.
  This varies from scheme to scheme, but is often 1/60th or 1/80th.

■ Your length of service – you get the agreed fraction of your final salary for each year you are in the scheme.

Example

Rita has been a member of her employer’s salary-related scheme for 20 years. Her final pensionable salary was £15,000.

She is entitled to 1/60th of final salary for each year she was in the scheme. So she gets a pension of **£5000** a year.

Her pension is one third of her final salary. 

\[
\text{£15,000} \times \frac{1}{60} \times 20 \text{ years} = \text{£5000}
\]

If she had been in the scheme for 40 years the pension would have reached **£10,000**, two thirds of her final salary.

If her fraction were 1/80th instead of 1/60th she would get a lower pension:

**£3750** a year if she had 20 years service, instead of £5000
This is only a quarter of her final salary, instead of a third.

**£7500** a year if she had 40 years service, instead of £10,000
This is only half her final salary, instead of two thirds.
How ‘money purchase’ pensions work

Unlike a salary-related pension, a money purchase pension depends on:
- how much you have paid in by the time you retire
- the performance of your pension scheme’s investments
- the annuity rate at the time you start taking your pension.

Jane pays money into a personal pension:
The money goes into her pension fund – what many people call a ‘pot’ of money.
The pension company invests that money on her behalf.

Her pot gets bigger:
- because Jane goes on paying in as the years go by
- also because the value of the invested money grows
When the stock market does well and interest rates are high the fund grows more quickly.

When Jane finally decides to retire at age 65:
- The pension company works out how much there is in Jane’s pot –
  that’s called the ‘fund value’. Let’s say it was £100,000
- That fund is then used to buy an ‘annuity’:

**Annuity** means that a pension company takes the money in the pot,
and in return agrees to pay Jane a pension for the rest of her life
The more money there is in the pot the bigger the pension
But the amount also depends on the level of ‘annuity rates’ at the time Jane retires:

**Example**
Jane’s pot is worth £100,000. This is used to buy an annuity.
If the annuity rate was 6% she would get £6 of pension a year
for every £100 in her pot
So Jane’s pot of £100,000 would buy her a pension of £6000 a year until she died:
That’s £500 a month, or about £115 a week
Once the annuity is bought the rate is fixed and doesn’t change any more.

The longer Jane lives after retiring, the more total pension she would have received. If she lived to age 75, she would have been paid £60,000 in pension.
By age 85 she would have been paid £120,000, and £180,000 by age 95.
More about annuities

If you’ve paid into a money purchase pension you have to buy an annuity when you retire. An annuity converts the lump sum in your pension pot into an income for life.

The rules say that you have to buy an annuity when you retire – you can’t just draw out your whole pension pot as a lump sum.
But you can normally take up to a quarter of the pot in cash if you want to.
You don’t need to pay tax on that cash.

An annuity gives you certainty – it makes sure that your pension doesn’t run out before you die, because even if you live for 40 years after you retire it still keeps paying out. But when you die it stops – there’s nothing left to leave in your will.
You don’t have to buy your annuity from the company you paid your pension to – the rates offered may vary and you can shop around for the best deal.
Rates depend partly on the age you retire. The older you are the larger your pension will be – the company can offer more because it probably won’t have to pay out for so long.
Once you retire the rate is fixed for life – it can’t go up or down after that. So once payment starts the pension is guaranteed. You know what you’ll get, and can plan accordingly.

Different kinds of annuity

The simplest kind of annuity is a flat pension on a single life – it goes on paying the same amount until the pensioner dies:

- Someone aged 65 retiring now would probably be able to get an annuity rate of about 6% or £7% if they shopped around.
- A pension pot of £100,000 would buy a pension of about £6000 or £7000 a year at this rate. That’s about £115 to £130 a week.

But you can buy different kinds of annuity – for example:
- One for couples which goes on paying until both partners are dead
- An escalating annuity where the pension goes up a bit each year, to allow for rises in the cost of living.
These options usually have lower rates than a simple flat annuity, because the pension company will probably have to pay out more.

Some examples

Kevin and his wife are both 65. He has a pension pot of £100,000.
He gets quotes from different companies for a range of different annuity options. These are the best rates he’s offered:
- A flat pension of £7350 a year until he dies.
- A flat pension of £6620 which goes on until he and his wife both die.
- A pension which starts at £5170 a year, then goes up by 3% a year until he dies.
- A pension which starts at £4500 a year, then goes up by 3% a year until he and his wife both die.

