Securing the future of pensions

WORKPLACE PENSIONS SURVEY
APRIL 2009

Introduction and Executive Summary

This report presents the findings from the fourth *NAPF Workplace Pension Survey*. Our Workplace Pension Surveys track the opinions of the general public on pensions, and in particular assesses how confident they are in pensions as a way of saving for retirement[1].

This latest survey shows that:

- Since December 2008 there has been a small but important increase in the NAPF Pensions Confidence Index which now stands at +7%.
- Amongst those already saving for retirement, pensions continue to top workers' views on the best method to save for old age (39%), ahead of property and ISAs (20% and 16% respectively).
- Workers also continue to believe that pensions are the most important benefit an employer can offer after salary, ahead of bonuses, flexible working, and holidays.
- There is a 'loyalty bonus' to be gained by employers who offer decent pensions – 47% of employees who did not have access to a pension at work said they would feel more loyal towards their employer if they were offered a pension scheme.
- Employers continue to be trusted ahead of Government, insurers and banks as providers of pensions. However, workers are most likely to rely on themselves when it comes to providing a pension.
- There is still much to do to build employees' awareness of the benefits of pension saving. For example, 42% of people were unaware that they received tax relief on pension contributions.

Despite the improvement in employee confidence in pensions, the current economic environment means that whilst employee confidence in pensions remains positive, it is also very fragile. In its *Action Plan*[2] to help pension schemes through the recession the NAPF called for a national agenda to rebuild consumer confidence and a national campaign led by the Government and supported by the pensions industry, worker representatives and business.

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[1] Fieldwork was conducted by TNS Global between 27 February and 2 March 2009. 1,232 respondents were drawn from a sample representative of the UK population.

[2] NAPF, *Pension funds and the economic crisis* (2009)

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Results

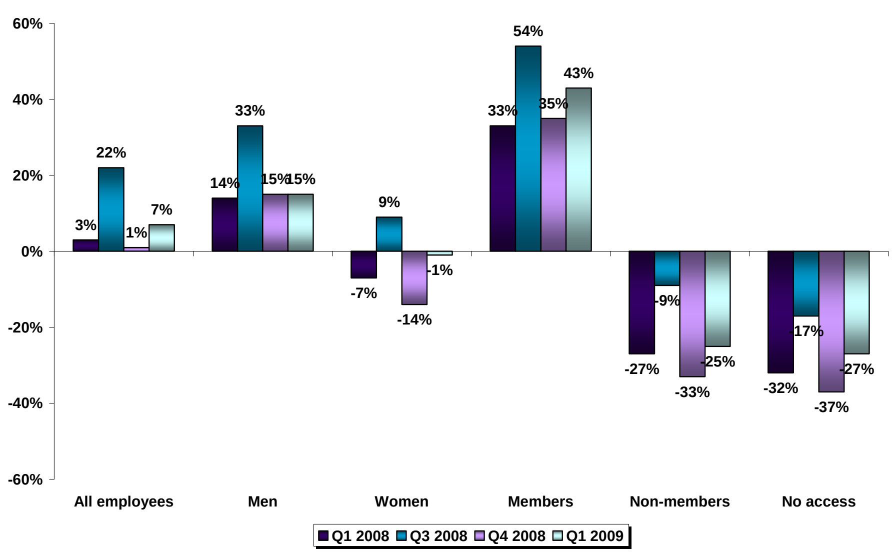
Confidence in pensions

The survey asks respondents if they are very confident, confident, not confident or not at all confident in pensions as a way of saving. From the results the Confidence Index is derived[3].

The Confidence Index in the first quarter of 2009 stood at +7%, an increase of 6% since December 2008 when the Index stood at an all-time low of just +1%. But whilst overall confidence in pensions remains broadly positive, a more detailed analysis reveals a more complex picture (fig 1).

