

# Pensions Commission research

Following publication of our First Report the Commission carried out research in five areas to gather evidence to inform our final recommendations. We have also drawn on other research conducted by government departments or other research/analytical bodies to supplement our evidence base.

The five areas we conducted research in were:

1. An understanding of individuals' attitudes towards the four options presented in the First Report.
2. Quantitative data from individuals to examine views on retirement planning, pensions adequacy and expectations of longevity.
3. Getting views from small firms on pension provision and their reactions to a range of compulsion scenarios and their elements.
4. Developing an awareness of the Independent Financial Adviser (IFA) market.

This Appendix focuses on each of these projects in turn outlining more details on the background and methodology used in each project, and highlighting key results and conclusions. The full reports for the two focus group projects, including all the discussion and research materials, are published on our website. In addition there is a short paper outlining the results of the macroeconomic modelling project.

## 1. Individuals' attitudinal research

### (i) Background and methodology

The Commission's First Report stated that faced with the increasing proportion of the population aged over 65, society and individuals must make choices between four options:

- pensioners will become poorer relative to the rest of society; or
- taxes/National Insurance (NI) contributions devoted to pensions must rise; or

- savings must rise; or
- average retirement ages must rise.

We commissioned RS Consulting to undertake a series of 10 focus groups across England and Scotland during March 2005 to assess people's reactions to the four options we outlined in our First Report. Participants were recruited to reflect a variety of situations; the composition of the groups is outlined in Figure D.1. The research aimed to examine attitudes and expectations regarding retirement and reactions in detail to our four options.

Specifically, the research sought to discover:

- how people think about these issues as they face retirement planning;
- people's arguments for and against the four options;
- people's attitudes and preferences towards autonomy in saving for retirement;
- what people considered to be the most acceptable combination of the four options.

The qualitative methodology used was well suited to exploring the perceptions, opinions and expectations of groups in broadly similar circumstances according to their age, employment status, and potential lifetime income and location. Focus groups also allowed some of the motivations – both hopes and fears – underlying participants' views to be understood. Qualitative techniques such as focus groups do not, however, provide findings that are definitive or representative of the population. The results presented here should be interpreted with this caution in mind.

In addition to exploring perceptions, opinions and expectations, we also wanted to know more about the levels of awareness and understanding that people brought to their planning for retirement. To better understand levels of awareness and reactions to some key retirement-relevant facts, the groups were asked to consider stimulus material provided by the Pensions Commission, some of which was tailored to the circumstances of each group. Participants also completed short pre-and post-discussion questionnaires to get a better appreciation of their attitudes.

#### **(ii) The retirement planning dilemma**

The majority of participants expected to be fairly comfortable in retirement, but in contrast with these expectations, most people recognised that they were not currently saving enough to have the income they expected in retirement. Most people felt that saving for the future was becoming increasingly important and simultaneously more difficult. They recognised that the pension system was under strain due to an ageing population.

**Figure D.1** Profile of participants in each group by predefined criteria

Age	Employment Status	Potential Lifetime Income	Location	Number of Participants	Gender:	
					Male	Female
25-35	Full-time	Higher	Birmingham	7	4	3
25-35	Full-time	Lower	Long Eaton/Derby/Notts.	7	4	3
35-45	Full-time	Higher	London	7	4	3
35-45	Full-time	Lower	Long Eaton/Derby/Notts.	8	4	4
45-55	Full-time	Higher	Birmingham	7	4	3
45-55	Full-time	Lower	London	7	4	3
35-45	Self-employed	Higher	Barnet	7	4	3
35-45	Self-employed	Lower	Glasgow	7	4	3
25-45	Part-time/ unavailable for work	Higher	Barnet	7	Female only	
25-45	Part-time/ unavailable for work	Lower	Glasgow	7	Female only	

They were also aware that their own expectations for what constituted a comfortable retirement were higher than their parents' and grandparents' had been.

Despite their awareness that they ought to be "doing something", saving for the future was becoming increasingly difficult. Participants thought that the cost of living was increasing and that debt was increasingly widespread. Most contrasted the fixed demands of today with the uncertainties of the future. The combination of uncertainty about the future and concern about meeting current financial commitments led half to agree that they would prioritise having a good standard of living today rather than saving for retirement. Only a minority, those closest to retirement, were trying to address their uncertainties about what makes adequate preparation for retirement and how to achieve it.

Few participants expected the state pension to provide an adequate retirement income, and some expected nothing at all from the state. Participants thought that the adequacy of the state pension was in decline and that the trend would continue. The decline of the state pension, or uncertainty about its value, and the closure of generous occupational pensions led most participants to the uncomfortable conclusion that there was increasingly a need for people to look after themselves. Most people felt

resigned to having to be more self-reliant in planning for retirement but only a few higher earning participants had plans in place and thought they knew how to achieve financial security in retirement.

Private pensions were, however, considered to be both risky and confusing, and this combination led, in some cases, to denial about the issues and to inaction. Participants considered private pensions to be unacceptably risky for a number of reasons including those that can be summarised under five headings: market risk, lack of liquidity, modest annuity values, the collapse of some schemes and charges of mis-selling. In addition to the risks, private pensions were also said to be difficult to understand. The majority claimed they lacked confidence in their ability to make decisions about pensions. The confusion that participants felt added to their sense that private pensions were unreliable.

Participants' lack of awareness of appropriate contribution levels and rates of return were consistent with what they described as an overall lack of understanding and knowledge of how pensions operate. Only an experienced minority had any understanding of appropriate contribution levels and growth rates. In particular, there was no evidence of understanding that contribution levels needed to be high enough to inflation-proof benefits or that fees could seriously erode returns. There was also little awareness of tax relief on contributions.

Investing in property was repeatedly raised as a "natural" solution to the retirement planning dilemma, although in reality only a minority had actually invested in property in addition to their own homes. To many participants investing in property rather than pensions had a number of advantages such as being easier to understand, and being perceived as providing greater returns and offering greater security.

### **(iii) Evaluation of four potential options for the future**

As the initial stage of the discussion ended, but before the stimulus material about the four options had been presented and discussed, participants were asked to indicate their initial preferences. Participants were asked to allocate 20 points across the four options to reflect their preferred solution for society as a whole. This exercise was followed by detailed discussion of each option.

Following this in-depth discussion, participants were asked to allocate four points across four steps for each option, as described in Figure D.2. The results from this exercise are presented in Figure D.3. Presentation of the options was necessarily simplified to some extent to facilitate discussion. The exercise was conducted to:

- establish preferred combinations and trade-offs once participants had explored all the issues; and
- test acceptance of different levels of sacrifice.

**Figure D.2** Description of combination exercise

Options	Starting position, as of today	1 Steps	2 Steps	3 Steps	4 Steps	Outcomes produced by taking up to 4 steps toward realising each option for change (based on the Commission's assumptions/best guesses)
A) Poorer pensioners	Today's pensioner income would be reduced by:	7.5%	15%	22.5%	30%	Pensioners would on average suffer about a 30% decline in their relative incomes in the next 20-30 years.
B) Increase basic rate tax	Today's basic tax rate of 22% would be increased to:	26%	30%	34%	38%	Taxes and/or National Insurance contributions devoted to pensions would rise taking the basic rate of income tax from 22% today to 38%.
C) Increase amount paid into pensions	The average pension contribution, currently around 7% of pay would be increased to:	11%	15%	19%	23%	Paying into private pensions would rise, increasing from around 7% of earnings today up to 23% in the next 20-30 years.
D) Later retirement	Average retirement age of 63 increased to:	64	66	68	70	The average age of retirement would have to rise for men from 64 up to 70, for women from 62 up to 70.

**Figure D.3** Combination exercise: number of people allocating points to each option

Options	No change	1 Step	2 Steps	3 Steps	4 Steps
A) Poorer pensioners	61	8	1	0	0
B) Increase basic rate tax	18	39	13	0	0
C) Increase amount paid into pensions	3	21	31	7	8
D) Later retirement	27	23	16	2	2

Base: 70 participants answering

As the focus groups finished the initial assessment was repeated to see if attitudes had changed during the discussion.

Balancing sacrifices across the options illustrated in Figure D.2 appeared to force uncomfortable choices from participants and they seemed to be making the choices demanded of them according to a “lesser of evils” decision rule. The trade-off exercise showed that people favoured a combination of remedies in order to minimise the sacrifices that would be involved in moving very far in the direction of any one option. Having to pay more into a private pension, combined with some increase in tax/National Insurance, and along with voluntary extension of working life appeared to be the least painful combination of options.

A comparison of the “before” and “after” assessments showed that there was little change in participants’ attitudes to each option, despite a lengthy discussion and exposure to the stimulus material [Figure D.4]. This surprising lack of movement in overall preferences demonstrates how the four options touch on deeply laid attitudes on issues of social justice, autonomy and the role of government in peoples’ lives.

#### **(iv) Detailed reactions: poorer pensioners**

The option of having poorer pensioners in the future, relative to those in work, was the least acceptable choice in all three assessments, with little variation by participants’ demographic characteristics. Participants said that this option was not a remedy to the problem; instead, it was seen as an unacceptable failure to adapt to changing circumstances and a sign of an uncivilised society. Therefore, a change in the pensions system to avoid pensioners becoming poorer was generally accepted as a matter of principle, although a few thought that the fear of being poor in old age could motivate people to save.

#### **(v) Detailed reactions: increased saving**

This option nearly always featured as an element of a combined solution, and often with greater emphasis placed upon it than upon any other option. It should be noted that despite allocating most points to this option, participants were clear that they viewed having to pay more into a pension or other savings as “the lesser of four evils”. In fact, many initially misconstrued this option, thinking it called only for more voluntary saving.

Overall, respondents thought that having to pay more into pensions or other long-term savings offered greater personal control over retirement planning and that it was fairer, since people would be saving for themselves. Just as people liked the sense of personal responsibility they associated with this option they also understood that with greater responsibility would come greater risk.

**Figure D.4** Average number of points allocated to each option (20 point exercise)

	Average number of points allocated	
	Step 1: Pre-discussion	Step 3: Post-discussion
Having to pay more into a pension or other savings	10	10
Increasing taxes/National Insurance	5	6
Work longer	3	3
Poorer pensioners	2	1

Base: 70 participants answering

**Figure D.5** Compulsion scenario discussed with employees

**A personal pension with a total level of contributions (from employer and employee) of around 10% of earnings.**

The pensions would be run in the same way as current personal pension schemes are run:

- Pension contracts taken out by individuals with insurance companies, banks, building societies etc
- The money paid in is invested in shares, bonds, property and perhaps other things
- The amount of pension income depends on:
  - the total amount paid in
  - the rate of growth achieved by investing the money paid in, e.g. the performance of the stock market during the time that payments are made, minus the fees charged to manage the investments
  - the age at which the individual retires

Participants were asked for their views on one specific example of a compulsory pension saving scheme using personal pensions [Figure D.5]. Note that as this research was conducted while we were considering and developing our recommendations it was not possible to get participants' views on our final recommendations about the type of scheme and level of contributions.

Participants' most significant objection to this example lay in the lack of guarantees: how could the government compel people to save without providing a minimum pension guarantee? Many thought that government should not enforce saving without sharing the risk. Compulsion itself was at odds with the wish for choice and individual control that most participants had initially associated with the "saving more" option.

Participants also argued that compelling people to save was too rigid and claimed it would be detrimental to their own financial well-being, especially their ability to meet current financial obligations. People also thought compulsion would be very hard on people on low incomes. It might also be inappropriate to force some to save. Overall, participants thought that compulsion would only be acceptable if benefits were guaranteed, at least to a minimum level, and clear statements of returns were provided at regular intervals.

Despite strong objections, many could still see that compulsion might have some advantages. Participants thought that compulsion would ensure that people made the correct level of contributions and reduce the likelihood that many would fail to save enough. Without compulsion to save, some said, the system would remain essentially unchanged, since everybody today had the possibility of starting a pension but many did not. Additionally, taking money out at source would make the loss of income less noticeable; it would simplify the process, and in the end people would get used to it.

Participants thought that only a transitional approach to introducing compulsion would be fair. Many participants felt that compulsion alone was too draconian and argued that other measures could be used to encourage greater saving, usually in the form of more education and knowledge. Some participants also mentioned the desirability of a "consolidated forecast" that would give clear information regarding an individual's overall retirement prospects. By informing everyone of what they will, or will not, receive, people would be encouraged to look after themselves. Finally, participants thought that pensions themselves could be made more attractive by:

- giving greater security and predictability with simple illustrations and guarantees;
- providing better tax breaks, although the majority were unaware of existing tax incentives;
- allowing flexible payment options, so people could stop paying for a while;
- giving ownership rights to the individual so pensions could be moved easily from job to job;
- making pensions available through a truly independent channel, since IFAs were not trusted.

But despite these suggestions for alternatives to compulsion, participants' comments gave no grounds for concluding that encouraging people to pay more into private pensions or other savings without compulsion would overcome the barriers to saving that they had already mentioned. There did appear to be some contradiction between participants wanting to make their own decisions, but also wanting to be told what to do because they did not always feel they could make the right decisions.

Participants' initial reaction to the idea of a compulsory employer contribution was very positive. Most participants soon reasoned that they would pay for this in other ways and recognised that the negative impact would be stronger in smaller firms. Furthermore, participants' reactions provided little evidence that the employer would get much credit from employees for a compulsory pension contribution. Some still reasoned, however, that employers' contributions would act as a sweetener if employees were compelled to contribute because they would feel that part of the financial burden of compulsory contributions was being met by their employer.

Participants were questioned on their knowledge and understanding of the State Second Pension (S2P) or its predecessor, the State Earnings Related Pension Scheme (SERPS), to see if the existence of this form of compulsion in the current pension system influenced their attitudes. No-one in any of the groups had heard of S2P, although some had heard of SERPS, mainly through letters advising them recently to opt back into the State Second Pension. Only a small minority of those who knew of SERPS actually understood what it referred to or how it operated. Overall, information about S2P/SERPS had no impact on attitudes except to heighten impressions of the complexity and uncertainty of pensions.

**(vi) Detailed reactions: increasing taxes/NI contributions**

Most people thought that increasing taxes/NI contributions had a role to play in a combined solution, although a less significant one than having to pay into a private pension. For most, the logic behind increasing taxes/NI contributions to some extent was clear. These participants thought that the government could manage the money well and because government is accountable to society, it would have a clear interest in doing so. The other perceived advantage of this option was that everyone would be assured of a fair and adequate pension, thus relieving individuals of the burden of having to make their own arrangements. Participants also reasoned that not only would they themselves be assured of an adequate pension, but also the "deserving poor" and those unable to help themselves would also receive sufficient support in retirement. Participants saw fairness as one of the advantages over compulsion, which they did not think would necessarily benefit all fairly.

The principle of NI was generally considered to be sound by participants because it aimed to raise taxes for specific socially motivated purposes, and in ring-fencing contributions, it provided at least some safeguards that the intended benefits would be delivered. On a practical level, many reasoned that taking money at source had advantages: if you never received it, you could not spend it and would miss it less. Participants saw the appeal of not having to make active decisions and put effort into making private arrangements. Despite being able to see advantages to this option, participants also expressed fear and concern about the costs involved and the level of benefits that might be received, for example, that showed ambivalence in their attitudes to government involvement. As a result,

participants demanded that increased taxes/NI contributions should be accompanied by guarantees of ring-fencing and clarification of the pension pay-outs people could expect to receive.

**(vii) Detailed reactions: working longer**

The possibility of having to work longer was initially assumed to mean that everyone would have to work until the age of 70, probably as a result of media reports that were current at the time. On this basis many rejected the idea outright. Upon realising that this was not the case attitudes towards working longer became more positive, provided the decision to work longer was voluntary and flexible. It should be noted that during the discussion it was made clear that participants were not being asked to consider increasing the State Pension Age (SPA).

Reactions to working longer were still mixed: all could see benefits and drawbacks. Many thought that keeping active and busy in old age improved the quality of life and could also provide a way of topping up retirement income after other commitments were met. Equally, however, participants expressed resistance to the idea of working longer for a number of reasons. Participants expected their 60s and 70s to be a time when they could enjoy retirement. They did not wish to work through retirement into "old age". People seemed to view retirement as the period that follows working, when life can be enjoyed while people are fit and healthy. Retirement itself precedes old age, which begins when health deteriorates.