Women usually get smaller annuities, because they’re expected to live longer than men. So 65 year old Zoe would only get a flat pension of £6840 for a pension pot of £100,000, instead of the £7350 Kevin would get.
Making use of ‘free money’

When someone pays into a pension scheme they don’t usually pay the full amount themselves. There is normally some ‘free money’ going in – money they wouldn’t have if they weren’t paying into the scheme.

Money off your taxes

Any taxpayer who pays money into a pension scheme gets part of the money they pay into a pension scheme knocked off their income tax.

Free money from tax breaks

Arthur earns £15,000 a year, so he’s a basic rate taxpayer: This means he pays 22p in the pound on much of his income
This year he puts £1500 into his pension scheme
So the government actually knocks £330 (22p x 1500) off his income tax

The result is that:

£1500 goes into Arthur’s pension pot

Arthur himself only pays £1170 of that

And the government pays the other £330

Free money from employer contributions

Employers also often contribute money to occupational pension schemes – usually at least a matching contribution, sometimes more.

If Arthur’s employer matches his payments, then:

£1500 goes into Arthur’s pension pot

Arthur himself only pays £585 of that

His employer also pays £585

And the government pays the other £330
The importance of starting early

How much difference does it make if you start paying into a pension early in your life?

Kerry started paying into her pension at age 40, 20 years before she retired
During that 20 years she paid in a steady £100 a month (£1200 a year)
That means she put £24,000 into her pot altogether over the 20 years
She finally got a pension of about £64 a week (£3310 a year).

Debbie started paying in 20 years earlier – at age 20, 40 years before she retired
During that 40 years she paid in the same amount as Kerry, £100 a month (£1200 a year)
That means she put £48,000 into her pot altogether over the 20 years
So she paid in twice as much as Kerry did.
Guess what her pension was a year, on the same basis as Kerry.

Note: This example applies to money purchase or defined contribution schemes.
Salary-related schemes also usually pay out more for longer membership, but they work differently
Starting early: Kerry’s and Debbie’s pensions

Kerry put £100 a month into her pot for 20 years:

Kerry finally got a pension of about £64 a week (£3310 a year)

Debbie put £100 a month into her pot for 40 years:

Debbie finally got a pension of about £250 a week (£12,947 a year).

So Debbie paid twice as much in, but she got about 4 times as much out.
Rate of return

Would you be better off putting your retirement savings into pensions or into a bank deposit account?

People often ask questions like this because pension funds didn’t do well recently in the wake of the stock market downturn in 2000/2002.

Let’s look at someone putting away £1200 a year

If you look only at recent years (1997–2002) then the bank account does better: The bank produces a fund of £8280 compared to only £6960 for the pension fund during this period.

But in considering pensions we need to take a long-term view.

Suppose someone had put £1200 a year away for their retirement every year between 1971 and 2002. By the end of 2002:

- in an average pension fund, their pot would have been worth £407,520
- in an average bank deposit account, their savings would total only £170,760

Other advantages of pension contributions

These figures don’t take account of two other things which work in favour of pensions:

Tax breaks

The government pays nearly a quarter of the money taxpayers put into pensions by knocking it off their income tax: and considerably more in the case of higher rate taxpayers (who get two fifths of the money back)

This means that:

- If a basic rate taxpayer put in £1200 it would actually add £1538 to their pot. This would increase their pension fund to £522,461
- With higher rate taxpayers the difference would be greater – their pension fund would grow to £679,200
- In both cases the bank account would stay at £170,760, because this ‘free’ money wouldn’t be available if you didn’t pay the money into your pension.

Employer contributions

Employers often contribute to their employees’ pension schemes:

When they do they usually pay at least half – so if the employee goes on paying in the same amount of their own money the fund value would double

The combined effect of tax relief and equal employer contributions would increase the pension fund to:

- £928,981 for basic rate payers
- £1,086,720 for higher rate papers

Again, in both cases the bank account would stay at £170,760, because this ‘free’ money wouldn’t be available if you didn’t pay into your pension.
Protecting pensions

The government is setting up a fund to protect members of employers’ final salary schemes. This is called the Pension Protection Fund.

The aim is for it to come into effect in April 2005

It is meant to make sure that scheme members don’t lose out if the company goes bust and their pension scheme doesn’t have enough money to pay out the full amount it promised. This doesn’t happen often.

