Ipsos MORI

Understanding, Engagement and Transparency in Private Pensions

Qualitative Research on behalf of the National Association of Pension Funds

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Attitudes towards retirement tended to be negative for all participants. They felt that they were unlikely to retire, expected to work beyond State Pension Age (SPA) and therefore had not made any plans for this period of their life. **Retirement was deemed unaffordable largely because of the current economic climate** which meant participants thought that any savings they did have were not likely to increase in value. Though some participants engaged with their pension more than others, they were also united by **uncertainty about the basic details of their pension scheme**, for example **who their pension provider was, the size of their pension pot, and the contribution levels they were making**.

Participants were relatively **unaware about opportunities to increase the value of their pension fund** though **increasing contributions** was the most common suggestion. This further demonstrated participants' uncertainty about their pension scheme as **some were unsure about whether this was possible, and was, overall, an unpopular idea**. Indeed, no one we engaged with had previously considered increasing contributions, and those who were aware of the level of their contributions were all paying the minimum. Further thoughts to increase the value of their pension pots were to work beyond SPA, though many participants expected to do this out of necessity. Not taking a tax free lump at the start of retirement was also suggested but this too was unpopular.

Pensions tended to be viewed as precarious investments and were likened to gambling, even though some participants had been contributing to one for a significant period of time. This was indicative of participants' **attitudes towards the financial sector** following the banking crisis which seemed to **raise concerns about how their investments are being managed**. A combination of distrust for pension schemes and a preference to invest in something more immediate, which they felt they understood better and had more control over, such as property, seemed to prevent participants from contributing more towards their pension.

Participants seemed **anxious about making decisions** relating to their pension because they believed it would not be possible to correct any mistakes that they had made. Furthermore, some were doubtful over the scheme they had joined, or were concerned that they could not make up for a low level of contributions in the past.

Understanding costs and charges

Knowledge of the costs and charges participants were paying was low, with most **unsure about what they were contributing, the fees they were being charged and what these fees were used for.** They were also **surprised at the variability of fees currently being charged** across different pension products. Contribution rates were better understood but participants still found it difficult to ascertain if they were getting a good deal because they did not know what they were levied against. They expected that low levels of understanding about pensions would **permit pension providers to take advantage of their customers**.

Participants found it **difficult to understand the information they had received** about their pension and suggested that it should be clearer and more easily applied to their own pension. Some **participants seemed disinterested in shopping around for a better deal** because they were unable to understand what difference a small percentage change would have on their overall pension pot. Again, this may have been because some were unaware of how much they had saved, or because with the exception of a few male participants, they found it difficult to perform these calculations. **Concerns were also raised about the viability of changing pension provider** drawing parallels between pension schemes and energy tariffs. Many felt that the fee to change would be high enough to balance out the possible savings to be made, or that providers could increase the charges soon after switching, and thus make shopping around pointless.

Participants struggled with the concept of annuity rates; most did not know what an annuity was and a few of those who did were incorrect in their assumptions about their purpose and how they worked. The **more knowledgeable participants were concerned that current annuity rates were poor** and suggested that when they reached retirement they would be consulting an Independent Financial Adviser (IFA) in order to get the best deal.

Preferences in retirement

Participants were unaware of the options available for drawing a pension and had not considered them in any detail. **Taking a lump sum at the start of retirement was popular** with the majority of the group because the amount was tax free, and a few participants expected that they might need more money at the beginning of retirement to enable them to do the things they want to do. Having a **protected level of income** throughout retirement in order to maintain the same standard of purchasing power was also favoured by participants and there was a preference for both options to be combined. Less popular was the idea of a flexible pension where income could be altered according to need. It was assumed that there would be regular changes in their need which would make it hard for them to budget, and make contributions at an appropriate level to ensure the pension pot was adequate.

A small number of participants had considered **varying their income in retirement** and were mindful of the crisis in **funding social care.** They felt it would be responsible to save in case they needed to fund their care, with some drawing on the experience of others they knew in retirement. However, most were more comfortable with the idea of taking out as much money as possible as soon as they retired due to **perceptions that their entire pension pot would be lost once they died**. Participants generally found it **difficult to make decisions** about how to receive their income in retirement and seemed more inclined to choose options which would benefit people they knew. This is because **they did not know what their circumstances in retirement would be**, with the size of the pension pot and health at the start of retirement referenced as important factors.