All participants appreciated that some people would be unable to work longer, even if they wanted to. Circumstances surrounding working and retirement were thought to be highly individual, leading to a strong desire for choice in all elements associated with working longer. Working longer would be acceptable if it were optional, many thought, and so long as it was not the result of increasing the SPA. Participants felt that they should be allowed to continue working if they wished, and that decisions on this issue were best made as people approached retirement age, rather than far in advance and for a fixed term. Many thought that working longer would become more attractive if people were allowed greater flexibility, such as part-time working and flexible hours. It was suggested that people who chose to work longer should still be able to claim pension benefits, in full or part, according to their choice.

During the discussions, participants were presented with information showing trends in average life expectancy and average time spent in retirement. The life expectancy figures did not come as a surprise to most participants, who had already recognised that society is ageing, but the number of years spent in retirement came as a shock to many. The length of retirement had rarely been considered by participants or accurately estimated. Consequently participants had not thought much about the length of their retirement or estimated in a realistic way the funding needed for a long retirement. For some the information about the length of retirement increased their willingness to consider working beyond 65, provided the decision remained optional.

It is worth noting that in focus groups conducted by the Institute for Public Policy Research (IPPR) when participants were presented with longevity data similar to the material we used, in some cases there was outright refusal to believe that people are living longer and are healthier. In short many in the groups were disinclined to take the information put forward at face value. Attitudes ranged from surprise, through to healthy questioning and scepticism, and to outright rejection and disbelief.

### **(viii) Conclusions**

Seven main themes emerged from the research:

- There was general agreement that pensions and achieving financial security in retirement are problematic, on a personal level and for society as a whole. There was also general agreement that something needs to be done, but acceptance of painful change was lacking. There may be the start of a consensus, though, that the pensions system needs to change to avoid future generations of poorer pensioners.
- There was resignation about state provision and some feeling that it would become inadequate. Expectations of state provision were heavily discounted by uncertainty about entitlements, the basic mechanics of how pensions work, and many other matters. Despite knowing that they would have to do more to prepare for retirement, most said that they did not know how to help themselves in ways they thought would be effective. Participants said they lacked the funds, the necessary knowledge and a sense of urgency to be able to act upon their instinct to be more self-reliant.
- Looking to the future, participants would envisage changes in policies affecting pensions that they thought would be constructive. For instance, transparency in the form of linking savings and benefits would give people a sense of control and greater ability to make long-term plans. Guarantees would help to achieve predictability, fairness and security. Ring-fencing would be required to protect public funds collected to provide for retirement income from being diverted for other purposes. A consistent policy regime would ensure continuity for individuals, with some choice and flexibility allowed for personal circumstances.
- A combined solution was favoured by nearly all when choices were forced between the four options. Increasing savings into a private pension met people's wish for rewards commensurate with input, and for autonomy. Despite the fact that compulsion was unappealing, there was no evidence that alternatives would encourage significant numbers to save voluntarily. Increasing taxes/NI contributions was seen as a way to balance the risks associated with personal pensions. A solution that also involved increasing taxes/NI contributions and possibly working longer was considered to be the best for society as a whole.

- Everybody would support greater choice about working longer, but no one would make that decision far in advance. Flexibility, such as working part-time, would make working longer more attractive. Many said that those who choose to work longer should not lose out financially compared to those who do not.
- An age-based transitional approach to change in the pensions system was seen as more appropriate than a "Big Bang". Most said it would be unfair to enforce a new system on people who were half way through their working lives and had made plans based on the current situation. The gradual lifting of the SPA for women had been successful in that it was widely accepted as fair and reasonable. This approach to change might be a reference point for other changes to the pension system.
- No solution will be acceptable unless people have the necessary financial literacy and information to understand the issues involved. Inaction and a sense of paralysis feed on lack of understanding and expectations that can be unrealistically optimistic or pessimistic. Participants in this research agreed that education is also needed to explain why the system is under such pressure, to dispel myths and to show why painful solutions are necessary.

## 2. National Statistics Omnibus survey

### Background

In addition to our qualitative research the Pensions Commission wanted quantitative data on individuals' views on retirement plans, expectations of retirement income, awareness of longevity and savings behaviour. We were able to place a short module of questions in the April 2005 National Statistics Omnibus survey, with two additional questions included in the May survey so that they were asked outside the pre-election period.

This section outlines the following results:

- i. Methodology
- ii. Knowledge and attitudes
- iii. Saving
- iv. Sources of retirement income
- v. Income aimed for in retirement
- vi. "Minimum" and "comfortable" levels of retirement income
- vii. Replacement rates

- viii. Expected retirement ages
- ix. Expectations about length of retirement and longevity
- x. Confidence in the pensions system
- xi. Conclusions

This Appendix cannot include all of the potential analysis from the module, but includes a number of the key findings. The questionnaires used are included at the end of this Appendix.

### **(i) Methodology**

Interviews were conducted with approximately 1,200 adult individuals aged 16 or over in private households in Great Britain. All interviews were carried out face-to-face by members of the general field force of interviewers trained to carry out National Statistics surveys. The response rate for April was 69%, with a similar result for May.

All the questions in the April module were asked of those defined as “working age” that is, being of working age if aged below State Pension Age (SPA) and not retired, or aged over SPA and in employment. This definition was used in previous Omnibus modules investigating pension issues and has been used again for consistency.

## (ii) Knowledge and attitudes

The initial questions of the April module were aimed at introducing the respondent to the theme of pensions and retirement. A number of these questions were previously included in a shorter ONS Omnibus module on behalf of the Pensions Commission in March 2004, and in past research conducted by the Department for Work and Pensions (DWP). The remaining questions explored whether people are saving for retirement, how much income they are aiming to receive in retirement and how long they expect to spend in retirement.

Previous research has indicated that people find pensions in general confusing and complicated. Since 2000 there has been a significant decline in the percentage of the population reporting to have at least a reasonable knowledge of pensions issues [Figure D.6]. In 2005, men were more likely than women to report a good knowledge of pensions and less likely to report no knowledge.

Since 2000 there has been a significant decline in the percentage of people who have given a lot of thought to making arrangements for an income in their retirement [Figure D.7]. Our research found that nearly two-thirds (63%) of working age respondents have never tried to work out how much they will need to save for retirement. There was great variation by age with younger respondents unsurprisingly less likely to have attempted this.

In the May module we also asked people of working age who should be mainly responsible for ensuring that people "have enough money to live on" in retirement. Overall, 55% said the government should be mainly responsible, which is a significant increase since we last asked the question. And there was a significant shift downwards in the percentage of people stating that the individual and their family should be mainly responsible [Figure D.8].

A possible explanation for this change in overall attitudes could be due to this particular question being asked immediately following a general election. Pensions issues have been highlighted in the media for a while and may also be at the forefront of individual's minds. It will be important to see if this shift in attitude around responsibility is a one-off as a result of the recent attention pensions issues have been receiving or the start of a long-term trend.

Few respondents thought that employers should be mainly responsible for ensuring people have enough to live on in retirement. Those aged 25-44 were more likely to say that the individual and their family should be mainly responsible, while older people were more likely to say the government should be mainly responsible. This could reflect that older people may feel it is too late for them to take steps themselves to provide retirement income, and so may feel more reliant on the government, or it may reflect differences between generations. Forty per cent of men reported that they thought the individual and their family should be mainly responsible compared with 34% of women. This difference could reflect the reduced opportunities that women currently have to build up a private pension in their own right. These results were also

**Figure D.6** Self-reported knowledge on pensions issues

	2000	2002	Column percentages	
			2004	2005
I have a good knowledge of pensions issues	13%	13%	12%	12%
I have a reasonable, basic knowledge of pensions	40%	37%	32%	35%
My knowledge of pensions is patchy	28%	29%	31%	31%
I know little or nothing about pensions issues	18%	20%	22%	20%
Don't know	1%	1%	3%	2%
Base (n)	1,304	1,223	1,231	875

Source: Pensions Commission modules 2004 and 2005, Pensions 2002, Pensions 2000

**Figure D.7** Thought given to arrangements for an income in retirement

	2000	2002	Column percentages	
			2004	2005
A lot of thought	35%	31%	31%	26%
Some thought	36%	39%	37%	36%
Very little thought	17%	20%	21%	23%
Not thought about it at all	12%	10%	11%	15%
Base (n)	1,304	1,222	1,226	868

Source: Pensions Commission modules 2004 and 2005, Pensions 2002, Pensions 2000

**Figure D.8** Responsibility for ensuring that people have enough money to live on in retirement

	2000	2002	Column percentages	
			2004	2005
Mainly the government	42%	44%	43%	55%
Mainly a person's employer	4%	7%	6%	4%
Mainly the person themselves and their family	50%	46%	45%	37%
Don't know/No opinion/None of these	4%	2%	5%	3%
Base (n)	1,304	1,222	1,231	855

Source: Pensions Commission modules 2004 and 2005, Pensions 2002, Pensions 2000

reflected in the focus groups of individuals described earlier where it was felt the responsibility mainly lies with the government or the individual themselves and less with the employer.

### **(iii) Saving**

This next section takes a look at the extent to which working age individuals save for retirement. There are a number of reasons why individuals choose not to save, we explored the reasons why and looked at the characteristics of these people. Only four out of ten working age respondents said that they are currently contributing to a pension. There is little variation between men and women [Figure D.9]. As an alternative or in addition to saving for retirement in a pension, only 21% of respondents said they save money each month specifically for their retirement in a form that is not in a private pension.

Attitudes towards current standards of living will affect whether individuals save specifically for retirement. Our research found that around half (52%) of the respondents tend to agree or strongly agree that they would rather live well now than save for retirement [Figure D.10]. Again there was little variation between these attitudes for men and women. Of those who strongly agree with having a good standard of living today instead of saving for retirement, 80% said they are not currently contributing to a pension.

We asked all respondents who were not currently contributing to a pension the reasons for this. Figure D.11 illustrates the top five specific reasons given for not saving in a pension. The predominant reason chosen is that respondents do not think they earn enough to be able to save, followed by not being able to afford to do so. There were also a number of respondents who gave "other" for their reason for not currently contributing to a pension even though they had a fairly comprehensive list to choose from.

For each reason stated in Figure D.11, there is variation in the distribution by the level of current income. Of those respondents who said they do not earn enough to save, almost 80% have a current gross income of less than £12,480. People who said they cannot afford to save as they have other financial commitments are more likely to have an income between £5,200 and £20,799 [Figure D.12].

Six out of ten working age respondents thought they should be saving more, specifically for retirement. Perhaps surprisingly there is little variation seen in this attitude for those with current pension membership and those without. Although more respondents with current pension membership thought they were saving the right amount compared to those without [Figure D.13]. Overall only 1% of respondents thought they should be saving less.

**Figure D.9** Current pension membership, by sex (self-reported)

	Column percentages		
	Men	Women	All
Occupational pension	32%	30%	31%
Personal or Stakeholder	9%	6%	8%
Neither	59%	65%	62%
Base (n)	411	465	876

Note: Respondents were only asked about current pension membership, not about previous pension participation.

**Figure D.10** Extent of agreement or disagreement with statement "I'd rather make sure that I had a good standard of living today than put aside money for my retirement"

	Column percentages		
	Men	Women	All
Strongly agree	14%	15%	14%
Tend to agree	38%	38%	38%
Tend to disagree	34%	32%	33%
Strongly disagree	8%	9%	9%
Don't know	6%	6%	6%
Base (n)	411	465	876

**Figure D.11** Top five specific reasons why individuals are not currently contributing to a pension

Don't earn enough	38%
Can't afford to/too many debts, bills, financial commitments	24%
Not working at the moment	19%
Too early to start a pension	12%
Don't know enough about pensions/complexity of issues	11%
Base: all with no current occupational, personal or Stakeholder pension (n)	451

Note: This was a multi-coded question where respondents could select as many responses that applied to their situation so the total will not sum to 100%.

#### (iv) Sources of retirement income

An individual can rely on a number of sources for an income in retirement. Our survey found that 71% of all working age respondents reported that they expect some type of pension to be their main source of income, and almost one-third (32%) expect the main source to be an occupational pension [Figure D.14]. As anticipated there was a relationship between current pension membership and the expected main source of income. Those currently contributing to a pension were much more likely to report that they expect a pension to be their main source of income in retirement.

In comparison to previous Omnibus modules, which included a question on expected source of income in a slightly different format, there has been a decrease in the percentage of respondents expecting their main source to be their own Basic State Pension (BSP) and an increase in the percentage expecting their main source to be "other". Figure D.14 shows that of those with no current pension, 27% expect to rely on "other" sources for their main income. When looking into this group in more detail, 34% expect this to be non-pension state benefits. These figures need to be treated with caution as it is possible when answering the new style question (m373\_13) that some respondents assumed the "own pension" option referred only to a private pension.

As other research has shown, women are more likely than men to expect to be dependent on their partner's income in retirement. Overall, 22% of women expect their main source of income to be from their spouse or partner. Of those expecting their main source of income to be from their partner, 97% were women. Of those women expecting to rely on their partner, the majority anticipated this income to be from a private pension [Figure D.15].

Figure D.16 illustrates the distribution of the expected main source of non-pension income in retirement. Of respondents expecting to rely on non-pension sources, 20% expected their income to be from non-pension state benefits. As mentioned previously these figures need to be treated with caution.

As in other research, our survey suggested that some, but not a high percentage, expected property to be their main source of income. Our findings from the individual focus groups suggested that people saw it as a "natural" solution to fund their retirement but only a minority had actually invested in property for this purpose. Our survey results found only 5% of respondents expected their main income source to be property [Figure D.14]. When looking only at those who expect their main source to be non-pension income, this percentage increases to 18%, still a relatively small minority. Ten per cent of these respondents expect to down-size (some people in the focus groups had thought about this as a means to fund their retirement income). In comparison to previous research, there is a difference in the percentage of individuals expecting their main source to be their own earnings with a larger percentage expecting to be earning (20%).

**Figure D.12** Top five specific reasons for not currently contributing to a pension by gross individual income band

	Current income					Base (n)
	Less than £5,200	£5,200– £12,479	£12,480– £20,799	£20,800 – £33,799	£33,800+	
Don't earn enough	47%	33%	16%	2%	2%	134
Can't afford to/too many debts, bills, financial commitments	18%	37%	33%	9%	3%	109
Not working at the moment	57%	36%	7%	0%	0%	63
Too early to start a pension	48%	18%	33%	0%	1%	44
Don't know enough about pensions/complexity of issues	18%	36%	39%	4%	2%	31

**Figure D.13** Attitude towards amount currently being saved specifically for retirement by current pension membership

	Column percentages		
	Pension	No pension	All
Should save more	62%	60%	61%
Should save less	2%	1%	1%
Saving right amount	31%	12%	19%
Don't know	5%	13%	10%
No income at present	0%	14%	9%
Base (n)	352	524	876

Note: Pension category includes all current members of occupational, personal or Stakeholder Pensions. Respondents were only asked about current pension membership, not about previous pension participation.

**Figure D.14** Expected main source of retirement income by current pension status

Expected main source of income	Pension	Column percentages	
		No pension	All
Own state pensions	7%	20%	14%
Own occupational pension	60%	13%	32%
Own personal or Stakeholder pension	13%	13%	13%
Partner's state pensions	0%	1%	1%
Partner's occupational pension	5%	8%	7%
Partner's personal or Stakeholder pension	2%	3%	3%
Property	3%	7%	5%
Other savings & investments	5%	7%	6%
Other	5%	27%	18%
Pension – don't know type	0%	1%	1%
<b>All pension sources</b>	<b>87%</b>	<b>59%</b>	<b>71%</b>
<b>All non-pension sources</b>	<b>13%</b>	<b>41%</b>	<b>29%</b>
Base (n)	341	457	798

Note: Pension category includes all current members of occupational, personal or Stakeholder Pensions. Respondents were only asked about current pension membership, not about previous pension participation. The Pensions Commission definition of "other" includes own or spouse/partner's earnings, inheritance, profit from selling own business, state non-pension benefits, sale of possessions, income from family, and other.