The Fund will levy money from all the providers of final salary schemes. This will go into a central fund, which can be used as needed to make up the pensions of companies that have gone out of business and left schemes that can’t meet their obligations.

The Fund will protect:
- 100% of the pensions of people who have already reached pension age
- 90% of the rights of people below that age, up to a maximum of £25,000 a year.

This protection will only apply to final salary and hybrid occupational schemes. ‘Hybrid’ includes those with a mix of final salary and money purchase elements.
Possible sources of help, advice or information

Talking to:
- Independent Financial Advisor (IFA)
- The government Pension Service
- Manager or staff at bank or building society
- Friends or relations
- Employer, personnel staff at workplace
- Other advisers

Written leaflets or factsheets from:
- Pension providers
- Employers
- Government or Pension Service
Appendix E
Script for stage three stimulus material

Note – the narratives used in the research interviews were tailored to be relevant to the demographics of participants. They varied according to; gender, age, income, the amount they could be expected to save and the figures given in the state pension forecast.

Craig (bold colour codes) [Headings in grey not read on recording]

Step 1 BSP forecast
Introducing Craig

[Play Track 1]

Meet Craig

He’s aged 25.

• He works as a delivery driver, and earns about £250 a week – that’s about £13,000 a year.

• He’s a single man, but he’s started thinking ahead to the time when he has family responsibilities.

Getting a State Pension forecast

One day Craig gets a letter from the Government’s Pension Service, which contains a forecast of what he’s likely to get from his State Pension when he retires.

This is a bit of a surprise, because at 25 retirement seems a long way off. But it sets him wondering about what will happen when he does retire, and where the money
for a comfortable retirement will come from. Up to now he hasn’t started thinking about putting money aside for his old age.

Let’s look at some of the things his forecast letter tells him.

[Track 1 ends]

Show and discuss Craig lo sheet A, State pension forecast

Step 2 Response to the forecast

2a: Not much to live on

[Play Track 2]

Craig thinks about his State Pension forecast with mixed feelings.

On the one hand he’s quite pleased to be told he’ll get anything, because he wasn’t sure people his age would get a State Pension at all.

But on the other hand, £13 1 a week doesn’t sound much to live on. What he’s told he’ll get from the state isn’t much more than half the £250 a week he’s already earning. That seems a big drop.

So far Craig doesn’t have any other pensions or long-term savings. If he doesn’t build up some other retirement income he’ll probably end up just living on the State Pension.

So he reckons he’ll need to find some way of boosting the amount of money he’ll have to live on after he reaches 65. But he wonders:

• how much income he’ll need?
• what’s the best way to go about providing it?
• and what would it cost him?

[Very short pause, no track break, don’t turn off]

2b: What he’ll need?

At 25 Craig finds it hard to imagine how much he’ll need to live on when he retires in 40 years time. He has no idea:

• how much he’ll be earning then
• or what his lifestyle will be like.

He decides to get some ideas by asking around. He’s lucky that he has an uncle who knows a bit about things like money and pensions. He also speaks to a financial advisor, and rings up the Government’s Pension Service. This is the picture he gets from his conversations.
Show and discuss Craig lo sheet B, Sizing up how much you need

Craig has thought about the suggestions people made. He doesn’t think he could draw up a budget for what he’ll want to spend in 40 years time, but he reckons two-thirds of his final earnings sounds about right for retirement.

On the basis of the advice he’s had Craig decides he’ll try to put away 10% of his earnings to fund his retirement. That’s one pound in every ten pounds he earns.

But what would be the best way of doing it?

Step 3 Reviewing options

Craig sits down again to review his options. There seem to be three main possibilities:

• He could buy a pension.
• Or maybe he could just build up some long-term savings in a bank or building society account.
• And someone’s told him that buying property is one of the best ways of saving. He gets some information about all these options.

Show and discuss: Craig lo sheet C, Comparing ways of saving for retirement
Craig lo sheet D/D2, Extra money for pensions
(2 pages)
Craig lo sheet E, Using savings to prove ret inc
Craig lo sheet F, Getting ret inc from property

Always start with C, but use others in any order which seems suitable

On the basis of what he’s told, Craig decides to start by looking into putting his money into a pension.
Step 4 Craig considers a new pension

4a: How his money purchase pension would work

He gets a financial advisor to tell him how it all works – what happens to the money he puts in, what he’s likely to get back, and what choices he’ll have at the end of the day.