Information needs

Uncertainty about what information sources are available meant that the majority of **participants had not accessed information about their pension**. With the exception of one individual who had experience of using an IFA, most **sought help from family and friends** though they often did not understand the advice they were given. It was suggested that the **most trustworthy source of information was the government** who it was also felt had a *responsibility* to provide information. Banks were dismissed as a viable source of information, again because of the effects of the banking crisis on participants' perceptions of the finance industry, and their beliefs that firms could withhold information if it was in their interest to do so. Some participants were also sceptical about IFAs and questioned whether they understood the whole market and were good value for money.

Participants who had not sought information held the **perception that any information available would be too difficult to find and understand** which was supported by those who had tried to do this. This attitude was also furthered by the assumption that others were in the same position. Despite this, some participants suggested that they intended to contact their pension provider about the details of their pension. The main areas which they felt they required more information about were: **the value of their pension, how their money was being invested, and the fees that they were paying.**

Introduction

2. Introduction

2.1 Aims and objectives

The study was designed to explore the level of awareness and understanding of different aspects of workplace and private pensions of those who currently pay into such scheme.

The objectives of this study were to:

- Understand attitudes to retirement and participants' knowledge of their private or workplace pension scheme, and ways to increase the size of their pension pot;
- Ascertain the knowledge private pension holders have about the costs and charges they are paying and what they think these are for;
- Assess the most popular options for annuitizing a pension; and,
- Highlight the information needs of those who pay into a private or workplace pension scheme.

2.2 Methodology

One discussion group was conducted for this study in order to highlight some of the issues around the subject of understanding of Private and Workplace Pension Schemes, which can be used as a basis for developing further research.

The group environment allowed the moderator to get past participants initial responses and reactions and drill down into the source of their attitudes. It also allowed for the use of stimulus to help the participants engage with the subject.

The participants of the discussion group were recruited from across London, face-to-face by Ipsos MORI recruiters. The group was conducted on 5th October 2011 and was facilitated by an Ipsos MORI moderator using a discussion guide, which had been developed and agreed with the NAPF. Each participant was paid an incentive of £35 by Ipsos MORI as a thank-you for their time.

The sample frame for the discussion group is included in the table below:

Number of participants	10
Gender	Even split between male and female
Age	29-50
Social Grade	ABC1
Ethnicity	3 BME participants
Saving status	All were currently paying into a workplace or private pension scheme
Attitudes	5 who strongly or somewhat agree and 5 who somewhat or strongly disagree with the statement: *"I am confident about the decisions I have made for financial provision when I retire"*

2.3 Report Layout

Following the summary and introduction, this report contains a more detailed commentary of the main findings divided into four sections as detailed below:

- Chapter 3 explores participants' attitudes towards retirement and their private or workplace pensions. It discusses their level of understanding of their pension scheme including their knowledge of their contributions and where their money is invested. It also discusses participants' awareness of ways to increase their pension pot and their preferences for doing this.
- Chapter 4 explores participants' understanding of the charges they are currently paying for their pension schemes and the extent to which they feel comfortable shopping around for a better deal.
- Chapter 5 looks at the extent to which participants have considered various annuity options and their attitudes towards them. It also looks at how they expect to draw their pension and how their income might change during retirement.
- Chapter 6 explores how participants currently access information about their pension schemes. It also identifies the aspects of their pension which they feel most in need of information and discusses levels of trust in different sources of information.

2.4 Presentation and Interpretation of data

It is important to note that qualitative research is designed to be *illustrative* rather than statistically representative and therefore provides insight into why people hold views, rather than conclusions from a robust, valid sample. In addition, it is important to note that we are dealing with people's perceptions, rather than facts. This is particularly significant because the findings from this work are taken from one discussion group only.

Throughout the report, use is made of verbatim comments from participants. Where this is the case, it is important to remember that the views expressed do not always represent the views of the group as a whole, although in each case the verbatim is representative of, at least, a small number of participants.

2.5 Publication of data

Our standard Terms and Conditions apply to this, as to all studies we carry out. Compliance with the MRS Code of Conduct and our clearing is necessary of any copy or data for publication, web-siting or press releases which contain any data derived from Ipsos MORI research. This is to protect your reputation and integrity as much as our own. We recognise that it is in no-one's best interests to have findings published which could be misinterpreted, or could appear to be inaccurately, or misleadingly, presented.

Attitudes towards private and workplace pension schemes

3 Attitudes towards private and workplace pension schemes

3.1 Introduction

This section explores participants' attitudes towards retirement and their private or workplace pensions. It discusses their level of understanding of their pension scheme including their knowledge of their contributions and where their money is invested. It also discusses participants' awareness of ways to increase their pension pot and their preferences for doing this.