**Figure D.15** Distribution of main source of retirement income for women expecting to rely on their partner

Partner's state pensions	7%
Partner's occupational pension	59%
Partner's personal or Stakeholder pension	23%
Partner's earnings	9%
Partner's pension – don't know type	2%
Base (all women expecting their main income source to be reliant on their partner) (n)	85

**Figure D.16** Expected main source of non-pension income where pension income is not main source of retirement income

<b>(Non-pension) savings and investments</b>	<b>20%</b>
Savings accounts	13%
Stocks, shares, unit trusts	3%
Endowment/life assurance	2%
Other insurance	1%
Annuity	0%
<b>Property</b>	<b>18%</b>
Rent from property	8%
Profit from selling property and moving to a less expensive one	10%
<b>Earnings from paid employment</b>	<b>20%</b>
Own	16%
Partner's	3%
<b>Other sources</b>	<b>42%</b>
Inheritance	9%
Profit from selling own business	6%
State benefits (non-pension)	20%
Income/allowance from family	1%
Sale of possessions	2%
Other	5%
<b>Base (all expecting non-pension sources of retirement income) (n)</b>	<b>226</b>

Note: Totals may not sum to 100% due to rounding.

Some individuals may be expecting more than one main source of retirement income. We asked respondents to select their second main source (if any) from the same list as the main source. Twenty two per cent of respondents do not expect a second source of income in retirement [Figure D.17].

When looking only at those who do expect a second source, the majority expected this to be from either other saving and investments or the "other" category. Almost one-third of respondents (31%) who classified their second income source as "other" expected to have their own earnings. Almost as many people expected an income from an inheritance to be their second income source [Figure D.18].

#### **(v) Income aimed for in retirement**

The income an individual will receive in retirement is dependent on many factors and circumstances during their working life. We knew that asking specifically what level of income people expect to get in retirement would be difficult and that a number of respondents would not know what their income in retirement would be, particularly those who are younger and so retirement is a long way off. Our survey found almost half (47%) of the respondents had no idea what their income in retirement would be and this did vary by age as expected. Seventy-seven per cent of those aged 16-24 had no idea compared to 22% aged 55-64.

Our approach therefore was to ask respondents to think about the income in retirement they are aiming for and to indicate this by selecting a statement from a show-card describing this in terms of standard of living. We wanted to compare income aimed for in retirement and behaviour and attitudes towards saving for retirement.

An individual's current living standards and perception of current income will have an influence on what they are aiming to get in retirement. When asking respondents to describe the level of income they are aiming to receive in retirement, 38% aimed to have enough to treat themselves about every week and 19% aimed to have enough to be able to afford luxuries [Figure D.19].

Around two-thirds (67%) of respondents who were currently contributing to a pension were aiming to have at least enough to afford expenses and treat themselves every week in retirement. In contrast, 51% of respondents with no current pension were also aiming for the same level of retirement income [Figure D.20].

When looking at this question in more detail, respondents aiming to have "enough to have a treat every month" in retirement were more likely to agree with the statement that they would rather have a good standard of living today than save for retirement. Whereas individuals aiming for a higher level of retirement income were more likely to disagree with this statement. Figure D.21 illustrates this relationship.

**Figure D.17** Expected second source of retirement income by current pension status

Expected second source of income	Pension	Column percentages	
		No pension	All
Own state pensions	12%	9%	10%
Own occupational pension	10%	6%	8%
Own personal or Stakeholder pension	8%	8%	8%
Partner's state pensions	2%	2%	2%
Partner's occupational pension	13%	5%	8%
Partner's personal or Stakeholder pension	3%	2%	2%
Property	8%	7%	7%
Other savings & investments	16%	16%	16%
Other	15%	17%	16%
Pension – don't know type	0%	1%	1%
No other source	13%	28%	22%
<b>All pension sources</b>	<b>49%</b>	<b>32%</b>	<b>39%</b>
<b>All non-pension sources</b>	<b>38%</b>	<b>40%</b>	<b>39%</b>
Base (n)	317	411	728

Note: Pension category includes all current members of occupational, personal or Stakeholder Pensions. Respondents were only asked about current pension membership, not about previous pension participation. The Pensions Commission definition of "other" includes own or spouse/partner's earnings, inheritance, profit from selling own business, state non-pension benefits, sale of possessions, income from family, and other.

**Figure D.18** Breakdown of “other” expected second source of income in retirement

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Own earnings	31%
Inheritance/income from inheritance	27%
Profit from selling own business	8%
State benefits other than state pension	18%
Sale of possessions	0%
Income or allowance from family	1%
Other source of income	11%
Spouse/partner's earnings	4%
Base (all expecting “other” as a second source of income) (n)	111

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**Figure D.19** Income aimed for in retirement

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Plenty of money to afford food, housing, living expenses and luxuries	19%
Enough to afford basic food, housing and living expenses and to treat self about every week	38%
Enough to afford basic food, housing and living expenses and to treat self every month or so	23%
Enough to afford basic food, housing and living expenses	10%
Not enough to afford basic food, housing and living expenses	2%
Don't know	8%
Base (n)	876

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**Figure D.20** Income aimed for in retirement by current pension membership

	Column percentages		
	Pension	No Pension	All
Plenty of money to afford food, housing, living expenses and luxuries	20%	18%	19%
Enough to afford basic food, housing and living expenses and to treat self about every week	47%	33%	38%
Enough to afford basic food, housing and living expenses and to treat self every month or so	24%	22%	23%
Enough to afford basic food, housing and living expenses	4%	14%	10%
Not enough to afford basic food, housing and living expenses	1%	3%	2%
Don't know	5%	11%	8%
Base (n)	352	524	876

Note: Respondents were only asked about current pension membership, not about previous participation.  
Pension category includes all current members of occupational, personal or Stakeholder Pensions.

**Figure D.21** Income aimed for in retirement by extent of agreement or disagreement with statement "I'd rather make sure that I had a good standard of living today than put aside money for my retirement"

Aim for retirement income	Row percentages					Base (n)
	Good standard of living today rather than save for retirement					
	Strongly agree	Tend to agree	Tend to disagree	Strongly disagree	Don't know	
Plenty of money to afford food, housing, living expenses and luxuries	10%	38%	35%	14%	4%	151
Enough to afford basic food, housing and living expenses and to treat self about every week	11%	37%	38%	9%	5%	336
Enough to afford basic food, housing and living expenses and to treat self every month or so	15%	45%	31%	7%	2%	206
Enough to afford basic food, housing and living expenses	24%	36%	25%	8%	7%	94

**(vi) "Minimum" and "comfortable" levels of retirement income**

Even though some respondents may not have given their retirement income much thought, we wanted to look at what levels of income individuals thought they would need and how realistic these expectations are in terms of their expected income sources. Again, this is a difficult area to study for a number of reasons, so we decided to ask people what their absolute minimum level of income needed would be, and what a more comfortable level needed would be, if they were retired today. We related this to the qualitative measures used as outlined in section (v). Answers were captured in £25 bands, based on individual weekly income after tax. We do not know whether individuals answered this question on a household basis rather than an individual basis as requested.

For analysis purposes we excluded those who we have assumed would receive enough income from the state (BSP, SERPS/S2P, Pension Credit, Housing Benefit and Council Tax Benefit) to have a high replacement rate (income in retirement relative to their current income). This group included individuals with an annual gross income less than £5,200 which is in line with the assumptions made in our group modelling published in the First Report.

The amount respondents said they would need as a "minimum" in retirement if they were retired today did vary by current income. Lower earners were more likely to state they need a higher level of income in retirement than their current income. As current income increases so does the percentage within each current income band where the "minimum" is less than their current gross income [Figure D.22].

The Guarantee Credit element of Pension Credit for an individual in 2004/05 is £109.45 per week. Ninety-four per cent of respondents said they would need substantially more than what the state currently provides as a minimum. This suggests that individuals would need to make savings during their working life so they would be able to have the additional income in retirement that they said they would need as a "minimum".

Figure D.23 compares what respondents said they would need as a "minimum" and "comfortable" level of income in retirement. To illustrate this analysis, the mid-point of each £25 is shown in Figure D.23. There is a clear difference between the two levels with the median increasing from the £212 to £237 band to the £312 to £337 per week band.

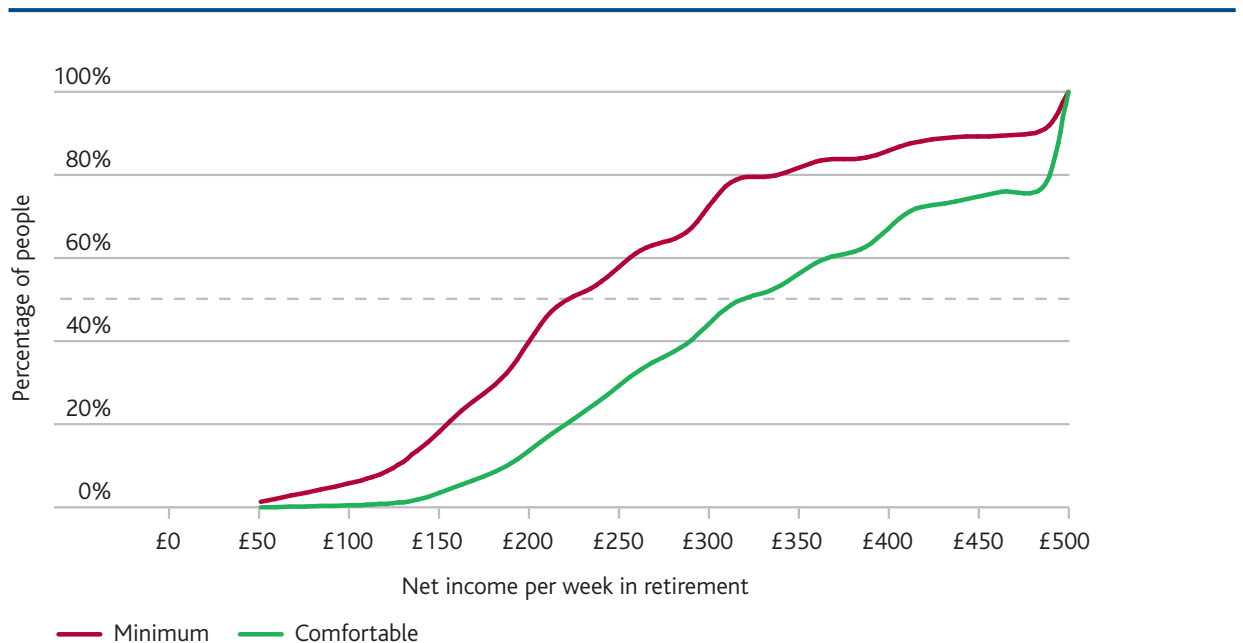
On an individual basis for most people earning £5,200 or more there is a difference of less than £100 between their "minimum" and "comfortable" level. Indeed for 14% of respondents there was no difference at all [Figure D.24]. But as Figure D.23 shows for most income groups the typical difference is around £100 per week. At the median this makes "comfortable" income 45% higher than "minimum" income.

**Figure D.22** Comparison of current income and “minimum” income level needed in retirement if retired today

“Minimum” net income in retirement	Column percentages					
	Current gross income (£ per week)					All
	£100 – £160	£161 – £259	£260 – £359	£360 – £499	£500+	
Less than £149	27%	15%	15%	12%	5%	13%
£150 - £249	39%	48%	50%	34%	24%	38%
£250 - £349	12%	22%	22%	31%	31%	25%
£350 - £499	7%	7%	9%	10%	16%	11%
£500+	1%	2%	2%	7%	21%	9%
Don’t know	13%	7%	2%	5%	3%	5%
Base (n)	83	147	121	113	190	654

Note: Individuals with a current gross income less than £5,200 per year have been excluded from analysis. The question on minimum retirement income was asked with the objective of collecting individual net income, and current income is on a gross individual basis. The numbers highlighted represent the percentage of respondents whose current gross income and minimum net income in retirement are in a similar band.

**Figure D.23** Cumulative distribution of comparison of “minimum” and “comfortable” levels of net income in retirement



Note: Individuals with a current gross income of less than £5,200 have been excluded. The average of each £25 band is shown

We explored further those in the £5,200 - £12,479 and £20,800 - £33,799 categories for current gross income. The "comfortable" level of income for the lower income group was only a little higher than the "minimum" for the higher income group [Figure D.25]. The difference in the median values between the "minimum" and "comfortable" levels for the lower earners was smaller than for the higher earners (although the percentage differences are both near 40%).

Respondents in the higher income group were more likely to have a difference of between £50 to £200 per week between their "minimum" and "comfortable" levels of income in retirement. The majority of respondents in the lower income group had a difference of up to £100 per week in retirement [Figure D.26]. About the same percentage of people in both income bands do not think there is a difference between their "minimum" and "comfortable" levels of retirement income.

Figure D.27 illustrates that there is a relationship between the amount an individual said they would need in retirement as a "minimum" and what they expect their main source of retirement income to be. The majority of individuals who said they would need either £250-£399 or £400+ per week as a "minimum", expect their main source to be their own occupational pension while those with a lower "minimum" income level were more likely to expect a state pension as their main source.

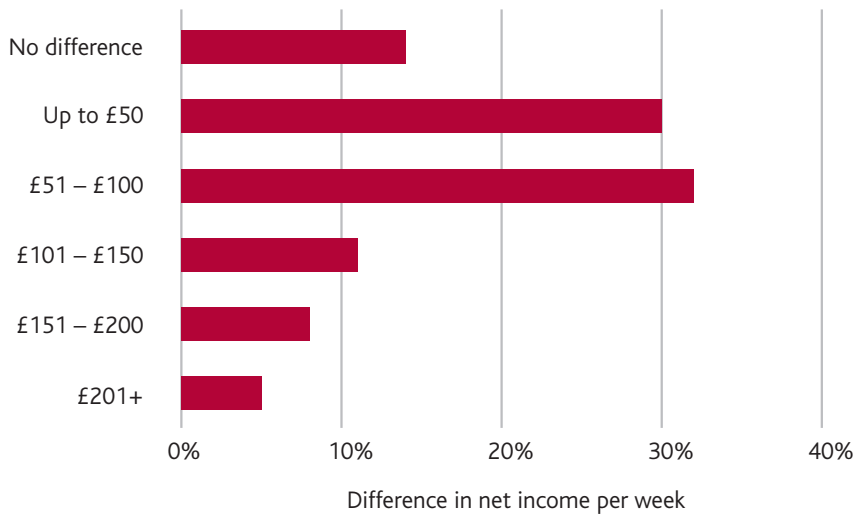
#### **(vii) Replacement rates**

A key area of interest for the Pensions Commission is individual replacement rates – the income received at the point of retirement as a percentage of income prior to retirement. We calculated a broad replacement rate using the £25 categories from the valid answers to our "minimum" and "comfortable" levels of retirement income questions ("don't knows" were excluded). The replacement rate takes the mid-point of the net income in retirement band and is divided by the mid-point of the individual's current gross income band. As before, we have excluded those with a current gross income of less than £5,200 from our analysis.

As net income is lower than gross income this means that the replacement rates, when comparing across current income levels, are lower than if calculated on a gross basis. But the extent of this underestimate will depend on the amount of taxes paid at each income level. Typically replacement rates calculated in the way normally applied (gross income in retirement as a percentage of gross income when in work) would be about a tenth higher than those calculated below (net income in retirement as a percentage of current gross income).