Perhaps not surprisingly, members of pension schemes continue to demonstrate the highest levels of confidence in pensions as a means of saving, with a Confidence Index of +43%. This is up slightly since the end of last year, but down from the Q3 high point of +54%. By comparison the Index for employees who could join a scheme where they work but choose not to stood at -25% whilst for employees with who do not have access to a pension scheme at work are the least likely to be confident in pensions as a way of saving, with a Confidence Index of -27%. Confidence amongst men has remained stable over the past two quarters at +15%, but is down from a high of +33% in Q3 2008 before the UK economy fell into recession. Women continue to be less confident, although their pessimism has lessened with the Confidence Index for women now standing at -1% compared to -14% at the end of 2008.

Figure 1: Net confidence in pensions

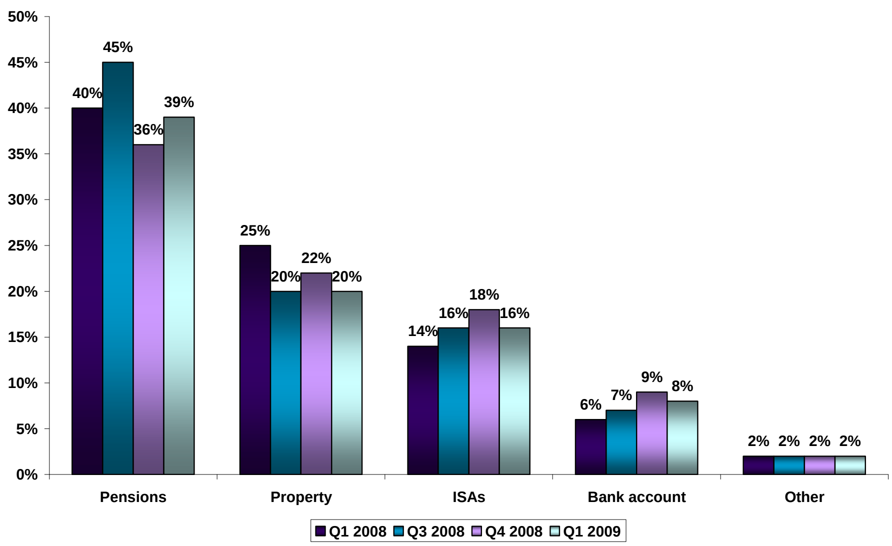


[3] The Confidence Index is the difference between the number of respondents who are confident about pensions and those who are not.

Best way to save for retirement

In all four editions of the survey, pensions have topped views on the best way to save for retirement. Latest survey data show that for those already making provision for old age, 39% believe that pensions are the best way to save for retirement, ahead of property (20%) and ISAs (16%). Support for pensions as the best way for saving for retirement has remained broadly stable over the past 12 months, despite poor publicity around pensions and workers in DC pension schemes receiving statements showing fund values falling by around 30% in some cases. By contrast, preferences for using property as a way of saving for retirement have fallen by 5% from (25% to 20%), perhaps reflecting falling property values over the period (fig 2).