3.2 Thinking about retirement

Participants tended to feel fairly negatively about all aspects of retirement. They had not planned for retirement and **most expected to work beyond the State Pension Age** (SPA). Whilst some said they would prefer to retire earlier than SPA, a minority view, they reiterated that they felt this was an unlikely prospect. **Foreseen financial difficulties relating to pensions was the only reason provided for feeling unable to stop working** and though most participants were over a decade away from retirement, they did not expect that this would change in the interim.

It's all about whether you can afford to retire

Female, 36-50

Around the time of the discussion group there was significant media attention surrounding poor annuity rates and issues relating to pensions in general, which may go some way towards explaining the level of pessimism amongst participants. Additionally, they did not view these issues as short-term ones, and even those who were in their thirties seemed to feel that **the current economic climate would have a detrimental impact on their ability to retire at the SPA**.

Knowledge of current retirement legislation was relatively good; **many correctly identified the State Pension Age as 65 and a small number were also aware that it will be increasing to 68.** Those who were unaware that the SPA is going to be increased seemed fairly unsurprised, and to some extent unconcerned by the prospect, possibly because they did not envisage being able to retire at the current SPA anyway and were resigned to working for longer.

Participants also seemed to be somewhat prepared to accept changes to the State Pension and placed it in the wider context of Government cuts and the poor economic climate. Both have led them to believe that people are likely to be worse off in every aspect of life. Furthermore, some also discussed increases in life expectancy and, against this background, felt that the changes to the State Pension were justified.

3.3 Understanding and engagement with pensions

All participants had a private or workplace pension though some engaged more actively with their pension than others and their **reasons for initially joining a scheme were varied**. A few of the participants in their forties opted into their pension schemes in the 1980s and said this was because of their popularity at the time and because they were aware that contributing to a pension would reduce their tax bill. Some of the male participants had taken up their pensions at relatively young ages, in their early and mid-twenties, whilst others had joined a pension scheme more recently. These participants were more likely to be female and suggested that this was because they had been automatically opted in to their workplace scheme or because they had been advised to by friends.

Most participants seemed to understand very little about their pensions and said they rarely thought about them. **Some were unable to name their pension provider though the most common areas of confusion were the contribution levels they were making, and the fees they were paying**. The more informed participants tended to be male and a few knew the percentage sum of their contribution levels, however the majority were unsure about whether they received employer *and* Government contributions and what the values of these were. It appeared that the period of time a pension scheme had been held for did not correlate with levels of understanding, as some of the participants who had been contributing to a workplace pension for the last twenty years were also unsure about certain details.

If all goes well I'll receive something back at retirement age but I'm not educated in the detail

Female, 25-35

The most knowledgeable participant was self-employed and attributed his awareness of pensions in a large part to having previously used an Independent Financial Adviser (IFA). However, despite having a fairly good understanding of risk levels and how to buy an annuity, he was unsure about many other issues relating to his pension scheme and also held some misconceptions about several aspects of it, particularly relating to management and contribution charges.

Since they were unclear about the more straightforward details of their pensions, participants also struggled to discuss the risk levels that their investments are exposed to. **Some were not aware that they could control risk by modifying where their pensions are invested**, and those that did were not entirely confident in their abilities to do this effectively. Participants who had not received professional help about the management of their pension fund such as from an IFA, **tended to get advice from family and friends** for example regarding how risk should be managed across the lifetime of a pension. Though this information was correct they did not know why and therefore lacked confidence in their decisions.

Discussing risk led participants to reflect on where their money was being invested, an issue which many seemed to be considering for the first time. **They seemed to expect the worst when it came to receiving their pension**, and frequently suggested that they expected to lose money or not live long enough to claim their pension.

My concern would be getting a horrible stock market crash and losing 30% of my money the day before I retire

Male, 36-55

Again, **participants linked their anxiety to the poor economic climate and the recent banking collapse** which seemed to make them more conscious of the security of their money. Participants also spontaneously raised the issue of ethical investments which for some were important, although they were unsure about whether their pension was being invested in this way.

The need for greater information about ethical investments was expressed, though it was suggested that **it would not be in their interests of pension providers to supply this**. Some felt that most pension providers would be unlikely to make ethical investments and they feared that their money might be invested in funds which were involved in industries which they did not support. Knowledge of ethical pension funds was low and participants perceived that most providers would not provide such an option. Some felt that they would need to go to a company such as the Co-operative in order to feel comfortable about their investment.