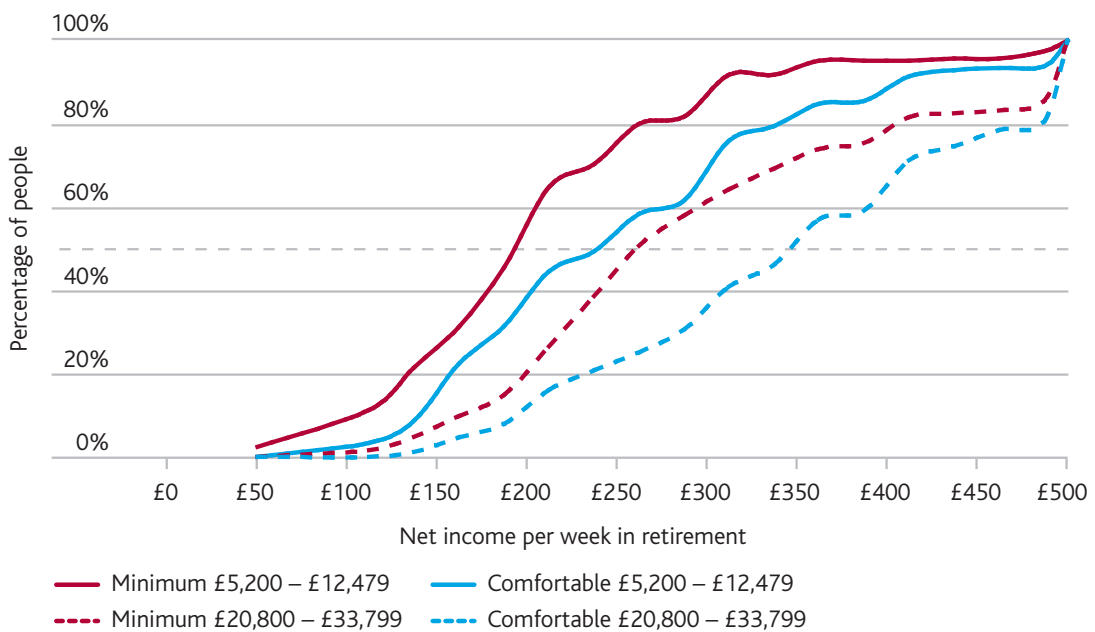
Figures D.28 and D.29 show the distribution of replacement rates across all income bands for the population for "minimum" and "comfortable" levels of retirement income respectively. There is a clear shift in the replacement rates when comparing the "minimum" and "comfortable" levels of income. Generally those in lower income bands said they need a higher replacement rate in

**Figure D.24** Distribution of difference between "minimum" and "comfortable" levels of income in retirement



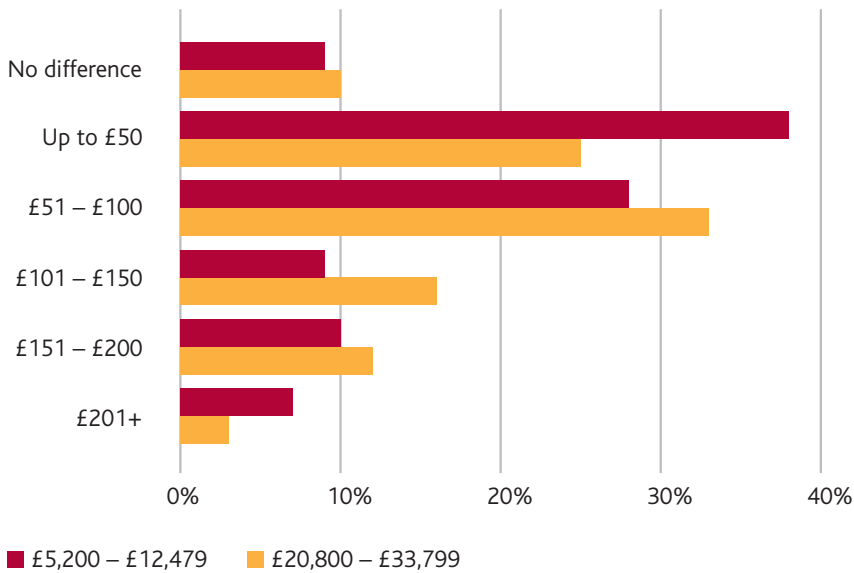
Note: Individuals with a current gross income of less than £5,200 have been excluded.

**Figure D.25** Cumulative distribution of comparison of "minimum" and "comfortable" levels of net income in retirement by current gross income band



Note: The average of each £25 band is shown

**Figure D.26** Distribution of difference between "minimum" and "comfortable" levels of income in retirement by current gross income band

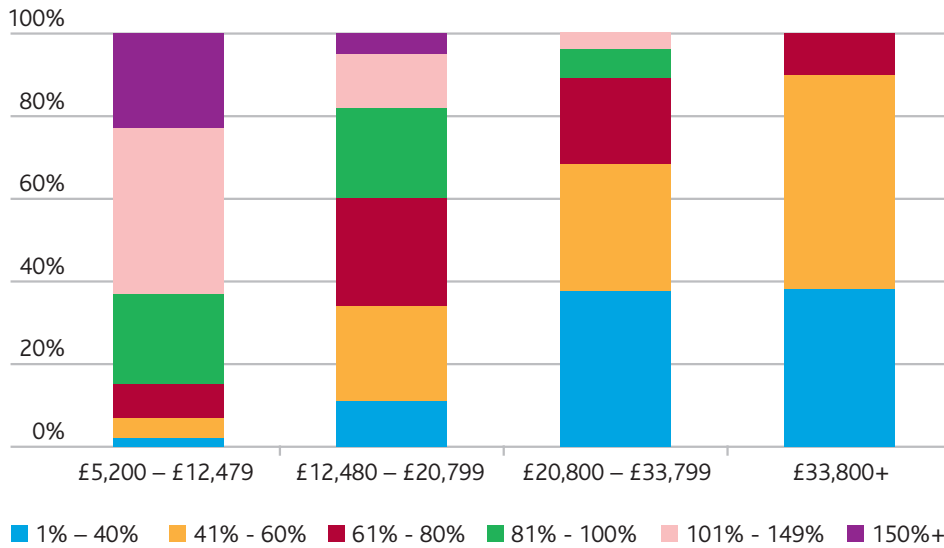


**Figure D.27** "Minimum" income per week in retirement by expected main source of income: pension based income only

"Minimum" income per week	Row percentages				Base (n)
	Own state pension	Own occupational	Own personal or Stakeholder	Partner's pension	
Up to £149	35%	26%	25%	14%	86
£150 - £249	22%	46%	19%	14%	220
£250 - £399	17%	52%	17%	13%	154
£400+	7%	56%	20%	17%	75

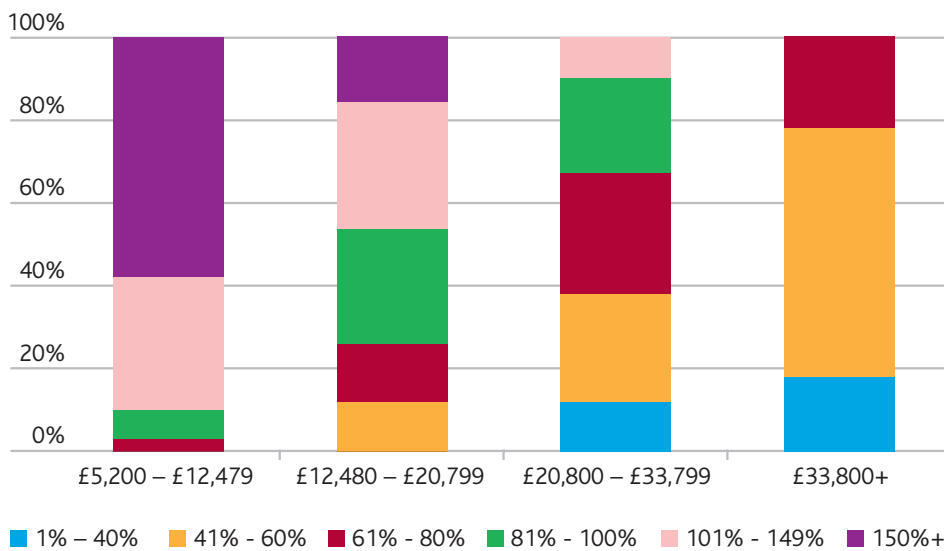
Note: Only respondents whose expected main source of income in retirement is either their own or partner's pension have been included in the analysis. Due to small sample sizes, the main source of partner's pension has been combined for state, occupational or personal or Stakeholder Pension. Respondents who said "pension, don't know which kind" have been excluded due to small sample numbers.

**Figure D.28** Distribution of replacement rates for “minimum” income in retirement by current gross income band



Note: The derived replacement rates are calculated by dividing net individual income in retirement by current gross income.

**Figure D.29** Distribution of replacement rates for “comfortable” income in retirement by current gross income band



Note: The derived replacement rates are calculated by dividing net individual income in retirement by current gross income.

retirement, often higher than their current income, that is more than 100%. Whereas most of those in the higher income bands said they would need less than their current income.

In the group modelling work in our First Report (Chapter 4, Figure 4.11) we used benchmark replacement rates which varied according to earnings band. A direct comparison between both sets of results is not possible, but a broad comparison can be made. In our group modelling we assumed a replacement rate of 67% for someone on median earnings. From our survey results if we consider someone with median income so in the £20,800-£33,799 gross income band the median "minimum" replacement rate is 50%. For the same income group the median "comfortable" replacement rate increases to 72%. So our group modelling estimate lies between the "minimum" and "comfortable" levels of retirement income needed. Within each income group there is a lot of variation between the "minimum" and "comfortable" replacement rates.

#### **(viii) Expected retirement ages**

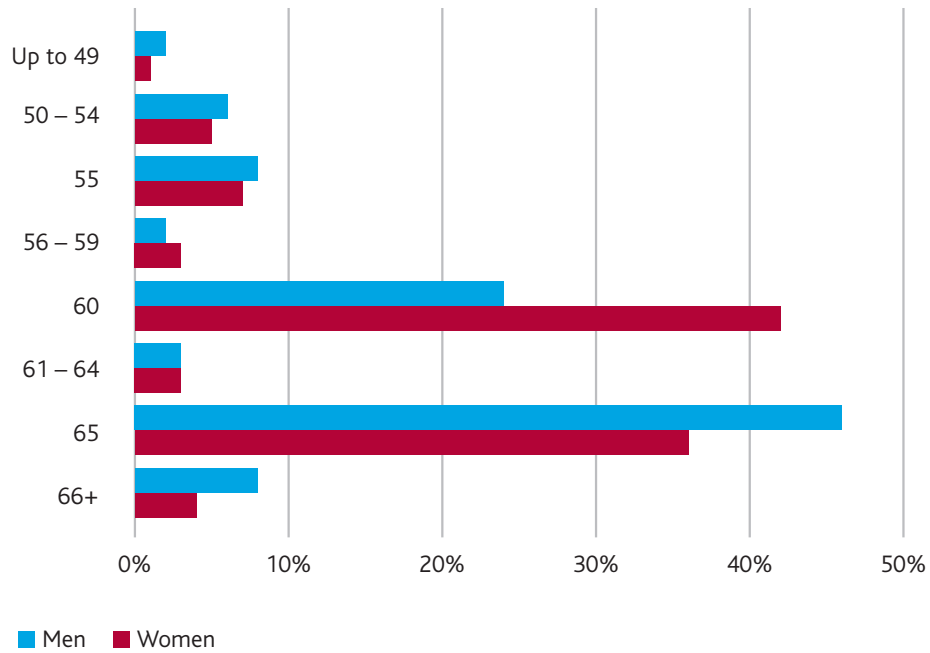
We asked respondents who are either currently in employment or thought they would be in employment in the future to state the age at which they expect to retire.

The median expected age of retirement among respondents is 62. Almost half (46%) of the men expect to retire at 65 followed by the same percentage expecting to retire before age 65. As found in previous research, the majority of people did not expect to retire after age 65 [Figure D.30].

Between 2010 and 2020 the State Pension Age (SPA) for women will change from 60 to 65 years. The following analysis divides the women in the sample into three groups depending on their age at the time of the survey and when their SPA will be. The majority of respondents lie in the group where their SPA will be 65 [Figure D.31]. Over half (59%) of these women expect to retire before they will be entitled to collect their state pension. The women in the other two groups generally expect to retire at or after their SPA but the sample sizes are small. Previous research has highlighted that some younger women are not even aware of the upcoming change in SPA. This lack of awareness could be the reason behind our results, rather than individuals making a conscious decision to retire before SPA.

As shown in Figures D.30 and D.31, for both men and women a number of individuals expect to retire before they will be able to receive the state pension. It is important to look at the relationship between when individuals expect to retire, when their SPA is and what their main expected source of income in retirement will be. As highlighted we are not sure if the results for women regarding their retirement age are due to their lack of awareness of the planned change or a conscious decision. For this reason, the following analysis will only focus on men.

**Figure D.30** Expected retirement ages, by sex



**Figure D.31** Expected retirement ages for women with different State Pension Age

Expected retirement age	SPA = 60	SPA = 65	Column percentages	
			SPA = 60 - 65	All
Up to 49	0%	1%	0%	1%
50 - 54	0%	6%	0%	5%
55	0%	9%	0%	7%
56 - 59	4%	3%	0%	3%
60	46%	40%	55%	42%
61 - 64	13%	0%	11%	3%
65	34%	36%	29%	36%
66+	4%	4%	5%	4%
Base (n)	48	294	34	376

Note: The numbers highlighted represent the percentage of respondents whose expected retirement age is the same as their SPA.

Men who are currently contributing to a private pension are more likely to expect to retire before their SPA [Figure D.32].

Even though the sample size is small for the number of men who said they expect to rely on state provision for their main income source, the results suggest a relationship between expected retirement age and expected main income source [Figure D.33]. About a quarter (23%) who expect their main source to be from the state expected to retire before the SPA compared to a half (50%) of others. Anyone who expects to retire before the SPA will need to have an income source in their own right or from their partner between when they stop earning and when they become entitled to receive a state pension.

#### **(ix) Expectations about length of retirement and longevity**

We asked the respondents who gave a retirement age to state how many years they expected to spend in retirement. There was an 89% response rate to this question. Women were more likely not to respond than men and almost half of the women who did not respond were aged between 16 and 29 reflecting that it is difficult to answer when looking further into the future.

How long an individual expects to spend in retirement is an important factor when looking into how much they need to save specifically for retirement. Fifty per cent of respondents anticipated spending between 20 and 24 years in retirement [Figure D.34]. There is no difference in the median expected length of retirement between men and women. However, as found in previous DWP research, women were more likely than men to expect to spend 20 years or more in retirement (60% to 49%).

For both sexes, individuals who expect to retire before their SPA are more likely to anticipate spending 25 years or more in retirement. For those who expect to retire after SPA over half of respondents anticipate spending fewer than 14 years in retirement [Figure D.35]. However we do need to treat the results for those expecting to retire after SPA with caution due to the small sample numbers.

We wanted to explore people's expectations of their longevity and how they compared to the official forecasts, but as this could be a sensitive subject for some, we have tried to capture this indirectly by looking at planned age of retirement and expected length of retirement.

Where both questions were answered, an approximation of the individual's expectation of life has been calculated by taking the age they said they expect to retire, and adding this to the mid-point of the years expected to be spent in retirement. Any respondent who stated "don't know" for either of these questions was excluded from the analysis. The highest category for expected length of retirement is open-ended at "25 years or more". For the purposes of this analysis we used a value of 30 years to add to the expected retirement age for individuals expecting to spend 25 years or more in retirement. The overall results might change if a different value were chosen. The official figures used

**Figure D.32** Expected retirement age and current pension participation: men

Expected retirement age	Pension	Column percentages	
		No pension	All
Below SPA	50%	42%	45%
At SPA	42%	50%	46%
After SPA	9%	8%	8%
Base (n)	171	183	354

Note: Respondents were only asked about current pension membership, not about previous pension participation. Pension category includes all current members of occupational, personal or Stakeholder Pensions

**Figure D.33** Expected retirement age and expected main source of retirement income: men

Expected retirement age	State provision	Column percentages	
		Non-state provision	All
Below SPA	23%	50%	30%
At SPA	71%	41%	58%
After SPA	6%	9%	11%
Base (n)	52	280	332

Note: State provision includes own or partner's BSP, own or partner's SERPS/S2P and state benefits other than pension. Non-state provision includes all other expected main sources of retirement income.

**Figure D.34** Expected length of retirement, by sex

	Column percentages		
	Men	Women	All
Less than 5 years	2%	1%	1%
5 - 9 years	6%	5%	6%
10 - 14 years	15%	12%	13%
15 - 19 years	17%	15%	16%
20 - 24 years	22%	27%	24%
25 years or more	27%	33%	30%
Don't know	11%	9%	10%
Base (n)	354	376	730

as a comparison are the Government Actuary's Department (GAD) 2003-based principal projection of cohort life expectancy at age 65. The 2003-based projection was used as this was the latest data available at the time of the survey. Each individual was given a life expectancy at age 65 based on the year they would reach 65.