[Track 4 ends]

Show and discuss Craig lo sheet G, G2, What type of mp pension (2 pages)
Show and discuss Craig lo sheet H, H2, Choices about … pension (2 pages)

[Play Track 5]

4b: What kind of money purchase pension

Craig is planning to buy a money purchase pension – but there are lots of those. What kind should he buy?

His employer has a group personal pension scheme. This is a money purchase pension, but:

• This employer doesn’t add anything to his employee’s contributions.
• And Craig wouldn’t have his own personal pot – in a group scheme the money’s kept in a central pot for all the scheme members until it’s needed.

Someone suggests Craig should consider a stakeholder pension. He’s heard of that – but doesn’t know what it is. So again he asks around. This is what he discovers.

[Track 5 ends]

Show and discuss Craig lo sheet I, What type of money purchase pension

Step 5 When to start

[Play Track 6]

Craig eventually decides he likes the idea of investing in a pension. He thinks it’d be good to retire on two-thirds of his final income, and he reckons he can manage to pay in the 10% of his earnings he’s told he’d probably need. That’s nice and simple, and it saves him having to peer into the future and guess what he’ll be earning or what he’ll need in 40 years time.

He likes the flexibility of a stakeholder pension, now it’s been explained to him. He can stop or vary payments if he falls on hard times, or pay in a bit more when he’s feeling flush. He’s also glad the stakeholder rules limit what he can be charged.
So Craig decides he’ll go down that route.

He’s quite attracted to the idea of a self-drive type of pension, but he’s not sure that he knows enough about finance to manage it.

But when should he start this new pension? Couldn’t he leave it till later when he’s settled down and got a bit more spare cash? Again he takes advice.

[Track 6 ends]

**Show and discuss Craig lo sheet J, Starting early**

[Play Track 7]

There seems to be a strong case for starting now at the age of 25. So that’s what Craig finally decides to do.

[The end]
Appendix F
Stimulus material for stage three

The comparisons between various ways of saving for retirement are not intended to be taken as financial advice. They were produced simply to try out ways in which the principles involved could be described to the public in an accessible manner and to assist the Department for Work and Pensions in the development of policy in this area.

Anybody contemplating saving for retirement should take professional advice before doing so.

Note – the figures relating to amounts of money that could be contributed in pensions, rates of return, levels of tax relief and the amount of additional state pension in the forecast were altered during the research to be relevant to ‘higher’ or ‘lower’ income bands of respondents they were shown to. The stimulus materials shown here were given to ‘lower’ income earners.
State pension forecast

Here’s what Craig’s State Pension forecast says:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your weekly amount of basic State Pension:</td>
<td>£79.60</td>
</tr>
<tr>
<td>Your weekly amount of Additional State Pension:</td>
<td>£51.85</td>
</tr>
<tr>
<td>Your total weekly amount of State Pension:</td>
<td>£131.45</td>
</tr>
</tbody>
</table>

The forecast letter explains three important points:

**Additional State Pension**

This is extra pension money from the state which is related to what you earn. Originally this came from the SERPS scheme, now replaced by the State Second Pension.

Some people don’t qualify for Additional State Pension – for instance those who are self-employed or on very low earnings, and those who have chosen to contract out of the scheme.

**All these figures are in today’s money.**

It’s important to remember that it’ll cost more to buy the same goods in 30 or 40 years’ time than it does today, because of inflation. If prices went on rising at today’s average of 2 1/2% a year, then £1000 would only buy Craig what £380 does today when he retires in 40 years’ time. This is why pension forecasts are often shown in ‘today’s money’.

This gives an idea what your pension is likely to buy, because you can think of what it would buy at today’s prices. But it doesn’t tell you how many pound notes you’ll eventually get – the actual payment will be higher, but it’ll cost you more to buy the same goods.

The State Pension normally goes up in line with rising prices, so the actual number of pounds paid in the future would be larger.

It’s always important to be clear about a forecast you get from any pension provider:

- Is it in ‘today’s money’?
- Or is it a projection of the actual future amount?

**Assumptions built into the forecast**

Craig’s forecast assumes three other important things.