Finally, participants did not seem to connect risk levels with rates of return. Previous research for NAPF found that attitudes to risk are subordinated by return with individuals generally more concerned about managing their investments to make them as worthwhile as possible[1]. This again **reflects the participants concerns about the current economic climate** meaning they tend to **ensure their pension fund is secure rather than seeking to maximise the profitability of their investments**.

3.4 Increasing the pension pot

Participants were relatively unaware about opportunities to increase the value of their pension fund. Some felt frustrated that they had not been encouraged to save more, and earlier on in their working lives, and consequently felt that they would not be able to retire. Providing this information was considered a responsibility of the government and a few participants also suggested that employers had a duty to assist by making contributions.

It should have been compulsory for companies ages ago, compulsory for companies to put money in

Male, 36-55

The most common suggestion to increase the pension pot was to **raise contribution levels**, though discussing this further demonstrated the knowledge gap between participants. A few were **unaware that they could alter their contribution levels or pay in a lump sum**. Despite this, overall, increasing contributions was an unpopular idea and no participants had considered doing it, though many were making the default level of contributions. There seemed to be two reasons for this, firstly, the level of passivity in participants' management of their pension meant that few had considered changing from the default option they had been on since they started their pension. Secondly, the perception that pensions were risky, and the lack of knowledge about how and where their money was invested, meant that participants were reluctant to put more money into an investment which they were uncomfortable about.

There was a preference instead to use any extra income for something more immediate and tangible such as paying off a mortgage or investing in property. Even when probed to see if their decision would change if their mortgage payments decreased or they had acquired a few thousand pounds, none of the participants changed their perspective.

I don't know how they'd accept a lump sum

Male, 36-55

You are paying into something that you won't be drawing on for a few years...it would be better for me to save and invest in property if I ever get on to the first rung of the property ladder

Female, 25-35

[1] NAPF. (2011). 'The Future of Pension Provision: Qualitative Research on Behalf of the Workplace Retirement Income Commission'

Further ways to increase a pension pot discussed included **working beyond SPA** and **not taking a tax free lump sum** at the beginning of retirement. As the majority expected to work longer out of necessity they, did not view this as a way to add value, and for some this was the norm because they had relatives who were already doing this. **Not taking a lump sum was unpopular**, and though some participants were aware that taking one would lower the value of a monthly pension, they still intended to. This was not only because the tax-free aspect appealed to them but also the prospect of receiving a lump sum, which, to some extent, allayed their fears of losing their pension fund if they died early in retirement. The **participants seemed to be unaware of how much each action could alter the value of their pension** and most were shocked that a combination of all of them could increase their pension pot by up to 75%.

3.5 Attitudes towards pensions

Though many participants had been regularly making contributions into their pension for a number of years, **they did not seem to regard their scheme as a secure or reliable investment**. Some **equated investing a pension with gambling** because they felt that banks might not be handling their money with care. Again, **this view was influenced by the recent banking crisis and its coverage in the media which may have marred their view of the financial industry**. Participants were also aware of previous misuses of pension funds referencing the collapse of Equitable Life.

It's another thing, another gamble, it's all about gambling

Male, 36-55

It's all about being at the mercy of stock markets

Male, 36-55

The perception that pensions are precarious investments meant that **participants were reluctant to increase their contributions and some were more inclined to invest elsewhere**, for example in bonds or property as highlighted previously. This supports earlier research conducted by Ipsos MORI for NAPF which showed that **people are generally more comfortable investing in tangible assets such as property** because they feel more 'real' than pensions and believe that they have more control over them[2].

Linked to concerns over the security of pension funds, **many participants also felt that they were unable to rectify any mistakes they had made regarding their pension provision**. To illustrate, some were concerned about whether they had selected the 'right' pension provider and got the best possible deal. This was also particularly the case for participants who **felt that they had not saved enough**, and it seemed that they did not believe they could make up for this shortfall with higher contributions in the future, possibly because they were unaware that they were permitted to increase contributions.

The whole thing's been a disaster

Male, 36-55

It depends where you are in life, as you go through life you probably only realise you've done this [not got the best deal] **in your twenties until you are in your fifties and by then it will probably be too late**

[2] *Ibid*

Understanding costs and charges

4 Understanding costs and charges

4.1 Introduction

This section explores participants' understanding of the charges they are currently paying for their pension schemes and the extent to which they feel comfortable shopping around for a better deal.