Figure D.36 outlines for men and women by current age the GAD average estimate for the respective age band, and the difference between the derived individual estimate and the official estimate. By comparing the derived individual's expectation of life to the GAD data we can determine whether an individual is likely to be under or overestimating their longevity. For both sexes, there is variation in the differences between all age groups. On average women are more likely than men to underestimate their life expectancy. Unsurprisingly the younger respondents have the highest average underestimates with women aged 16-25 years reporting an underestimate of almost nine years. If we had used the 2004-based figures the average underestimation for both sexes and all age groups would be higher.

There are many factors which can influence how an individual perceives how long they will spend in retirement and hence their longevity. These include alcohol consumption, whether they smoke and their general health. Respondents were asked to comment on their general health, and due to small sample numbers of respondents in the "fair", "bad" or "very bad" categories we have grouped these together. Almost half (49%) reported that their health is very good, followed by 39% reporting good health with little variation between men and women [Figure D.37]. This indicates that individuals are not underestimating how long they will spend in retirement due to reporting being in poor health.

GAD does not calculate average life expectancy by health status. But each individual in our sample had a value for their derived estimate of longevity, and also their own value of the GAD projected estimate. Therefore we could recategorise the groups based on health status and compare the average individual and GAD estimates for each group. The results indicate that individuals reporting a relatively worse current health status are more likely to have a lower derived expectation of life [Figure D.38] which could indicate they are making a rational assessment.

A number of studies have investigated how an individual's expectation of their longevity compares to official projections. A study by Nottingham University found that on average individuals in Great Britain underestimate their longevity by 4.62 years (for men) and 5.95 years (for women) compared with the estimates from the GAD data. The results from our survey are consistent and suggest that individuals in Great Britain do underestimate their longevity. On average men underestimate by 4.2 years and 6.9 years for women. Our results will differ from those in other research because of the different approaches taken. Unlike the Nottingham study we did not explore in more detail other relevant factors such as smoking status.

**Figure D.35** Expected length of retirement by expected retirement age and sex

Expected length of retirement	Men			Women		
	Before SPA	At SPA	After SPA	Before SPA	At SPA	After SPA
Less than 5 years	0%	1%	10%	1%	0%	0%
5 - 9 years	3%	8%	13%	4%	5%	24%
10 - 14 years	13%	14%	32%	9%	13%	27%
15 - 19 years	9%	26%	15%	17%	16%	17%
20 - 24 years	21%	25%	8%	22%	30%	31%
25 years or more	41%	17%	7%	41%	25%	0%
Don't know	13%	9%	14%	8%	11%	0%
Base (n)	155	166	33	169	114	11

Note: Only women whose SPA will be 65 have been included in this analysis due to small sample sizes for the other groups of women.

**Figure D.36** Comparison of average derived individual estimates and GAD forecasts, by sex

Current age	Derived individual's average estimate	Average 2003-based GAD estimate	Average 2004-based GAD estimate	Derived estimate minus GAD 2003-based	Derived estimate minus GAD 2004-based
<b>Men</b>					
16 - 25	81.1	86.7	88.5	-5.6	-7.4
26 - 35	81.4	86.3	87.6	-4.9	-6.2
36 - 45	82.2	85.8	86.7	-3.6	-4.5
46 - 55	81.9	85.2	85.9	-3.3	-4.0
56 - 65	81.7	84.6	85.1	-2.9	-3.4
<b>Difference in derived individual's estimate and GAD 2003-based</b>				<b>Mean</b>	<b>Median</b>
All working aged men 16 - 65 years				-4.2	-3.9
Current age	Derived individual's average estimate	Average 2003-based GAD estimate	Average 2004-based GAD estimate	Derived estimate minus GAD 2003-based	Derived estimate minus GAD 2004-based
<b>Women</b>					
16 - 25	80.7	89.4	91.0	-8.7	-10.3
26 - 35	81.4	89.0	90.1	-7.6	-8.7
36 - 45	82.6	88.6	89.2	-6.0	-6.6
46 - 55	81.3	88.1	88.4	-6.8	-7.1
56 - 65	83.6	87.5	87.7	-3.9	-4.1
<b>Difference in derived individual's estimate and GAD 2003-based</b>				<b>Mean</b>	<b>Median</b>
All working aged women 16 - 65 years				-6.85	-6.5

Source: GAD 2003-based and 2004-based cohort expectancy of life, GB

Note: Expectation of life at 65 is used on the basis that answers about expected length of retirement would be given assuming survival to retirement age.

### **(x) Confidence in the pensions system**

We asked people in the May module what changes they thought would improve their confidence in the pensions system. Respondents could choose up to three measures from a given list of options. Overall, almost half of respondents thought that a simpler pensions system would improve their confidence, and this was closely followed by the option of guaranteeing that contributions would not be lost [Figure D.39]. These two issues were also highlighted in our focus group discussions. The provision of clearer information about both state and private pensions was also supported by around a third of respondents.

Women in particular highlighted the need for better information about state pensions, and the provision of a guarantee that contributions would not be lost. More men than women highlighted the issue of better protection for Defined Benefit (DB) schemes, which could reflect higher participation in these schemes by men.

Those approaching SPA were more likely to highlight the need for better information on state pensions, than younger age groups. Those aged 25 to 44 older were more likely to choose the option of the provision of a guarantee that contributions would not be lost. It could be that the experience of some of this group, for example, endowment mortgages and pensions scandals could be influencing their responses. They were also less likely to choose the option of receiving free advice from the Government. Again, they may feel that it is too late for them to take on board advice at this stage in their working lives. Overall, younger people were more likely to say that they had no opinion on this issue, which probably reflects a general lack of knowledge and awareness by young people of pensions issues.

### **(xi) Conclusions**

This research has highlighted a number of issues:

- Individual's attitudes to pensions, expectations, saving for retirement and longevity were varied across the population. There has been a significant decline in the percentage of the working age population who said that they have a "good" or "reasonable" knowledge of pensions issues. There has also been a decline in the percentage giving "a lot" or "some" thought to arrangements for an income in retirement. In the last year there has been a significant shift in who is seen to be mainly responsible for providing enough money in retirement, from the individual to the government.

**Figure D.37** Distribution of general health, by sex

	Column percentages		
	Men	Women	All
Very good health	46%	52%	49%
Good health	41%	37%	39%
Fair to very bad health	13%	12%	12%
Base (n)	313	340	653

Note: Due to small sample numbers of respondents who said their general health was "fair", "bad" or "very bad" have been grouped together.

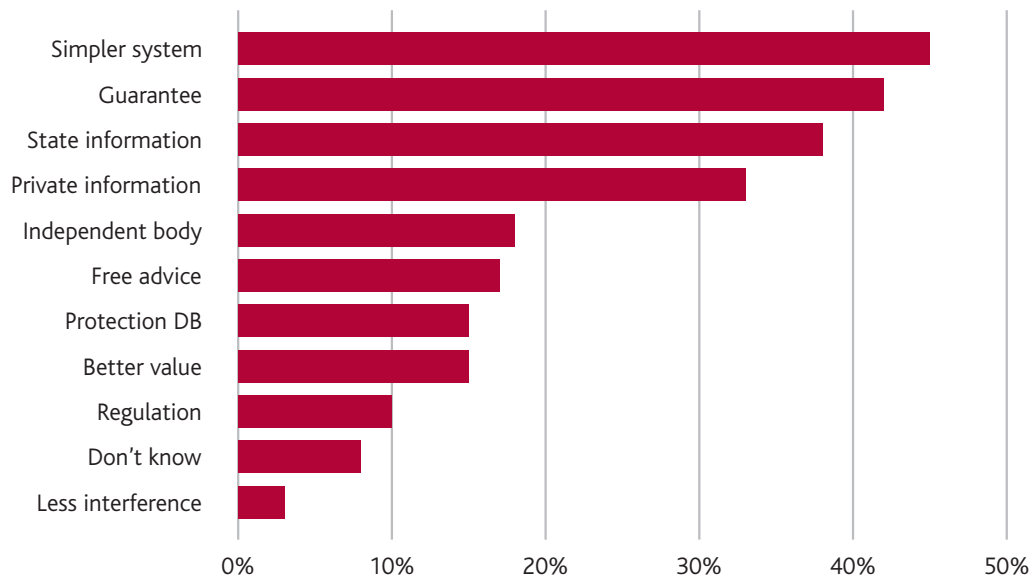
**Figure D.38** Comparison of average derived individual estimates and GAD 2003-based estimates, by sex and general health status

Health status	Derived individual's average estimate	Average 2003-based GAD estimate	Derived estimate minus GAD 2003-based
<b>Men</b>			
Very good health	82.4	86.0	-3.6
Good health	81.7	85.7	-4.0
Fair - very bad health	78.9	85.7	-6.8
All	81.7	85.8	-4.2
<b>Women</b>			
Very good health	82.2	88.7	-6.5
Good health	81.5	88.6	-7.2
Fair - very bad health	81.2	88.5	-7.3
All	81.8	88.7	-6.9

Source: Pensions Commission analysis on GAD 2003-based cohort expectation of life data, GB

Note: Due to small sample numbers of respondents who said their general health was "fair", "bad" or "very bad" they have been grouped together. GAD does not publish estimates on a health basis. The average is re-calculated for the particular health group.

- Our research found that over half (61%) of respondents thought that they should be saving more for retirement with only 1% who said that they should save less. The majority of respondents expected their main source of retirement income to come from pensions of one kind or another. The others divide into five roughly equal groups between other investment income, property, earnings, non-pension state benefits and other sources (of which half are inheritance). Around one-fifth did not expect to receive a second main source of income in retirement.
- There was a clear difference between the levels of income that individuals would need as a “minimum” or to be “comfortable”. Half of the respondents said they would need a net individual weekly income of at least £237-£262 as a “minimum” in retirement to afford only basic food, housing and living expenses. Half said they would need at least £337-£362 to be “comfortable”. These levels tended to increase with respondent’s current income, but there was a very wide spread in suggested levels even within income groups: people’s views of what constitutes an adequate retirement income vary considerably.
- When comparing the replacement rates with those suggested as benchmarks in our First Report [Chapter 4, Figure 4.11], there is no evidence that our benchmarks were over-stating people’s expectations. Those figures suggest that the benchmark of a 67% gross replacement rate for those with median earnings lies between the median replacement rate for “minimum” and “comfortable” levels of retirement income needed for individuals with a gross income of £20,780 to £33,799. However, our benchmark for those with low incomes of 80% is well below the median replacement rate that people in this income group said they needed.
- Despite the planned increase in women’s SPA there was very little difference between younger and older women in the spread of ages at which they expect to retire. Very few men or women expect to retire after the SPA. Our research found that the majority of respondents expected to spend at least 20 years in retirement. When combining expected retirement age with expected length of retirement, the findings confirm recent research from Nottingham University which suggested that people tend to underestimate their own expected longevity. In comparison to the GAD 2003-based projection, women tended to underestimate their longevity by 6.9 years on average and men by 4.2 years. The extent of the underestimation is greater if the recently published 2004-based figures are used.
- Our research found that when asked what would most improve their confidence in the pensions system, almost half said a simpler pensions system would do so, and over 40% said a system that guaranteed that their contributions would not be lost.

**Figure D.39** Which of the following would most improve your confidence in the pensions system?**Note**

Individuals were asked to choose up to 3 options. The options individuals could choose from were asked in the order as follows:

- Simpler, less complex pensions system;
- Clearer information about the State pension and my entitlement;
- Clearer information about private pensions and what I need to save and can expect to receive;
- Free individual advice paid for by the Government;
- Better value private pensions;
- A guarantee that you would not lose the value of the contributions that you have put into a money purchase pension;
- Independent body to run the pensions system in people's interests;
- Better regulation of financial service companies;
- Better protection for employer-sponsored (defined benefit) pension schemes;
- Less interference by Government;
- Don't know/no opinion (spontaneous only).

### 3. Small firms focus groups and DWP financial intermediary research

#### (i) Background and methodology

From the analysis in our First Report we were aware that pension provision in small firms was low, and indeed that the requirement on employers to establish a Stakeholder Pension scheme excluded firms with fewer than five employees. Therefore any recommendations that we made in relation to employers would be likely to affect small firms and the smallest firms in particular. We were therefore keen to undertake a piece of research to understand the views of small firms more clearly. The research was undertaken by Durham Business School on behalf of the Pensions Commission between May and July 2005.

The primary aims of the research were to establish how various options for change in the pension system, particularly options for introducing compulsion, would be received by small businesses and how such changes would affect these businesses. The specification for the research defined the following areas of interest:

- The implications for small firms of extending compulsion, and the main aspects of concern for small and medium enterprises (SMEs): for example, administrative burden, payroll costs, competitiveness, and thresholds.
- The administrative/regulatory burdens associated with different forms of compulsion, and the ways in which these could be ameliorated, including who administers the scheme, tax and NI relief arrangements.
- The position taken by those operating Stakeholder Pension schemes, and the potential impacts upon them of compulsion.
- Comparative impacts of introducing a scheme from scratch versus the extension of an existing one, including benefits and dis-benefits of outsourcing payroll functions including pensions.
- Employers' preferences and views relating to the four options identified by the Commission to deal with the future issues: poorer pensioners, higher taxes, higher savings, higher average age of retirement.

The research specification also required that the research should elicit small businesses' views on four holistic change scenarios.

The brief for the project specified that it should be based around 12 focus group discussions with owners or senior managers of small businesses from a variety of business sectors. This approach allowed for in-depth exploration of key issues and testing of individuals' responses as these are discussed within groups.

**Figure D.40** Location of focus groups

Group number	Locality	Number of participants
1	Norwich	7
2	London	10
3	Cardiff	8
4	Birmingham	9
5	Paddington	9
6	Southampton	8
7	Trowbridge	6
8	Hull	11
9	Durham	6
10	Digbeth	14
11	Perry Barr	10
12	Lichfield	8
Total		106

Each group session included three core activities: a pre-discussion questionnaire, a group discussion and a post-discussion questionnaire. The questionnaires were used to provide background data on the respondents' businesses and responses to specific options for change. The group discussions were designed to solicit more considered responses to the issues being discussed and an understanding of the thinking that underpinned these responses. The discussions were facilitated using a semi-structured topic guide and open questions followed by prompts as necessary.

As part of a broader research programme, this project was not intended to involve a large-scale, nationally representative survey of small businesses. Rather the intention was to construct a sample that would capture the ways in which small firms would generally respond to the options for change being considered, and to identify effects that would be commonly experienced throughout the small business sector.

The research was not intended to evaluate the appropriateness or potential effectiveness of any of the options for change being considered. Rather, it was concerned to acquire a small business perspective on these options and so the findings are basically descriptive. The research was limited to considering specific possible changes to pension provision. It did not consider the impact of working longer or increasing taxation or the trade-offs between the four options identified in our First Report. The scenarios put to participants were designed to elicit responses to a wide range of possible pension reforms.

It is also important to be clear that the findings reflect the immediate, necessarily less than fully considered, responses to a range of complex issues. It is likely that on reflection some participants may well reconsider and generally soften their positions on the various options for change considered.

The sample was constructed to include participants with different experiences of pension provision across a range of business sizes, sectors and regions, of different ages, and with varying growth performances and aspirations. In total, the project involved 12 completed focus groups and a total of 106 participants [Figure D.40].

### **(ii) Responsibility, choice and compulsion**

While most participants readily accepted that there is a rationale for change, most were less clear about where the responsibility for action lies. They were, however, quite clear on one point; virtually none of the participants believed that employers have any significant responsibility in this area. They were also almost unanimous in arguing that there is no benefit to employers from providing enhanced pensions for their staff. Group participants consistently maintained that employees generally perceive little real value in having a pension and that providing a pension does not provide any benefits in terms of recruitment or retention.

Participants' views on whether primary responsibility lies with the government or individuals were mixed. They expressed uncertainty and, to some extent, views were inconsistent and contradictory. Most respondents argued that individuals have a clear responsibility to provide for their own retirement.

In principle, almost all participants considered individual choice to be important and most were unsympathetic to government intervention and regulation both generally and specifically in this area. However, when the issue of choice was subsequently considered in greater depth, positions became less clear. In more detailed discussion of the various options for change put to the groups, most participants apparently placed considerable weight on flexibility; certainly this was one of the most common reasons given for their individual preferences. However, analysis of the discussions suggests that, in part at least, this position reflected the inherent potential that flexible systems have to facilitate employer non-engagement rather than concerns about personal freedoms. Most groups recognised that there are potential tensions between allowing for choice and flexibility and the complexity of the system. Most participants favoured simplicity even if this meant some loss of choice.