- That he will work and pay National Insurance contributions until he’s 65, which means he’ll get the full State Pension. If he doesn’t he may get less.
- That he doesn’t contract out of the State Second Pension.
- That the rules about the way State Pensions increase from year to year stay the same. The government doesn’t currently plan to change this.
Sizing up how much you need

There were various suggestions for ways of working out how much money you might need when you retire:

**Working out a budget**

What do you spend now?
What would you expect to spend less on after you retire?
And are there things you might need to spend more on?

**Basing it on your final income**

People get used to a certain standard of living. Many feel they can make do on less money in retirement than they earned while they were still working – for example they may have paid off the mortgage, children may have left home, and so on.

But how much less? For example if your retirement income was two-thirds of what you earned in the last years of work, you’d have about £67 for every £100 you had when you were working.

**Saving a proportion of income**

Some said that you ought to consider putting aside a proportion of your income throughout your working life to fund your retirement.

**A range of suggestions about how much to put away**

- The highest was £1 out of every £6 you earn
- The lowest was £1 out of every £10
Comparing ways of saving for retirement

Would you be better off putting your retirement savings into:

- a personal pension fund?
- a bank deposit account?
- property?

People often ask questions like this because they fear pension funds won’t do well since the stock market went down in 2000/2002.

If you look only at recent years (1997–2002) then property does best, and pensions don’t do so well. But if you’re considering retirement income you need to take a longer-term view. Let’s look at what happened over the last 30 years or so.

Comparison of different ways of saving

Suppose someone had put £25 a week away for their retirement every year between 1971 and 2002. By the end of 2002 they would have invested £41,600 in all.

This illustration shows what their retirement fund would have been worth in each case.

All these amounts show the average performance for each type of investment.

But there are two sources of extra money which boost what you’d get out of a pension:

- from the government, through tax relief
- from employer contributions, where these are paid.

Let’s look at that on the next sheet.
Extra money for pensions

Extra money from the government

Whenever you pay into a pension the government adds extra money by reducing your taxes. That doesn’t happen if you put your cash into savings or property. This is how it works.

If Craig puts £25 a week into a pension the government adds £7. It does this by knocking 28p in every pound off the taxes he’d otherwise have to pay. 28p times £25 is £7.

This means that his £25 payment puts £32 into his pension.

Comparison including extra tax money

Let’s look at how the different ways of saving £25 a week built up between 1971 and 2002. This time we’ll take this extra tax money into account.

So someone who put money into a pension over the last 32 years would have got:

- more than twice as much back as if they’d put it into property
- three times as much as if they’d put it into a bank account.

When you finally draw your pension in retirement this is taxed like any other income.
Extra money from employers

Employers also often contribute money to occupational pension schemes – usually at least a matching amount, sometimes more.

Craig’s employer doesn’t do this, so it doesn’t apply to him. But this is what the figures look like for someone joining a scheme where the employer matches weekly payments of £25:

The employee pays £25, the employer pays £25 and the government chips in £7 as before. This adds up to £57 a week going into the pension, but the employee only actually pays £25. Again this doesn’t happen to money put into other forms of saving or investment.

Comparisons including matching employer payments

So let’s compare the different types of investment again for someone whose employer matches their payments.

Now the pension’s worth over 5 times as much as the bank account, and nearly 4 times the property.
Using savings to provide retirement income

Some people think of using a savings account to provide retirement income. It’s good to build up savings to meet emergencies or pay for expensive items, but you’d need a very large amount in your account to pay you a retirement income.

You’d want to be able to live on the interest alone. If you spend the savings themselves then the amount of interest they earn goes down – and you might run out of money.

Predictions are difficult because interest rates go up and down, and different accounts pay different rates of interest. At the moment 4–5% would be a good rate of interest from risk-free investments.

So here are some examples, based on 4 1/2% interest:

- To get **£100 a week** (£5200 a year) you’d need savings of about **£115,000**.
- To get **£175 a week** (£9000 a year) you’d need savings of about **£200,000**.

Suppose you were earning £300 a week before you retired. A pension of two thirds of your earnings would be £200 a week. To get that much from your savings you’d need nearly £230,000 in your account.

If you started at age 25 you’d need to save something like £40 every week till you’re 65 to build up savings of £230,000. That’s if you don’t spend the interest, but leave it in the account to boost the total amount saved.

**Savings pros and cons**

Savings are flexible – you can take money out when you like, whereas pension money is locked in until at least age 50. But that’s also risky. You’d need to be strong-minded about not dipping into your account before you retire. If you do that the planned retirement income just won’t be there.