4.2 Costs and charges

The subject of **costs and charges confused all participants**, including those who had demonstrated reasonable levels of knowledge about their pension in other ways, such as the level of risk in their pension and the amount in their pension pot. Only the most knowledgeable participant was able to say with any certainty that he paid two types of fee on his pension and had a rough idea of how much he paid, although he was unsure of what the fees he paid were called or why he had to pay them. Some of the other participants said that they thought they paid a fee, but were unsure as to what it was levied on, what it was called and why they paid it. Most, however, seemed **completely unaware that they were paying a fee at all**.

4.3 Management and contribution fees

The term *'management fee'* was not recognised by participants, although one participant suggested, albeit without knowing for sure, that the management fee was likely to be the main source of income for pension providers and was probably used to cover overheads and staff costs. The participant who had the highest level of knowledge about his pension, believed that he paid around 1% a year for something he assumed must be a management fee and felt that this rate was probably fairly standard across the board. His suggestion was then re-iterated by others as they had no other experience to go on and therefore **approximated that 1% sounded reasonable**.

When presented with the ranges of fees being charged across different pension products (0.3%-2%), the participants were shocked at the variability. They were **most surprised by the 0.3% rate, which was deemed very low**. Indeed, many participants said that they were unsurprised that some providers charge 2%, and many felt that this was also a fairly low charge. However, few participants understood how this charge was applied to their pension pot and what their pension pot was worth, and were therefore unable to accurately predict how this could impact on their pension pot in the long-term. Other participants, particularly those with a relatively higher understanding of their pension believed that **pension providers would be profiting from controlling pension funds in other ways and so had no reason to charge a fee at all**.

2% is cynical disregard for the customer... they've got the money anyway, why do they have to put a charge on it?

Male, 36-55

The feeling that **pension providers were taking advantage of their customers** was supported by all participants. Even those who had the lowest awareness of the details of their pension **believed that they were probably not getting a good deal**. Comparisons between energy tariffs and bank charges were frequently made, and these experiences led most participants to believe that high, and perhaps unfair, charges were inevitable and that there was little that they could do to avoid them.

When asked to consider what the difference between 0.3% and 2% might mean in real terms, only a small number of participants (all male) recognised that over around 40 years worth of contributions, a 1.7% difference in management fees could result in significantly different returns. However, there was still uncertainty even among the participants that put forward this suggestion given that they did not understand what the management fee was charged against. To illustrate, they did not know if it was a charge levied against contributions made to date, against the entire value of their pension pot, or against the amount they had made on their pension in that year. Consequently, **participants expressed a need for clearer, more easily understandable information about management charges which could be easily applied to their own pension**.

This confusion was compounded by the fact that only one participant knew how much was in his pension pot. Indeed, other participants seemed surprised to learn that they could access information about their pension and were not aware, for instance, that they should be given details of the current value of their pension or a forecast of what they might expect to receive in retirement. Of the few that were aware of receiving annual pension statements, none read them for the simple fact that they felt that the **information provided was too difficult to understand** and therefore they tended to file them away.

You need to be Einstein to understand half of these things

Male, 25-35

When the group were told that the difference between 0.3% and 2% in management charges could result in a 21% difference for someone paying 8% of around £30,000 for 40 years, most participants were shocked. They stated that customers need to be informed about this and felt that these kinds of **calculations were too complex for customers to make themselves**. It was suggested that **only those with access to an IFA are likely to understand the potential ramifications of different management charges**.

That's what a good FA should tell you about, that's a fantastic difference

Male, 36-55

In addition, contribution fees were also discussed which participants seemed less surprised by and had more of an awareness of. However, their comprehension of the details around contribution fees was, again, low. For instance, after being told that the average contribution fee is 1.8%, they seemed unsure about whether this was good or not, and furthermore, did not know what this might mean for them because they did not know what it was levied on. Furthermore, in light of these discussions **participants started to convey concern about how much they might be paying in fees** and how this might be affecting their pension. In spite of this concern though, **participants generally felt that they were helpless and believed there was little they could do to improve on the return from their pension**.

Some participants, and the women in particular, felt that there was **little point in shopping around to compare charges because they believed that the providers would find a way of charging them more** – just in a different way. Again, here, a comparison was made to energy tariffs, and participants discussed experiences of switching providers because they were promised a better deal. They expected that the fee to change providers would even out the saving they were making by switching, or that the tariff would be increased to the level they were paying previously after changing. **This led to a degree of inertia, with participants being unable to see the merit in seeking out a new provider**.