Most groups were generally unsympathetic to the notion of compulsion. However, if an element of compulsion was to be introduced, most participants were clear that this should focus on individuals; few favoured the introduction of any form of compulsion for employers. These perceptions persisted throughout the sessions despite the fact that in subsequent

discussions there was a widespread assumption that the potential to enhance voluntarist arrangements may well be limited.

Objections to the introduction of compulsion took several forms. First, there was a widespread view that it was inappropriate in principle-government should not intervene on what were perceived to be essentially the concerns of individuals and employers. Second, there was a relatively general concern that the government could not formulate and deliver an effective policy in this area, a view that was compounded by very deep concerns about private pension providers. Third, there were a range of concerns regarding the costs and impacts that compulsory new arrangements may have on small businesses.

Most participants in the study favoured measures that would make current voluntarist arrangements more attractive and thus more effective. Suggestions in this area focused on two themes: education and incentives.

The possibility of shifting from the current "opt-in" arrangements for pensions to an "opt-out" system based on auto-enrolment was generally seen as an acceptable and potentially effective policy option; not least because it was seen as an appropriate compromise solution that stopped short of increased compulsion. However, many participants suggested that their knowledge of their employees led them to believe that the opt-out rate would be relatively high. Some participants were concerned that such a system would necessarily be accompanied by inducements, possibly including employer contributions, to discourage opt-out.

### **(iii) Administrative burden**

The groups expressed relatively little concern about the administrative burdens that the options for change being considered would have on their businesses. Any administrative burden that might be incurred was generally regarded as likely to be no more than a relatively small cost to the business. Because such increases were generally seen as likely to be less costly to the business than potential increases in employer contributions, they were widely regarded as a secondary issue.

Suggestions that any new pension arrangements might be administered through existing systems, such as PAYE or National Insurance, were generally well received. In part, this reflected a view that any reduction of administrative burden on employers was positive. To a greater extent, however, preferences for a state-administered system appear to have reflected very negative perceptions of private pension providers. A significant number of discussants tended to conflate the administration of schemes with their operation. From this perspective, state-administered schemes were at least seen as being safer than private pensions. Similarly, the option for a "clearing house" for pension contributions was seen as being potentially positive, but of little real significance.

#### **(iv) Employer contributions**

The small businesses included in this study saw the possibility of an increased obligation to contribute to employees' pensions as the single most important and concerning issue amongst all the options for change reviewed in the discussions. In very general terms, participants believed that a situation requiring an employer contribution of 5% of earnings for most, if not all, employees would be highly problematic, but possibly one that they could cope with. Almost all argued that an employer contribution of 10% would have profound effects on the viability of their businesses.

Questionnaire responses suggest that approximately a quarter of the respondents were sympathetic to some level of employer contribution. This proportion corresponds quite closely with the proportion of respondents already making contributions of some kind. Whilst this was not generally evident from the group discussions, it seems likely that these responses reflect a perception that extended compulsion to make employer contributions would create some competitive advantage for these businesses. Therefore, it is likely that the respondents sympathetic to an increased obligation to make employer contributions were generally those that believed that such an obligation would have relatively little impact on their businesses.

A significant proportion of participants argued that if they were faced with contributions of 5% they would reconsider their growth objectives and staffing policies; some suggested that they would forego planned growth to avoid making such contributions. Some also argued that they would actively seek to avoid making such payments through strategies such as contracting-out work or using more casual labour. There was a clear view that if employer contributions were required for most staff, many small businesses would seek to recover this added expense back by making effective reductions in employees' salaries.

There was little evidence that participants' views on these issues softened during more in-depth discussion. Almost all participants believed that an expanded obligation to make employer contributions would impact negatively on their competitiveness, even where the obligation was universal. Few discussants recognised any benefits for employers from making contributions.

#### **(v) Thresholds**

Discussants were generally in favour of thresholds and exemptions. That is, they were sympathetic to any arrangement that would potentially reduce employers' obligations to contribute to employees' pensions. Most groups argued there is little point in individuals on low incomes being in a pension scheme; they have little, if any, spare income, and the contributions they might reasonably afford are too low to be meaningful. There was a widely held view that all employees should be in a pension scheme as soon as they begin work; the principal argument for this being that it is important to normalise the idea of being in, and contributing to, a pension scheme. Few groups spontaneously suggested a threshold related to time in post.

Perhaps unsurprisingly given the high proportion of micro and small businesses within the sample, exempting businesses below a minimum size was seen to be very significant and clearly the most important of the various possibilities considered. Most groups suggested that the burdens associated with many of the options for change were likely to fall disproportionately on small businesses. A very high proportion of participants assumed that current exemptions for businesses with fewer than five employees should and would be retained. Micro-businesses were concerned by the prospect of any new obligation to provide, administer or contribute to employee pensions. These views appear to reflect both apprehension, stemming from a general lack of knowledge of pension schemes and their administration, and concerns about additional staff costs.

A limited number of respondents volunteered the unprompted suggestion that the age of the business is important because established businesses are generally more able to cope with change and increased costs than newer ones, the implication being that some exemptions should be granted to new businesses.

A number of groups made the point that the potential burdens involved in extending employers' responsibilities would affect businesses in different sectors disproportionately; with the most severe effects falling on labour intensive, low wage sectors because wage costs represent a high proportion of overall cost for these businesses. Some respondents pointed out that there was little opportunity to pass on additional costs in their sector.

#### **(vi) The four scenarios**

When this research was being developed the Pensions Commission were considering a range of possible options and ideas for pension reform. It was not possible to consider all the potential options in the research and so we developed four specific options for discussion [Figure D.41]. The scenarios had some key features that were discussed in the focus groups, and we necessarily had to simplify the details in order to facilitate discussion. The scenarios focused on the elements that would directly affect employers. It is worth noting that there was not a scenario with exactly the same features as our final recommendation. In particular, the contribution levels discussed were significantly higher than those we have recommended in our preferred option.

The four scenarios were systematically considered in each of the focus groups. Participants were asked to identify elements that they liked and disliked, to suggest how the individual scenarios would affect their businesses, to identify any reasons why each scenario would not work in practice and to suggest how they each might be improved.

A number of participants found the scenarios complex, and a minority were reluctant to comment on options that they felt they did not have time to consider fully. A number of participants were clear that in identifying preferences for particular scenarios they were choosing the "least bad" option.

**Figure D.41** The four scenarios**Orange Scenario: Compulsory employer contributions and administration**

- All employees have to join a pension scheme that is organised by the employer with a private pension provider, unless individuals are members of a suitable personal pension scheme.
- All employees have to make a contribution of at least 5% of earnings and employers have to contribute 5% for all employees.
- Employers have to organise their own scheme and payments to it.
- For employees not in the employer's scheme the employer has to arrange payments, and make contributions to the pension providers nominated by the employees.
- Applies to all employees aged 21 and over, earning at least £12,100 a year, and who have been with the employer for at least 6 months.
- Contributions are in addition to NI contributions and contracted-out rebates.
- New arrangement would only apply to people who are not already in a pension scheme with some minimum standard, assumed for now to be 10% total contributions.

**Yellow Scenario: Compulsory employer contributions minimised administration**

- All employees have to be members of a new national pension scheme run through the NI system, unless individuals are members of a suitable alternative pension scheme.
- Employers do not have to run their own pension scheme.
- Employees have to make a contribution of at least 5% of earnings.
- Employers have to contribute 5% for all employees.
- Contributions are made through the PAYE system to the national scheme as currently happens if an employee is contracted-in. A clearing house is established via the PAYE system to co-ordinate payments to personal pensions.
- Applies to all employees aged 21 and over, earning at least £12,100 a year, and who have been with the employer for at least 6 months.
- Contributions are in addition to NI contributions and contracted-out rebates.
- New arrangement would only apply to people who are not already in a pension scheme with some minimum standard, assumed for now to be 10% total contributions.

**Blue Scenario: Voluntary employer role and contributions, compulsory membership**

- All employees have to be a member of a private pension scheme of their choice, i.e. it does not necessarily have to be provided by the employer. Employees have to make a contribution of at least 10% of earnings, payment of which to the provider is organised by the employer through a clearing house.
- Employers can choose to set up their own alternative pension scheme if they want to.
- Employers can choose to make contributions if they want to. If employers do contribute individuals' contributions can be reduced.
- Applies to all employees who are aged 21 and over, earning at least £12,100 a year, and who have been with the employer for at least 6 months.
- Contributions are in addition to NI contributions and contracted-out rebates.
- New arrangement would only apply to people who are not already in a pension scheme with some minimum standard, assumed for now to be 10% total contributions.

**Figure D.41** Continued

**Pink Scenario: Automatic enrolment minimised administration**

- All employees are automatically enrolled into a new national pension scheme run through the NI system, unless individuals are members of a suitable alternative pension scheme.
- If employees opt out of this system they do not have to do anything else as an alternative. If they do join an alternative scheme they can choose to make contributions at a lower rate.
- Employees who are members of the national scheme have to make a contribution of at least 10% of earnings.
- Employers can choose to make a contribution. If employers do contribute, individuals' contributions can be reduced. Contributions are made through the PAYE system as currently happens if an employee is contracted-in. A clearing house is established via the PAYE system to co-ordinate payments to personal pensions.
- Applies to all employees who are aged 21 and over, earning at least £12,100 a year, and who have been with the employer for at least 6 months.
- Contributions are in addition to NI contributions and contracted-out rebates.
- New arrangement would only apply to people who are not already in a pension scheme with some minimum standard, assumed for now to be 10% total contributions.

**Figure D.42** Most and least preferred scenarios

	Most preferred	Least preferred
<b>Orange</b>	4%	45%
<b>Yellow</b>	12%	10%
<b>Blue</b>	51%	13%
<b>Pink</b>	34%	32%

Base: Most preferred = 79, Least preferred = 78

In practice, most participants were concerned to choose scenarios that they believed would have least impact on their businesses, rather than because of their positive features. However, data from the post-discussion questionnaires and the group discussions provided relatively clear findings and did point to some individual elements that were generally well received.

About half of participants favoured the blue scenario. A third favoured the pink scenario. There was little if any support for the remaining two scenarios [Figure D.42].

The main perceived positive features of the blue scenario were:

- voluntary employer contributions;
- employer choice about having own scheme or not;
- relatively straightforward administration;
- scenario is relatively simple overall.

The main perceived positive features of the pink scenario were:

- voluntary employer contributions;
- employer choice about having own scheme;
- minimised administration;
- automatic employee enrolment and opt-out.

The distinguishing feature of both of these options is that they allow the employers to choose not to contribute to employees' pensions. Discussion of the scenarios in the group sessions suggested that businesses were fundamentally concerned by this factor and that it was this that determined their preferences. Employers' ability to choose whether to have their own scheme was seen as an important secondary consideration – in part because of concerns over the implications for the business of a scheme failing. The relatively modest administrative burdens associated with these two scenarios were also seen as positive features. The added attraction of the blue scenario appears to be its relative simplicity.

Nearly half of respondents least preferred the orange scenario and a third least preferred the pink, almost exactly the same proportion as most preferred it. The results for the pink scenario were somewhat incongruous in that it was both the second most preferred and the second least preferred.

The main perceived negative features of the orange scenario were:

- the compulsory 5% employer contribution;
- the compulsory minimum 5% employee contribution (in relation to low-wage employees);
- potential administrative burden involved in dealing with multiple pension providers.

The main perceived negative features of the pink scenario were:

- perceived lack of effectiveness – most respondents assumed that a high level of opt-out would make this scenario ineffective in practice;
- uncertainty about the nature of the proposed “national scheme”.

The reasons given for disliking scenarios were generally the inverse of those for preferring others; a deep antipathy to employer contributions and to a lesser extent concerns about administrative burden. It was also clear that preferences for particular scenarios were deeply influenced by perceptions of the impacts they would have on the participants’ businesses.

#### **(vii) Effects on Small and Medium Enterprises (SME) performance and behaviour**

Of all the potential impacts of the specific options for change considered in the groups, participants were only really concerned by those arising from any increased obligation to make contributions to employee pensions. Other potential impacts, including those associated with additional administrative burdens, were generally regarded as unwelcome but probably not that significant for the operation and profitability of small businesses.

Almost all participants argued that an increased obligation to contribute to employees’ pensions would profoundly affect the viability of their businesses, impacting on their competitiveness and profitability. Few groups accepted that a general obligation, applying to all employers, would produce a level playing field and thus not be likely to have a great impact on competitiveness. Participants in almost all the groups argued that the various options for change would have a greater effect on small businesses than it would on larger firms.

Although the findings reported here relate to the immediate, and necessarily less than fully considered responses of the group participants, and so may well exaggerate respondents’ negative perceptions and suggested responses to new policy, it seems likely that:

- a general level of hostility would persist;
- some businesses would be profoundly affected; and
- some businesses, at least, would seek to resist any new obligations.

#### **(viii) Increasing acceptance and buy-in amongst SMEs**

Participants in each of the group discussions were asked what could be done to make the various options for change more attractive to them as small business owners and what changes could be made to ameliorate the negative

impacts of these options on their businesses. Largely because they were so fundamentally concerned by the possibility of being obliged to contribute to employees' pensions, most perceived relatively little value in any such measures.

Overall, there was little belief that any thresholds or exemptions included in new arrangements would be more than relatively insignificant palliatives. That said, participants were generally in favour of any measures that would potentially reduce their exposure to new responsibilities and most were supportive of thresholds that might reduce their obligations and costs. Most micro business owners were particularly concerned by the prospect of new responsibilities and costs.

Several participants pointed out that a key part of the disproportionate impact of new regulation on small businesses relates to establishment costs that are not necessarily lower for small firms than large ones. The implication of this was that some form of financial assistance to help small businesses cope with change would be well received.

Participants in the groups almost invariably thought that some of the options for change being considered were complex and would be difficult to operate in practice. Most suggested that although arrangements with high levels of flexibility and choice might be desirable in principle, they may well be unpopular and impractical if this made them overly complex.

It was clear that at least some small businesses lack adequate knowledge and understanding of pension issues and most groups did feel that appropriate information and support to help SMEs cope with changes would be useful.

Most of the groups suggested that any new arrangements should be introduced progressively and most discussants assumed that some phasing-in would be involved. One suggestion made in a number of groups was that if employer contributions were to be made compulsory, a gradual increase in the level of contributions, rising at say 1% per year up to the required level, would be very helpful.

#### **(ix) Conclusions**

It is important to be clear that the findings from this research are not only based on a small and not necessarily representative sample of small businesses, but also that they reflect immediate, and less than fully considered responses to a range of often complex issues that were mostly considered out of the context in which they may occur. Therefore for some of the findings at least, it may be more appropriate to focus on the inclination and tenor of the responses rather than the depth of the impacts anticipated by the participants.

The researchers' interpretation of the discussions held with SMEs during the study is that these businesses are only really concerned with the potential costs that any changes in the pension system might impose on their businesses. Although they recognise that there is a range of broad

considerations and imperatives related to pensions, these are not seen as being a concern of small businesses or as secondary and relatively inconsequential issues. Irrespective of their ideological and ethical positions, participants' responses and preferences were almost invariably determined by their perceptions of the direct impacts they believed the options for change would have on their businesses.

Small businesses were generally convinced of the case for development of the pension system. However, they have deeply negative perceptions of private pension providers and were sceptical of the government's motives for reform and its ability to deliver a more appropriate and effective system.

There was little sympathy for introducing additional compulsion into the pension system – almost all participants in the study preferred using education and inducements to make the established voluntarist arrangements more effective by increasing their attractiveness to individuals, although they doubted this would work. Most participants favoured approaches based on flexibility and choice and preferred systems that included a range of exemptions and thresholds – largely because this would allow non-engagement. Almost all the micro-businesses included in the study were profoundly concerned by the prospect of any obligation to provide, administer or contribute to pension schemes.

Most businesses were relatively untroubled by the prospect of any increased administrative burden. They were, however, profoundly concerned by the prospect of an increased obligation on the part of employers to contribute to employees' pensions. Although larger businesses tended to be more willing than micro and small businesses to accept that they could cope with possible new obligations in this area, the data suggest that they are equally unsympathetic to such options.