Money you have in savings is yours to leave in your will – a pension stops when the pensioner dies.

On the other hand, as we’ve seen, the government adds a bit to the money that you pay into pensions through tax relief – which doesn’t happen if you put it into savings. Employers sometimes do the same.

**Conclusion**

Building up savings to help pay for retirement is certainly useful, but it’s probably best used to supplement other types of income (like pensions).
Getting retirement income from property

Some people think buying property would be the best way to provide retirement income. In recent years it’s gone up a lot in value while other investments have done less well.

How might this work? There are several things you could do.

**Buy your own house**

There’s a lot to be said for that. If you’ve paid off your mortgage by the time you retire you won’t need so much to live on because you won’t have to pay rent.

**Improve your house or buy a better one**

You could sell it and buy a smaller house when you retire. Suppose you sold a house worth £200,000 and bought a smaller one costing £100,000. If you’d paid off your mortgage, you could pay the other £100,000 into a savings account. That sounds a lot of money, but at current interest rates this would only bring in £4000 or £5000 a year (roughly £90 a week). Would that be enough for your retirement needs?

**Equity release**

There are schemes for tapping some of the value of your house while you go on living there. You stay in the property till you die, but the company running the scheme then owns some or all of it – so you can’t leave it in your will.

But unless you have a very valuable house you wouldn’t get enough to live on. For example, a 65 year old with a house worth £100,000 could only get an income of about £30 a week from it. To get £100 a week you’d need a house worth over £300,000.

**Buying to let**

To make a big enough income to live on from property you’d need to buy houses or flats to let. Not many people can afford to do this on a big enough scale – and it could be risky to depend on just one property.

From 2006 you can include property bought for letting in a Self Invested Personal Pension Scheme.

**Conclusion**

Owning property can make a useful addition to retirement finances, but you’d need to own a lot to live on the income from it when you retire.

Schemes like these may be worth looking into, but probably couldn’t usually be more than a supplement to other income.

There are also possible drawbacks to consider. For example there are costs involved in buying, selling and maintaining property.
Pension options

All employers with more than five employees must offer some type of pension scheme. There are two kinds: salary-related schemes, and money purchase schemes.

Salary-related schemes

Some employers run these. The amount of pension you get is fixed in advance by a formula laid down in the scheme rules. Basically it depends on your final salary just before retirement and the number of years you’ve been in the scheme.

But you can’t buy into a scheme like that unless your employer offers you one. Craig’s employer doesn’t, so that’s not an option for him.

Money purchase schemes

Many employers offer money purchase schemes. This is also what personal pensions are, which anyone can buy. Let’s see how they work.

Suppose Craig decides to pay £1 for every £10 he earns into a money purchase pension. To start with that’ll be £25 a week, out of his earnings of £250 a week. It’ll go up as and when his earnings go up.

As we’ve seen, the government will add £7 a week to Craig’s £25, so £32 a week goes into his pension.

This money goes into his pension fund – what many people call a 'pot' of money. The pension company invests that money on his behalf.

Over the years his pot gets bigger – his payments mount up and the invested money grows in value. If the stock market does well or interest rates are high the pot grows faster.

When Craig retires at 65:

- The pension company works out how much there is in his pot – that’s the ‘fund value’. It’s forecast to be about £465,800 when he’s 65, in 2044 prices.
- Pension rules say the fund must be used to buy an annuity.

‘Annuity’ means that a pension company takes the money in the pot, and in return agrees to pay Craig a pension for the rest of his life.

The pension depends on the size of the pot and the ‘annuity rate’ the company offers – that’s the percentage of the fund it will pay out each year.

- At the current 7% annuity rate he would get £7 of pension a year for every £100 in his pot. So his pot of just over £465,800 would buy him a pension of about £32,600 a year until he dies.
£32,600 may sound a large pension, but it’s in 2044 money.

**In today’s money this pension works out at nearly £240 a week.**

If we add this to the forecast state pension of about £131 we get a total pension income of £371 a week in today’s money.

That’s more than Craig earns now, but it’s about two thirds of his estimated 2044 earnings. So when he retires he’d have nearly £70 for every £100 he’d been earning at the end of his working life.

All these figures are forecasts, looking a long way into the future. They’re estimates not guarantees – in real life the eventual pension could be better or worse. It’s just a kind of ‘best guess’ based on current statistics – but it gives an idea of the sort of money you might need to save if you want this level of pension.