You end up paying roughly the same amount anyway, there's probably a really small fluctuation

Female, 36-55

A few participants **equated paying a higher charge with a better quality of service** and felt that account performance should be taken into account when looking at fees. These participants believed that paying a higher fee would be fair if their pension performed better than those with lower charges.

You've got to take into account performance, some pensions have been a disaster

Male, 36-55

4.4 Annuity rates

Most participants seemed confused when discussing annuity rates, which proved **the most difficult concept for them to grasp**. Most did not know what an annuity was, and a few of those who did were incorrect in their assumptions about their purpose and how they worked. For instance, one participant believed that if they opted for a lump sum they would not be entitled to an annuity. For those with some awareness of annuities, the main focus centred on the problems being faced by those retiring now, specifically, the poor rates they are being offered.

To do it [buy an annuity] **at this period of time would be madness**.

Male, 36-55

Annuities are paying very little, it's another thing to worry about

Male, 36-55

Given the general lack of awareness with regard to annuities, **most participants were unsure as to how they would buy one. They were also unaware that they can shop around** and are not obligated to take the one offered to them by their pension provider. Indeed, only one participant knew this and stated that nearer the time he intended to seek advice from an IFA in order to get the best deal.

You don't have to go with your pension provider, they'd like you to take theirs but you really should look at market options

Male, 36-55

None of the participants were able to guess what annuity rates usually are, and one participant was particularly shocked after being informed that the range is only between 6.7% and 7.2%. **Saving 0.5% was not deemed an attractive enough prospect to consider switching**, with a number of female participants in particular feeling **it would not be worth the effort of shopping around**. Again, participants were disinclined to change pension providers because they expected that the charges imposed for moving would balance out the potential saving to be made. The more knowledgeable members of the group however, were more maths literate and able to calculate that over the period of their working lives, this difference would add up to a significant sum of money.

Preferences in retirement

5 Preferences in retirement

5.1 Introduction

This section looks at the extent to which participants have considered various annuity options and their attitudes towards them. It also looks at how they expect to draw their pension and how their income might change during retirement.

5.2 Options for drawing a pension

Participants were unaware about the range of options available for drawing a pension. **Taking a lump sum at the beginning of retirement tended to be the option that they were the most familiar with and was also something they felt positive about**. Some suggested that drawing a lump sum was a good opportunity because the amount is tax free, though a few participants were disappointed after discovering they could only draw 25% of their pension in this way. Having a lump sum was perceived to be convenient because a small number of participants predicted they might have **higher costs at the start of retirement** if they made plans or had experienced periods of unemployment at the end of their working lives.

A lump sum would be useful, it just depends on your situation at the time and the [economic] climate...it would be useful because we've got things we want to do

Female, 25-35

They were also enthusiastic about **buying an annuity with a protected level of income** throughout retirement to maintain the same standard of purchasing power and felt that this was important. **Combining this with an option to take a lump sum at the start of retirement seemed to be the preference** of most participants.

Having a **flexible pension, where income can be varied according to need, was less recognised and relatively unpopular**. Some of the participants assumed that their income would be highly variable, on a yearly or even monthly basis, depending on what they intended to do in the short-term such as going on holiday. Saving for a pension of this kind was therefore perceived as chaotic and **difficult to manage over the long-term,** and they felt the variability would make it harder to know if they were contributing enough, especially if they have a restricted amount of income to invest.

It sounds good but how might it work in reality...you've still got the same amount to play with

Female, 25-35

What is the cost of living going to be? If you are living month to month you need to know what your income is going to be.

Male, 25-35

Additionally, it was felt that the more flexible option may be inappropriate for the elderly because they are more likely to deny themselves income in order to ensure they have enough to live on in the future, a perception that was based on the experience of people participants knew. Participants were concerned this may cause them to suffer a lower quality of life, for example by limiting their diet which would be more likely to result in ill health.

Vulnerability comes into it, the older you get the more vulnerable you feel, you need to save money just in case

Female, 36-55

Very **few participants had considered that they might want to vary their income in retirement**, with fewer still understanding why this might be advantageous. Though they liked the idea of being able to take a lump sum at the beginning of retirement, **delaying this until later on was dismissed** by all participants because they worried there may never be an appropriate time to access it. They felt that they would put off taking the money in case they needed it for a future emergency that was more serious and therefore might never utilise it.