Figure 2: Best way to save for retirement

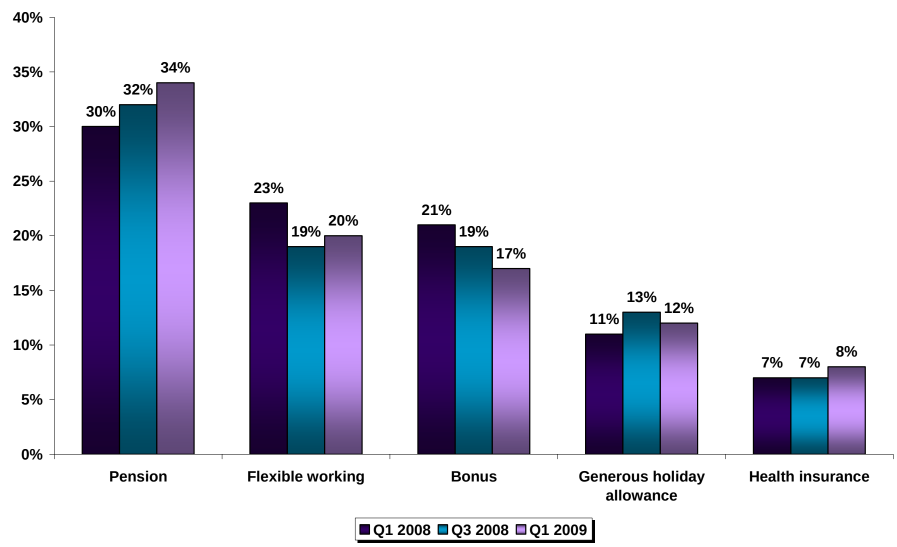


Most important employee benefit

Despite current low levels of confidence, employee support for pensions remains strong. Regardless of whether they were saving in a pension or not, over 70% of respondents said it was important to have a pension that came with their job. As might be expected, this view was most strongly felt by those who were already pension scheme members, 93% of whom felt it was important to have a pension that came with their job. Over half (53%) of those who had no access to a scheme felt having a workplace pension was important which could suggest there will be a low level of opt outs when auto-enrolment and Personal Accounts are introduced in 2012.

The last 12 months have seen a steady increase in the number of people saying that after their salary, a pension was the most important benefit an employer could offer, rising from 30% to 34%. Over the same period, bonuses and flexible working have fallen in popularity (by 4% and 3% respectively). Just 17% of respondents now consider a bonus to be the most flexible benefit after salary (fig 3).

Figure 3: What if the most important benefit an employer can offer on top of your basic salary?

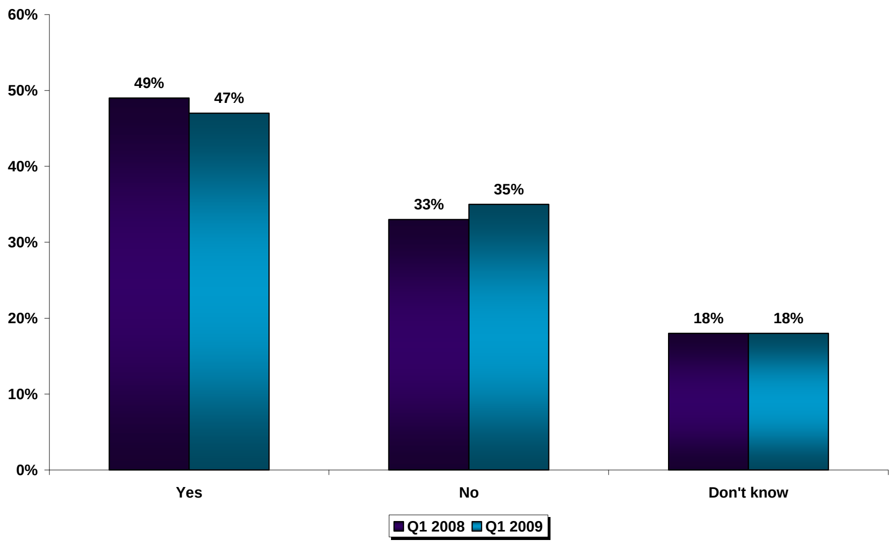


Loyalty to employers

In order to ascertain the benefits to employers of offering a pension scheme, respondents were asked whether the presence of a pension scheme at work improved their sense of loyalty to their employer.

The results show there is a clear loyalty bonus to be had by employers who introduce a pension scheme. 47% of respondents who did not have access to a pension scheme where they worked felt that the introduction of a pension scheme would make them more loyal to their employer, compared to 35% who said it would not (fig 4).