**Assumptions**

The figures for Craig’s pension make the following assumptions:

- Craig’s earnings go up 4.5% a year in line with average earnings
- Prices go at up at 2.5%, current inflation rate
- Investment funds grow at 6.55%
- Fund management charges 1% a year
- Tax relief is calculated at the current basic rate, 22%
- Annuity rate, current single-life level pension average, 7%
**Choices about your eventual pension**

An annuity converts the lump sum in your pension pot into an income for life.

The rules say that if you’ve paid into a money purchase pension you have to buy an annuity when you retire. You can’t just draw out your whole pension pot as a lump sum.

**Tax free cash**

But you can normally take up to a quarter of the pot in cash if you want to – and you don’t need to pay tax on that cash. So you could put some of the money into some other kind of investment – or spend it. But if you took out a lump sum in cash you’d get a smaller pension:

- Craig would get £240 a week in today’s money if his whole pot was used to buy an annuity
- But if he took a quarter as cash, his pension would drop to £180 a week.

**Annuities give certainty**

Once you buy an annuity the rate’s fixed for life – it can’t go up or down after that. So once payment starts the pension is guaranteed. You know what you’ll get, and you can plan accordingly.

So an annuity gives you certainty. Your pension can’t run out before you die – even if you live for 40 years after you retire it still keeps paying out.

But on the other hand when you die it stops – there’s nothing left to leave in your will.

**Keeping your options open**

Craig doesn’t have to decide what kind of pension he wants until he actually retires. And he doesn’t have to buy his annuity from the company he paid his pension to – rates vary, and he can shop around for the best deal.

The annuity rate he’s quoted depends partly on his age when he retires. The older you are the larger your pension will be – the company can afford to offer more because it probably won’t have to pay out for so long. You could draw your personal pension at 50 if you wanted to – but then your pension would be much smaller.

You can buy different kinds of annuity. We’ll look at some examples on the next sheet.
Different kinds of annuities

**Level pension on a single life**
The simplest kind of annuity. It goes on paying the same amount each year until the pensioner dies.

A man retiring now at 65 could probably get an annuity rate of about 7% if he shopped around.

A woman would get a bit less, because women tend to live longer, and therefore stand to get more payments during their retirement. The annuity rate is about half a percent less at present – say 6 1/2%. So if it was Julie instead of Craig she’d get £222 instead of £240.

**An escalating pension**
This pension goes up a bit each year, to allow for rises in the cost of living. But then you get a bit less to start with.

At current rates, if Craig chose a pension that goes up by 3% a year he’d start at about £171 a week instead of £240 for a level pension.

A woman making the same choice would start at £157 a week instead of £222 for a level pension.

**A two-partner pension**
This is for couples, if they want a pension which goes on paying until both partners are dead.

The pension would be a bit lower, because the pension provider will probably have to pay out for longer.

You can choose whether the survivor gets the whole pension or a reduced amount.

For example if Craig had married Julie he could buy a pension of about £208 a week on the basis that she would go on getting two thirds of this – £139 – if he died first.
What type of money purchase pension?

**Stakeholder pensions**

Stakeholder pensions are a new type of money-purchase pension introduced by the government in 2002.

They have to meet certain minimum standards, and are closely regulated to make sure they do. The main points are:

**Low charges**

All pension providers charge for operating the scheme – that’s how they make their money. Money purchase schemes usually charge a small percentage of the fund value each year. With stakeholder pensions they’re not allowed to charge more than 1% a year.

**Flexibility**

You don’t have to make regular payments into a stakeholder pension. If times are hard you can stop paying for a while, adding more when you feel you can afford it. Stakeholder providers aren’t allowed to charge you extra for this.

**Small contributions**

Stakeholder schemes must allow people to pay in as little as £20 a time if they want to.

Anything marked ‘Stakeholder pension’ must by law match up to these (and other) standards.

**Controlling your own pension**

Some people feel they don’t know what happens to their payments or how they’re invested. They’d like more control of what happens to the money they pay in.

Some stakeholder and personal pension schemes let you choose your own balance between investments which are:

- very safe but don’t grow so fast
- likely to grow faster but also a bit riskier.

And there are also new ‘self-drive’ options called Self Invested Personal Pensions (SIPPS). With these you can decide for yourself what investments to include in your pension. And you can switch them around later if you want to.

From 2006 you’ll even be able to put property into SIPPS.