However, a few participants felt that holding back a lump sum might be sensible and said that the current crisis in funding social care might mean that they would need a **lump sum to draw on to finance any care they might need in later life**. Again, ideas of what their retirement could be like were based on experiences of people they knew who were struggling to pay for care, and therefore participants felt that it would be responsible to make provision for this in the present. However, these considerations did not seem to outweigh the fear of most participants that they might die before they had received most of the money from their pension. **Perceptions that their entire pension pot would be lost once they died** and that their families would not be able to access any of the money meant that participants felt **more comfortable with the idea of taking out as much money as possible as soon as they retired**. They said that by doing this, they would be able to ensure that they enjoy some of their money before they died, and would also be able to re-invest it into something which they were sure of being able to pass on to their family in the event of their death, such as property.

5.3 Decision making

Participants had limited expectations of retirement and seemed reluctant to consider it in any detail. When making decisions about what would be a preferable type of annuity, very few references were made in relation to the participants' own lives in retirement, their plans or how their pension fund may be used. Rather they seemed to base their opinions of annuity options on what would be good for most people generally or, as in the case of changing their monthly income, what would be suitable for people they knew.

Participants found it difficult to make these decisions because they felt unable to plan without knowing what their circumstances would be. They felt that the **size of their pension pot, and their health in retirement** would influence which annuity they chose. For others, retirement was a long way off and therefore saving was a lower priority than investing in property or paying off a mortgage.

Information Needs

6 Information Needs

6.1 Introduction

This section explores how participants currently access information about their pension schemes. It also identifies the aspects of their pension which they feel most in need of information and discusses levels of trust in different sources of information.

6.2 Information sources

Participants had **little knowledge about their pensions**, and as demonstrated in Section 3, most **sought information about the management of their fund from friends and family** though they did not fully understand this advice, and as a consequence lacked confidence in their decisions. There was uncertainty about who to contact for information from most participants, though **they wanted accurate, trustworthy and independent advice**.

I think there's a massive education and knowledge gap, we don't know where to get the information, to get the advice, to get the help... I mean there should be some responsibility on us to get the information but I wouldn't know where to go, whether to go to someone independent...

Female, 25-35

A few participants felt it was the **government's responsibility** to provide greater information and were frustrated that without help they had not been aware of many of the issues associated with their pension. Despite this, for many the government was the most trustworthy source of information. However, the accessibility of information provided was raised as an issue for some, as they felt that it was often both difficult to find and understand. Participants **dismissed financial institutions as an information source because of the banking crisis which has damaged their trust in the entire industry**. They believed these firms could relatively easily withhold information if it was in their interests to do so, as highlighted in the discussion of risk levels and how money is invested in Section 3. It was also suggested by some participants that **pension companies probably do not want people to be knowledgeable about pensions** because they perceived that pension companies profited by their members lack of understanding through costs and charges, as well as their lack of engagement with their fund more generally.

The government doesn't explain it simply, government websites are too complicated

Male, 36-55

Despite this, other participants were more enthusiastic about **utilising the internet** and referenced **price comparison websites** as a good source of information about fees. These sites were perceived to be trustworthy because of their independence, and also had the benefit of being able to see all the products and options available in one place, making it easier to compare and make a decision.

The **need to educate people earlier about pensions** was also raised by a number of participants who emphasised that it would be appropriate to inform people about the importance of saving for retirement whilst they were still at school. It was thought that this would prepare individuals prior to entering the world of work, and prevent them from making mistakes with their investments, as many participants believed they had.

I think it should be taught more at school, in basic black and white, this is what you need to think about

Male, 36-55

6.3 Information seeking behaviour

Uncertainty regarding information sources was exacerbated by the assumption made by participants that **pensions were complicated and therefore universally misunderstood**. Past experiences informed this opinion and a few participants recalled being provided with conflicting or incorrect information from someone with responsibility for the company pension scheme which had a significant impact on their levels of trust. Because of this, a small number of **participants were reluctant to contact their private pension firm and felt that no other organisation could help**. In addition, the lack of trust in the finance sector, as mentioned previously, was provided as a further reason for not seeking information. On top of this, although those who had used IFAs were fairly positive about them, a few of these participants stated that they felt IFAs overcharged customers and that they would be unaffordable for many people. Some of these participants were sceptical about whether IFAs were fully able to give a fair assessment of the whole market, and tended to focus on just a few main product types. Indeed, there was a strong perception that the only people who would be able to fully understand the market and an individual's needs were actuaries.