Most participants argued that some of the options for change considered, particularly those involving the imposition of additional costs on small businesses, would not only be highly unpopular, but also likely to have a range of negative effects on SMEs. Although many participants believed that they probably could cope with the options for change considered, many argued that some of these options might well compromise the profitability and growth potential of their businesses. Some participants suggested that they would revise their growth aspirations, and some claimed that they might seek to avoid meeting new obligations – a strategy that could result in distortions to the labour market. It was also widely claimed that some of the options for change would have differentiated impacts across the highly heterogeneous SME sector.

#### **(x) DWP Micro-employer research**

It is worth noting that DWP recently published a small-scale qualitative research project with micro-employers, those employing fewer than five employees, focusing on their attitudes towards pensions. The research found

very little evidence of any pension provision, information or advice being given to employees of micro-employers. Participants felt little, if any, responsibility for their staff's pensions or much of a sense that their business might benefit from providing pensions or guidance to staff on pensions. Indeed, participants usually believed that their staff would prefer higher wages over pension contributions.

Participants doubted that much could be done with workplace information to improve the situation of their employees. The discussions did, however, suggest that there was considerable appetite for strong measures that would improve the credibility of private pensions' investment for both the small business owner and their employees. Despite the suggestions for improving the current pensions system, from what they knew of their employees, some participants believed that some form of compulsion was the only way to increase saving and counteract current resistance and/or inertia. However, participants were only willing to consider the idea of compelling the employee to save. Compulsion for micro-employers to pay into employees' pensions was rejected because they did not feel that they had a responsibility in this area, and because they felt the extra cost would be too much of a burden on their businesses.

So, in terms of general attitudes to pension provision and possible options for improving pension saving, there were some similar points of view expressed in both the Pensions Commission research and the DWP research.

## 4. Independent Financial Advisers' survey

### (i) Background

Following publication of our First Report, we wanted to learn more about how Independent Financial Advisers (IFAs) provided pensions advice to those on low to average earnings. A number of questions were of interest:

- How important is this customer group to IFAs, compared to those on higher earnings?
- Are means-testing and the introduction of the Pension Credit seen as a potential barrier to saving to this group?
- Do IFAs take the Pension Credit, or the impact of tax credits, into account when providing advice?

Sesame, a major network of IFAs, agreed to help us explore these issues. We developed a short questionnaire that was distributed to IFAs attending a series of regional events, organised by Sesame, during February and March 2005. (The questionnaire is included at the end of this Appendix for reference.) Attendees were asked to complete the questionnaire and return it to the organisers at the end of the day. Of almost 2,500 attendees we

**Figure D.43** Estimated distribution of business

	0-19%	20-39%	40-59%	60-79%	80-100%
<b>Pension savings</b>	61%	30%	6%	2%	1%
<b>Annuities</b>	82%	15%	3%	0%	0%
<b>Investments</b>	40%	34%	17%	6%	3%
<b>Protection products</b>	25%	49%	19%	6%	1%
<b>Mortgages</b>	49%	29%	15%	6%	0%

received 416 responses, a crude response rate of 17%, which did vary significantly across events. Subsequently Sesame emailed a link to the questionnaire to its members, in order to give the attendees a second chance to respond to the survey, but we received just one additional reply. We are grateful for Sesame's help in distributing the questionnaires and inputting the data received.

Given the approach taken we do need to consider how representative our analysis is. For a start we need to ask ourselves how representative Sesame members are of IFAs as a whole. Then given the low response rate, which is in the region one might expect for a postal survey, we need to bear in mind that those who did respond may have different characteristics and views than those who did not respond. In both cases we are unable to quantify the effect on representativeness, so we cannot say that the results presented here are representative of all IFAs, or even all Sesame members. However, the results do give an indication of IFA views. We should also bear in mind that the results are based on a "snapshot" response to the issues raised in the questionnaire. This survey was not able to explore the issues in great detail.

#### **(ii) Characteristics of respondents and their customer base**

The members of our sample were less likely to have only one registered individual within the firm than overall Sesame membership and more likely to have four or more. And almost half of respondents were aged 50 or over. For most respondents pension and annuity products formed only a small proportion of their business, while investment and protection products were more important [Figure D.43]. If pension business is not so important to respondents we might want to bear in mind how this would affect their knowledge of the issues under investigation.

Respondents were asked about the composition of their customer base in terms of annual earnings levels. Low earners were not a significant part of the customer base of these IFAs [Figure D.44]. Again this should be remembered when considering the results from the rest of the survey.

If low earners were not a significant part of the customer base, IFAs may have responded to the other questions on a more theoretical basis, than based on their day-to-day activity.

Respondents were also asked about the importance of different types of customers to them, taking account of the products they were looking for and whether they were small business owners or employees [Figure D.45]. Customers seen as being of high importance by a majority of respondents include those requiring protection products, those seeking to invest a lump sum and those approaching retirement. Self-employed individuals seeking to set up their own personal pension were seen as important, but small firms seeking to set up Group Personal Pensions (GPPs) on behalf of their employees were not. In comparison, employees earning less than £25,000 per year were generally seen as an unimportant customer group across different product types, while those earning more than £25,000 per year were seen as being of high importance by around a third of respondents.

### **(iii) Profitability**

Respondents were asked to consider a number of statements relating to the selling of pensions for employees earning less than £15,000 per year, and for those earning between £15,000 and £25,000 per year, and state whether they agreed or disagreed with them. In particular the statements focused on issues of profitability and incentives to save [Figure D.46].

Half of the respondents strongly disagreed with the statement "Individuals in this group can be served profitably given commission rates and likely premiums" in reference to employees earning less than £15,000, compared with only 16% in reference to individuals earning between £15,000 and £25,000. Therefore the respondents do not believe that those with low earnings can be profitable for them.

Half of the respondents agreed with the statement "Only if I am able to take the transfer of a large existing pension pot is this group profitable" in reference to those earning less than £15,000 compared with 42% in reference to those earnings between £15,000 and £25,000. Therefore the respondents see lower earners as profitable if they transfer a pension pot, but in reality how many low earners will be in this position to make them attractive to an IFA?

### **(iv) Incentives to save**

Only 12% of respondents agreed with the statement "The design of the state system means that the returns to saving for people in this group are good" in reference to individuals earning less than £15,000 compared with 27% in reference to those earning between £15,000 and £25,000.

A third of the respondents agreed with the statement "Tax reliefs and tax free lump sums create good incentives for people in this group to save" in reference to individuals earning less than £15,000 compared with more than

**Figure D.44** Estimated composition of customer base: percentage of respondents

Annual earnings	Less than 10%	10%-19%	20%-29%	30%-39%	40%-49%	50% or more
£15,000 or less	71% <sup>1</sup>	17%	8%	3%	0%	1%
£15,000-£24,999	12%	29%	27%	20%	8%	4%
£25,000-£39,999	4%	11%	21%	37%	20%	7%
£40,000 or more	20%	24%	16%	14%	8%	19%

Note: <sup>1</sup> i.e. means that 71% of respondents said that people earning £15,000 or less accounted for less than 10% of their customer base.

**Figure D.45** Importance of different types of customers

	High importance	Medium importance	Low importance	Unimportant/not targeted
People approaching retirement	60%	30%	7%	3%
People wanting a mortgage	50%	20%	12%	19%
People looking to invest regular sums of money	25%	41%	30%	4%
People looking to invest a lump sum	69%	24%	6%	0%
People requiring protection products	68%	26%	6%	0%
Small business owners or self-employed people wanting a personal pension	30%	41%	26%	3%
Small business owners wanting to set up a Stakeholder/Group Personal Pension scheme	17%	29%	37%	17%
Employees earning less than £25,000 per year for savings or investments products	10%	32%	39%	19%
Employees earning less than £25,000 per year for personal pensions	12%	34%	37%	17%
Employees earning less than £25,000 per year for Group Personal Pensions	13%	27%	36%	24%
Employees earning £25,000 or more per year for savings or investments products	35%	48%	14%	3%
Employees earning £25,000 or more per year for personal pensions	35%	46%	16%	4%
Employees earning £25,000 or more per year for Group Personal Pensions	29%	36%	23%	12%

**Figure D.46** Responses to attitudinal statements, by annual earnings band

	Strongly agree	Agree	Disagree	Strongly disagree	Depends on personal circumstances	Don't know
<b>Individuals in this group can be served profitably given commission rates and likely premiums.</b>						
<£15,000	1%	10%	30%	49%	7%	3%
£15,000-£25,000	3%	31%	39%	16%	8%	2%
<b>Only if I am able to take the transfer of a large existing pension pot is this group profitable.</b>						
<£15,000	14%	52%	17%	3%	9%	6%
£15,000-£25,000	11%	42%	28%	2%	12%	6%
<b>The design of the state system means that the returns to saving for people in this group are good.</b>						
<£15,000	1%	12%	45%	32%	5%	5%
£15,000-£25,000	2%	27%	45%	14%	7%	6%
<b>Tax reliefs and tax free lump sums create good incentives for people in this group to save.</b>						
<£15,000	5%	35%	35%	18%	4%	2%
£15,000-£25,000	6%	55%	28%	7%	3%	2%
<b>If I advise people in this group, and means-testing reduces their entitlement to future state benefits, I could be accused of mis-selling.</b>						
<£15,000	30%	49%	10%	3%	4%	5%
£15,000-£25,000	18%	43%	24%	3%	5%	6%
<b>The tax credit system creates good incentives for people in this group to save.</b>						
<£15,000	2%	11%	45%	29%	5%	9%
£15,000-£25,000	2%	21%	47%	16%	6%	8%

half in reference to individuals earning between £15,000 and £25,000. So the respondents do not believe that tax reliefs are a good incentive for lower earners.

Half of the respondents agreed with the statement "If I advise people in this group, and means-testing reduces their entitlement to future state benefits, I could be accused of mis-selling" in reference to individuals earning less than £15,000, and another 30% agreed strongly with the statement, compared with 43% agreeing in reference to individuals earning between £15,000 and £25,000. So it seems that respondents are concerned about the potential for mis-selling because of the impact of means-testing, but again remember that in practice the IFAs may not be advising many low earners.

Only 11% of respondents agreed with the statement “The tax credit system creates good incentives for people in this group to save” in reference to individuals earning less than £15,000 compared with 21% in reference to those earning between £15,000 and £25,000. So it seems that respondents are unclear about the impact of tax credits on pension contributions. As we showed in our First Report, the returns to saving for some of those receiving the Child or Working Tax Credits can be better than for those not receiving this tax credit. This is because tax credits are given on income after pension contributions, so an increase in contributions of £100 will lead to an increase of £65 in tax credits making the cost to the individual only £35.

Respondents were asked specifically what effect on the incentives for private pension saving there was for an individual receiving tax credits. Only 5% of respondents answered that being on the taper for these credits makes the incentives for such individuals more attractive, while 44% thought it made them less attractive. Again, it seems that respondents do not know the benefits of the tax credit system in relation to pension contributions. The majority of respondents also reported that for Working Tax Credit, Pension Credit and Housing Benefit recipients, or future recipients, they would be less likely to advise them to buy a private pension. But remember that in practice the IFAs may not be advising many low earners, so on a day-to-day basis this issue may not be relevant for them.

#### **(v) Conclusions**

Our survey found that respondents do not consider those earning less than £25,000 to be an important part of their business. It appears that means-testing is one factor in this, but lack of profitability is more significant. The questions we asked on incentives to save for people with low earnings suggested that the respondents were not aware of the incentives available from the tax credit system.

#### **(vi) DWP financial intermediary research**

DWP recently published research it had commissioned to investigate the role played by a variety of financial intermediaries in the provision of advice about saving for retirement. Within this objective, the study sought to increase understanding about whether income-related benefits affect that advice. The research involved depth interviews with 45 financial intermediaries who provide advice to the public at a local level. A further 11 interviews were held with senior staff working at the headquarters of pension providers.

The clients of the financial intermediaries included very few people on lower incomes, who did not tend to approach them for advice. Indeed, it was noted by the authors that the decline in direct sales forces has led to a more restricted access to advice for people on low or moderate incomes. It was clear that the IFAs did not market their services to people on lower incomes because the commission they could earn was too low to make it worthwhile – their customer base tended to be people with middle to high incomes.

The research found very little evidence to suggest that Pension Credit made financial intermediaries reluctant to provide savings advice to people on lower incomes. Nor did the financial intermediaries themselves think it played an important part in clients' decisions regarding saving for retirement. Financial intermediaries rarely discussed Pension Credit with their clients. None of those interviewed raised any fears about mis-selling in the context of Pension Credit.

There was a difference in views between financial intermediaries working at a local level and the senior headquarters staff. Headquarters staff were far more knowledgeable about state pension provision than those on the ground. Headquarters staff perceived that the Pension Credit can potentially create disincentives to save, but they did not think this was the main reason why people on low incomes did not take out personal pensions. Indeed the main barrier to people making private pension provision was identified by financial intermediaries as lack of consumer confidence in long-term savings, in pension providers and in advisers, resulting in inertia on the part of individuals, so that few people actively seek advice about saving and retirement. Affordability was also highlighted as an issue as well as a perceived lack of understanding among the general public about pensions and how they work.

Some of these results backed up the results of our own Sesame research, but there were also some differences. This is to be expected as the DWP research was able to discuss issues more widely using its qualitative approach. This approach meant that that given the nature of the topic they could explore and understand the process of giving advice more thoroughly than we could in the time available.

## National Statistics Omnibus Survey April 2005 Module 373

**ASK IF:** working age**M373\_1**

Showcard C373\_1

Which of the statements on this card best describes how knowledgeable you feel about pensions issues?

Code one only

(1)	good	I have a good knowledge of pensions issues
(2)	basic	I have a reasonable, basic knowledge of pensions – I know how they work generally but do not understand the details
(3)	poor	My knowledge of pensions is very patchy – I know a bit about what concerns me but no more
(4)	nothing	I know little or nothing about pensions issues
(5)	dontk	Don't know (spontaneous only)

**ASK IF:** working age**M373\_2**

How much thought have you given to making arrangements for an income when you retire. Would you say that you have given it...

Running prompt

(1)	lot	a lot of thought
(2)	some	some thought
(3)	little	or a little thought
(4)	notho	Not thought about it at all (spontaneous only)

**ASK IF:** working age**AND:** M373\_2 <> notho**M373\_3M**

Showcard C373\_3M

Have you ever tried to work out how much you need to save for retirement?

Code all that apply

(1)	own	Yes – I have done this on my own or with help from family/friends
(2)	advice	Yes – with the help of a professional adviser, for example an independent financial adviser or pension provider representative
(3)	comput	Yes – on my own using the Internet or other computer software
(4)	unable	Yes – but I was unable to work it out
(5)	notry	No – I have not tried to do this

**ASK IF:** working age

**AND:** (QMainJb.Stat = Emp) AND (QILO.Wrking = Yes)

**M373\_4**

Showcard C373\_4

Looking at this card, please tell me which type of organisation you work for?

(1)	priv	Private firm or company
(2)	charity	Charity or trust
(3)	nation	Nationalised industry / public corporation
(4)	LA	Local authority / local education authority
(5)	health	Health authority / NHS hospital / hospital trust
(6)	gov	Central government / civil service / armed forces
(7)	other	Other type of organisation

**ASK IF:** working age

**AND:** (QMainJb.Stat = Emp) AND (QILO.Wrking = Yes)

**M373\_5**

Showcard C373\_5

Some employers provide an occupational pension or superannuation scheme that all, or some, of their employees can join. Please look at this card and tell me which of these applies to you.

**Note:** This refers only to the respondent's current situation. If they have a pension from a previous job it is not included here.

Code one only

(1)	current	My employer provides an occupational pension or superannuation scheme for all, or some, employees, and I am currently a member of the scheme
(2)	notin	My employer provides an occupational pension or superannuation scheme for all, or some, employees, but I am not a member of the scheme
(3)	notprov	My employer does not provide an occupational pension or superannuation scheme for any employees
(4)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**AND:** (QMainJb.Stat = Emp) AND (QILO.Wrking = Yes)

**AND:** M373\_5 = current

**M373\_6**

Showcard C373\_6

What type of occupational pension are you currently a member of?