Figure 4: Would having a pension make you more loyal to your employer? (employees who do not have access to a pension scheme)

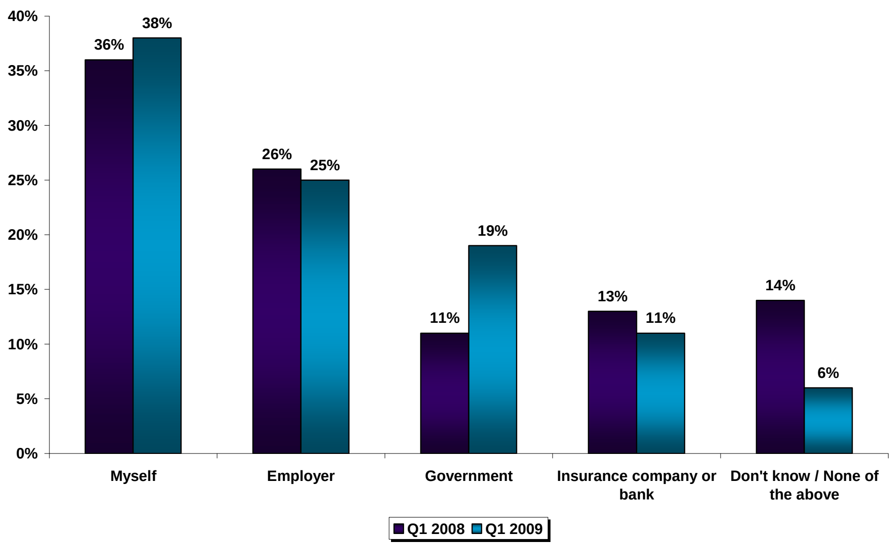


Most trusted pension provider

Survey results reveal a high degree of self-reliance on pensions matters. Almost two-fifths of people (38%) said that they have most trust in themselves when it comes to providing a pension. This self-reliance has remained consistently ahead of other possible sources of advice. However, as the survey also shows, it is likely to be undermined by poor levels of awareness of core pensions issues – just 28% of non-members were aware how much their employers would contribute to their scheme if they joined it. 58% of all respondents were aware that they received tax relief on contributions made to pension arrangements.

Of more traditional sources of pension provision, employers were trusted above Government, banks and building societies. One quarter of respondents trusted their employer, compared to Government (19%) and banks/insurance companies (11%). Encouragingly for Government ahead of the introduction of Personal Accounts, trust in the state had increased by 8% over the past 12 months (fig 5).

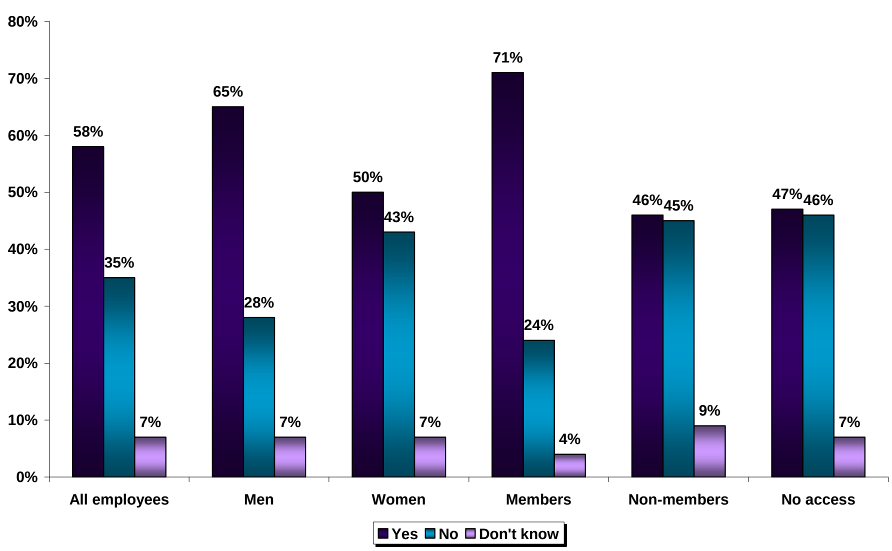
Figure 5: Who do you most trust to provide a pension?