(1)	final	Final salary
(2)	salary	Salary related
(3)	average	Career average
(4)	DB	Defined Benefit
(5)	purchase	Money purchase
(6)	DC	Defined Contribution
(7)	other	Hybrid of the above types
(8)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**AND:** M373\_5 <> current

**M373\_7**

Do you have a private pension plan, including a Stakeholder pension, that you, or your employer, are currently contributing to?

(1)	yes	Yes
(2)	no	No
(3)	dontk	Don't know

**ASK IF:** working age

**AND:** M373\_7 = No

**M373\_8M**

Showcard C373\_8M

May I just check, why are you not currently contributing to a pension?

Code all that apply

(1)	earn	Don't earn enough
(2)	afford	Can't afford to / too many debts, bills or financial commitments
(3)	otherpl	I am relying on other sources of income / I already have adequate pension provision
(4)	nojob	Not working at the moment
(5)	early	Too early to start a pension
(6)	late	Too late to start a pension
(7)	interest	Not interested
(8)	ignore	Don't know enough about pensions / complexity of issues
(9)	inelig	I am not eligible to join my employer's scheme
(10)	otherin	Other investments offer a better return
(11)	state	State pension will provide enough
(12)	other	Other reason
(13)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**M373\_9**

Showcard C373\_9

Do you save some money each month for your retirement that is not in a private or occupational pension of some sort? Which of these best describes your situation?

(1)	yes	Yes
(2)	afford	No – I can't afford to save every month
(3)	saveoth	No – I choose not to save for my retirement at the moment, but I do save for other reasons
(4)	nosave	No – I choose not to save for my retirement or any other reason at the moment

**ASK IF:** working age (question text depends on whether respondent currently saving or not)

**M373\_10**

'Although you are not currently saving for your retirement, do you think you should be saving...' or  
'Taking into account whatever pensions or long-term savings you have specifically for retirement, do you think you should be saving...'

Running prompt

- |     |       |  |
|-----|-------|--|
| (1) | more  | more for your retirement than you do at the moment     |
| (2) | less  | less for your retirement than you do at the moment     |
| (3) | right | or are you saving the right amount for your retirement |
| (4) | dontk | Don't know (spontaneous only)                          |
| (5) | noinc | No income at present (spontaneous only)                |

**ASK IF:** working age

**AND:** QILO.DVILO3a <> InEmp

**M373\_11**

Can I just check, do you expect to be in paid employment in the future?

- |     |       |            |
|-----|-------|------------|
| (1) | yes   | Yes        |
| (2) | no    | No         |
| (3) | dontk | Don't know |

**ASK IF:** working age

**AND:** (M373\_11 = Yes) OR (QILO.DVILO3a = InEmp)

**M373\_12**

At what age do you expect to retire?

**ASK IF:** working age**M373\_13**

Showcard C373\_13

I'd now like to ask you about your income in retirement.

What do you expect to be your main source of income in retirement?

Code one only

(1)	ownstate	Own pension (see next screen)
(2)	ownearn	Own earnings
(3)	spouse	Spouse's money from pension, savings or earnings (see next screen)
(4)	endow	Endowment / life assurance policy
(5)	insure	Other insurance policy
(6)	shares	Stocks, shares or unit trusts
(7)	saving	Savings accounts
(8)	inheri	Inheritance / income from inheritance
(9)	annuity	Income from annuity
(10)	rent	Rent from property (including subletting)
(11)	profit	The profit from selling property and moving to a less expensive property
(12)	profitbus	The profit from selling my own business
(13)	equity	Equity release scheme
(14)	state	State benefits (other than state pension)
(15)	sale	Sale of possessions
(16)	allow	Income or allowance from family or children
(17)	other	Other source of income
(18)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**AND:** M373\_13 = ownstate

**M373\_13a**

Showcard C373\_13a

What kind of pension would this be?

(1)	basic	Own basic state pension
(2)	SERPS	Own SERPS / S2P
(3)	employ	Own employer's pension
(4)	person	Own personal pension / annuity bought from personal pension
(5)	stake	Own stakeholder pension
(6)	credit	Own Pension Credit

**ASK IF:** working age

**AND:** M373\_13 = spouse

**M373\_13b**

Showcard C373\_13b

What kind of income would this be?

(1)	basic	Spouse or partner's basic state pension
(2)	SERPS	Spouse or partner's SERPS / S2P
(3)	employ	Spouse or partner's employer's pension
(4)	person	Spouse or partner's personal pension / annuity bought from personal pension
(5)	stake	Spouse or partner's stakeholder pension
(6)	credit	Spouse or partner's Pension Credit
(7)	earn	Spouse or partner's earnings from paid work
(8)	exspouse	Ex-spouse's pension

**ASK IF:** working age**AND:** M373\_13 <> dontk**M373\_15**

Showcard C373\_13

Do you expect to have another major source of income in retirement? If so, what?

Code one only

(1)	ownstate	Own pension (see next screen)
(2)	ownearn	Own earnings
(3)	spouse	Spouse's money from pension, savings or earnings (see next screen)
(4)	endow	Endowment / life assurance policy
(5)	insure	Other insurance policy
(6)	shares	Stocks, shares or unit trusts
(7)	saving	Savings accounts
(8)	inheri	Inheritance / income from inheritance
(9)	annuity	Income from annuity
(10)	rent	Rent from property (including subletting)
(11)	profit	The profit from selling property and moving to a less expensive property
(12)	profbus	The profit from selling my own business
(13)	equity	Equity release scheme
(14)	state	State benefits (other than state pension)
(15)	sale	Sale of possessions
(16)	allow	Income or allowance from family or children
(17)	other	Other source of income
(18)	nother	Do not expect to have another major source of income (spontaneous only)
(19)	dontk	Don't know (spontaneous only)

**ASK IF: working age****AND: M373\_15 = ownstate****M373\_15a**

Showcard C373\_13a

What kind of pension would this be?

(1)	basic	Own basic state pension
(2)	SERPS	Own SERPS / S2P
(3)	employ	Own employer's pension
(4)	person	Own personal pension / annuity bought from personal pension
(5)	stake	Own stakeholder pension
(6)	credit	Own Pension Credit

**ASK IF:** working age

**AND:** M373\_15 = spouse

**M373\_15b**

Showcard C373\_13b

What kind of income would this be?

(1)	basic	Spouse or partner's basic state pension
(2)	SERPS	Spouse or partner's SERPS / S2P
(3)	employ	Spouse or partner's employer's pension
(4)	person	Spouse or partner's personal pension / annuity bought from personal pension
(5)	stake	Spouse or partner's stakeholder pension
(6)	credit	Spouse or partner's Pension Credit
(7)	earn	Spouse or partner's earnings from paid work
(8)	exspouse	Ex-spouse's pension

**ASK IF:** working age

**M373\_16**

Showcard C373\_16

I'd now like you to think about how much your income in retirement will be.

Which of the statements on this card best describes your knowledge of how much your income in retirement will be?

(1)	good	I have a good idea of what my income in retirement will be
(2)	reason	I have a reasonable knowledge of what my income in retirement will be
(3)	vague	I know vaguely what my income in retirement will be, but no more than that
(4)	noidea	I have no idea what my income in retirement will be
(5)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**M373\_17**

Showcard C373\_17

Which of the statements on this card best reflects the income you are aiming to get in retirement from pensions, and any other sources of retirement income?

'Living expenses' means costs such as utility bills, council tax, transport, clothes, etc.

(1)	plenty	I will have plenty of money to afford food, housing, living expenses and luxuries.
(2)	comfort	I will have enough to afford basic food, housing and living expenses and will be able to treat myself about every week. I will be comfortable.
(3)	basic1	I will have enough to afford basic food, housing and living expenses and will be able to treat myself every month or so.
(4)	basic2	I will only have enough to afford basic food, housing and living expenses.
(5)	ntenough	I will not have enough to afford basic food, housing and living expenses.
(6)	dontk	Don't know (spontaneous only)

**ASK IF:** working age**M373\_18**

Showcard C373\_18

If you were retired today, how much money, after tax, do you think you personally would need as an absolute minimum each week to live on. By this I mean how much would you need to afford basic food, housing and living expenses with no regular treats?

(1)	less100	Less than £100
(2)	f100t124	£100 to £124
(3)	f125t149	£125 to £149
(4)	f150t174	£150 to £174
(5)	f175t199	£175 to £199
(6)	f200t224	£200 to £224
(7)	f225t249	£225 to £249
(8)	f250t274	£250 to £274
(9)	f275t299	£275 to £299
(10)	f300t324	£300 to £324
(11)	f325t349	£325 to £349
(12)	f350t374	£350 to £374
(13)	f375t399	£375 to £399
(14)	f400t424	£400 to £424
(15)	f425t449	£425 to £449
(16)	f450t474	£450 to £474
(17)	f476t499	£475 to £499
(18)	over500	£500 or over
(19)	dontk	Don't know (spontaneous only)

**ASK IF: working age****M373\_19**

Showcard C373\_18

You just described how much money you would need as a minimum. If you were retired today, how much money, after tax, do you think you personally would need each week to have enough to live on to live comfortably. That is, to afford basic food, housing and living expenses and treat yourself about every week?

(1)	less100	Less than £100
(2)	f100t124	£100 to £124
(3)	f125t149	£125 to £149
(4)	f150t174	£150 to £174
(5)	f175t199	£175 to £199
(6)	f200t224	£200 to £224
(7)	f225t249	£225 to £249
(8)	f250t274	£250 to £274
(9)	f275t299	£275 to £299
(10)	f300t324	£300 to £324
(11)	f325t349	£325 to £349
(12)	f350t374	£350 to £374
(13)	f375t399	£375 to £399
(14)	f400t424	£400 to £424
(15)	f425t449	£425 to £449
(16)	f450t474	£450 to £474
(17)	f476t499	£475 to £499
(18)	over500	£500 or over
(19)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**AND:** ((M373\_12 = RESPONSE) AND (M373\_12 <> REFUSAL)) AND (M373\_12 <> DONTKNOW)

**M373\_20**

Showcard C373\_20

How many years of retirement do you expect to have?

(1)	Less5	Less than 5 years
(2)	f5t9	5 to 9 years
(3)	f10t14	10 to 14 years
(4)	f15t19	15 to 19 years
(5)	f20t24	20 to 24 years
(6)	over25	25 years or more
(7)	dontk	Don't know (spontaneous only)

**ASK IF:** working age

**AND:** QSETUP.RAGE > 24

**M373\_21**

In the past five years, have your plans for retirement changed in any way?

(1)	yes	Yes
(2)	no	No
(3)	dontk	Don't know
(4)	noplan	No plans for retirement at the moment (spontaneous only)

**ASK IF:** working age

**AND:** M373\_21 = Yes

**M373\_22M**

Showcard C373\_22M

From the options on this card, please say which you have done?

Code all that apply

(1)	later	Planning to retire later
(2)	earlier	Planning to retire earlier
(3)	increase	Increased pension contributions
(4)	decrease	Decreased pension contributions
(5)	start	Started a pension
(6)	incother	Increased other savings / investments for retirement
(7)	property	Bought property in the UK as an investment
(8)	mortgage	Made plans to pay off mortgage and debts
(9)	abroad	Now plan to move abroad on retirement
(10)	other	Other change to plans

**ASK IF:** working age

**M373\_23**

Showcard C373\_23

Please tell me how strongly you agree or disagree with the following statement.

I'd rather make sure that I had a good standard of living today than put aside money for my retirement.

(1)	strag	Strongly agree
(2)	ag	Tend to agree
(3)	disag	Tend to disagree
(4)	strdisa	Strongly disagree
(5)	dontk	Don't know / no opinion (spontaneous only)

## National Statistics Omnibus Survey May 2005 Module 373

**ASK ALWAYS:****M373\_25**

Showcard J1

Please say from this card who you think should be mainly responsible for ensuring that people have enough money to live on in retirement?

(1)	govt	The Government
(2)	employ	A person's employer
(3)	self	The person themselves and their family
(4)	dontk	Don't know (spontaneous only)

**ASK ALWAYS:****M373\_26M**

Showcard J2

There is currently a lot of debate and discussion about the pensions system and a number of people have put forward ideas to make it better.

Which of the following would most improve your confidence in the pensions system?

Code up to three

(1)	simple	Simpler, less complex pensions system
(2)	stateinf	Clearer information about the State pension and my entitlement
(3)	privinf	Clearer information about private pensions and what I need to save and can expect to receive
(4)	freead	Free individual advice paid for by the Government
(5)	value	Better value private pensions
(6)	guaran	A guarantee that you would not lose the value of the contributions that you have put into a money purchase pension
(7)	indep	Independent body to run the pensions system in people's interests
(8)	regul	Better regulation of financial service companies
(9)	protect	Better protection for employer-sponsored (Defined Benefit) pension schemes
(10)	interfe	Less interference by Government
(11)	dontk	Don't know / no opinion (spontaneous only)

## Survey of Sesame IFAS

The Pensions Commission has been asked by the Government to review the regime for UK private pensions and long-term savings. It published its first report in October 2004.

Patrick Gale has agreed that Sesame will help the Commission in canvassing views from advisers on a range of savings issues. These views will help the Commission develop its recommendations in the coming months.

Please complete this questionnaire and leave it on your chair for collection. Your individual views will be kept confidential. Aggregated results will be used for analysis.

### 1. How many registered individuals are there in your firm? (please tick one box)

One                       2-3                       4 or more

### 2. What is the estimated split of your individual business across the following categories, on a percentage basis?

Pensions Savings Products                       Pensions Annuities & Drawdown                       Investment                       Protection                       Mortgage

### 3. Which age group are you? (please tick one box)

20-29                       30-39                       40-49                       50+

### 4. How important do you think these types of customers are to your business? (please tick one box in each row)

	High importance	Medium importance	Low importance	Unimportant/not targeted
People approaching retirement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
People wanting a mortgage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
People looking to invest regular sums of money	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
People looking to invest a lump sum	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
People requiring protection products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Small business owners or self-employed people wanting a personal pension	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Small business owners wanting to set up a stakeholder/group personal pension scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning less than £25,000 per year for savings or investment products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning less than £25,000 per year for personal pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning less than £25,000 per year for group personal pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning £25,000 or more per year for savings or investment products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning £25,000 or more per year for personal pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Employees earning £25,000 or more per year for group personal pensions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. What percentage of your current customer base has annual earnings in the following bands?  
(please tick one box in each row)

	Less than 10%	10-19%	20-29%	30-39%	40-49%	50% or more
Less than £15,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
£15,000 - £24,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
£25,000 - £39,999	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
£40,000 or more	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Thinking of pensions sold individually to employees earning less than **£15,000 per year**, how far do you agree or disagree with the following statements? (please tick one box in each row)

	Strongly agree	Agree	Disagree	Strongly disagree	Depends on personal circumstance	Don't know
Individuals in this group can be served profitably given commission rates and likely premiums.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The design of the state system means that the returns to saving for people in this group are good.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax reliefs and tax free lump sums create good incentives for people in this group to save.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If I advise people in this group, and means-testing reduces their entitlement to future state benefits, I could be accused of mis-selling.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The tax credit system creates good incentives for people in this group to save.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Only if I am able to take the transfer of a large existing pension pot is this group profitable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**7. Thinking of pensions sold individually to employees earning between £15,000 and £25,000 per year, how far do you agree or disagree with the following statements? (please tick one box in each row)**

	Strongly agree	Agree	Disagree	Strongly disagree	Depends on personal circumstance	Don't know
Individuals in this group can be served profitably given commission rates and likely premiums.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The design of the state system means that the returns to saving for people in this group are good.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax reliefs and tax free lump sums create good incentives for people in this group to save.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If I advise people in this group, and means-testing reduces their entitlement to future state benefits, I could be accused of mis-selling.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The tax credit system creates good incentives for people in this group to save.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Only if I am able to take the transfer of a large existing pension pot is this group profitable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**8. If a client is on the taper for either Working Tax Credit or Child Tax Credit what effect does this have on their incentives for private pension savings?**

Makes more attractive       Has no effect       Makes less attractive       Don't know

**9. If a client is currently in receipt of or may in future be eligible for the following credits/benefits, would you be more or less likely to advise them to buy a private pension? (please tick one box in each row)**

	More likely	No effect	Less likely	Don't know
Working Tax Credit/Child Tax Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Pension Credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Housing Benefit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for completing this questionnaire. Please leave it on your chair for collection.