Awareness of pension benefits

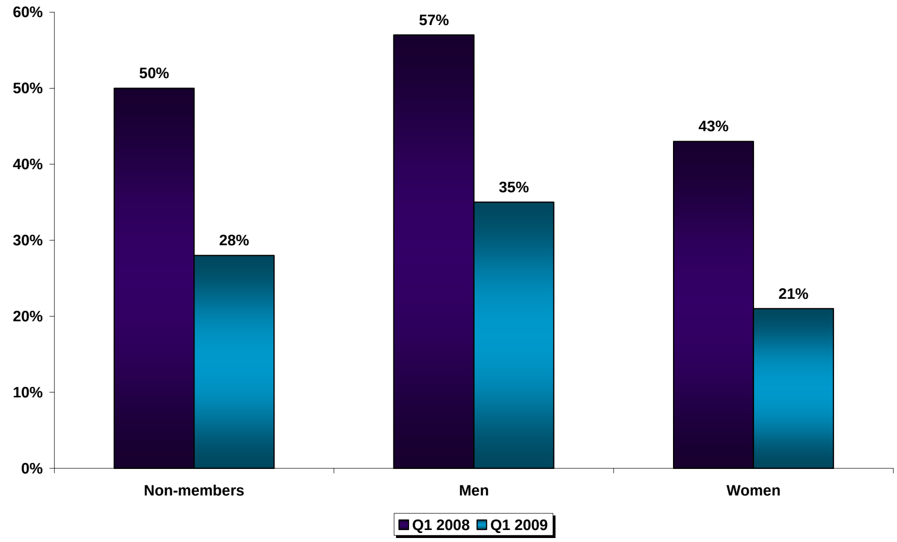
Respondents continued to show low levels of awareness of two of the main benefits of saving in a pension: tax relief and employer contributions. Whilst those who were already pension scheme members showed high levels of awareness of both tax relief and employer contributions (71% and 76% respectively), much lower levels of awareness were revealed by those who had the opportunity to join a pension scheme but had not exercised that option and those with no access to workplace pensions. Just 46% of non-members and 47% of those with no access to a scheme at work were aware they could receive tax relief on their pension contributions (fig 6).

Figure 6: Are you aware that you receive tax relief on pension contributions?



Similarly low levels of awareness of the value of employer contributions (which could amount to around 6% of pay in a typical defined contribution scheme and 15% in a typical defined benefit scheme) were shown by non-scheme members. Only 28% of non-scheme members were aware of how much their employer would contribute to their pension if they joined the scheme. Worryingly, there has been a drop of around half who are aware of the value of their employer contribution over the past year – in Q1 of 2008, 50% said they were aware of the value of the employer contribution they were giving up by declining scheme membership (fig 7).

Figure 7: Are you aware how much your employer would contribute to your pension? (non-members)



Actions for industry and Government

This latest Workplace Pensions Survey shows that consumer confidence is starting to return to pensions. However, as is clear from the results of the last 12 months, this confidence is fragile, and likely to remain so throughout the recession.

Stronger consumer confidence in pensions will be essential both to address undersaving ahead of the introduction of auto-enrolment and to create a successful environment into which Personal Accounts will be launched. That is why the NAPF has called for a national campaign – led by Government and actively supported by the pensions industry, worker representatives and business – to rebuild confidence in pensions.

Demonstrating the value of pensions would be one 'quick win'. The pensions industry could play its part by demonstrating the value of pension contributions. In this context the NAPF's Pensions Quality Mark will be a helpful tool. And by actively promoting the value of tax relief on contributions the Government could play its role in promoting the benefits of pensions.

Together, these could be powerful devices to incentivise and encourage pension take-up ahead of auto-enrolment in 2012.