Even the experts don't understand it

Male, 29-35

You want an IFA that is studying the whole market carefully, not just a few products. It's hard to find that kind of person

Male, 36-55

I think IFAs are a scam...as far as I'm concerned they don't have any more idea

Male, 36-55

It is worth noting that the attitude that potential information sources would not be able to provide accurate information was based on perceptions rather than experiences as **most participants had not looked for information themselves**. **They expected that information would be difficult to find and understand**, which was supported by those who had tried. Consequently they felt almost resigned to coping with the limited knowledge they do have, under the **assumption that others were in the same position**.

Towards the end of the discussion, a number of participants suggested that their lack of knowledge had been highlighted to them whilst talking about the details of their pension and suggested that they intended to contact their pension provider following the group. **The main areas which they felt they required more information about were: the value of their pension, how their money was being invested, and the fees that they were paying.**

Conclusions

7 Conclusions

Participants approached retirement negatively because they were concerned that they had not made adequate savings and therefore could not afford to stop working. Their lack of plans for retirement had a significant impact on how they thought about retirement, and therefore the discussion, because most were uncertain about how their pension income would be spent. In addition, **unfamiliarity with the basic details participants' pensions** was also evident. Most were **unaware about how much their pension was worth, the level of contributions they were making and the fees they were being charged**, and a small number were also unsure about who their pension provider was.

Attitudes towards the economic climate appear to have a significant bearing on savings behaviour. Participants frequently expressed a **distrust of banking services** and did not seem to feel that the economy might improve. When thinking about retirement participants therefore assumed the worst, fearing that they may lose their savings or not live long enough to draw their pension. They **did not consider their pensions as firm financial investments**, but rather as savings that were exposed to risks by precarious market forces and likened them to **gambling**. Participants were anxious about making mistakes with their pension fund and seemed to believe that **any poor judgements they might have made could not be rectified**.

A lack of engagement, low levels of knowledge and fears about the loss of savings coupled with general pessimism about retirement meant **participants were reluctant to increase the size of their pension fund** and instead preferred to invest in areas that they were more comfortable with, and were more immediate priorities, such as property.

Confusion about the details of their pension was also demonstrated in relation to the fees and charges incurred by pension schemes. **Most were unable to say with certainty if they were paying management and contribution fees**, and all participants were unclear what the percentage rates of these were and what the fees were used for. **Understanding of annuity fees was much lower than the other charges**; there was confusion about what an annuity was and how they could buy one. Participants were also shocked about the small difference in annuity rates and many participants did not feel that **saving less than a percent by shopping around was worthwhile because of the time and costs involved.** Parallels between pensions and utilities companies were drawn and it was felt that the cost of changing would be high enough to balance out the possible savings to be made, or because providers could increase the charges soon after switching.

Participants were surprised about the range of fees across different pension products, though seemed to feel that **percentage figures on their own were meaningless** because most were unsure about the levels of contributions they were making. Here, there seemed to be a **gender divide** with a small number of men more confident in making decisions about their pensions and calculating how percentage changes might affect the value of a pension over the long term. In addition, participants felt that the **information they had received was too difficult to understand** and requested clearer information which could easily be applied to their own pension.

Awareness of the variety of annuity options was low, and participants tended to prefer the options that they were already the most familiar with. Participants **favoured taking a lump sum at the beginning of retirement because it is tax free, and having a protected level of income to ensure purchasing power stays the same.** However, because participants had few plans for retirement and most were unsure about the size of their pension pot, they found it **difficult to make these decisions as they were unsure about what they would**

need the income for. Consequently, most had not previously considered altering their income throughout retirement, though a small number recognised that it would be useful to in order to finance social care.

When thinking about their income in retirement, participants tended to **make decisions on the basis of what would be good for people they knew** rather than from the perspectives of their own retirement. This is because they found it **difficult to plan without knowing what their circumstances would be**, for example the size of their pension pot and their health in retirement, and because they had other priorities such as investing in property.

Participants seemed to lack information to make decisions about their pension and tended to **rely on friends and family for advice** because they were unclear about what other information sources were available. Though most had not actively searched for information themselves, the **government was perceived as a more trustworthy source of information because of the decline in trust of the financial industry following the banking crisis**. Although those who had the best knowledge of their pensions attributed this to having used an IFA, these participants were not completely confident about their IFA's knowledge and were concerned that they may not always give the right advice. Additionally, many participants felt that the person responsible for the company pension scheme in their workplace had **no greater understanding of pension schemes than they did** and were only able to provide the most basic and general information.

Information seeking behaviour was driven by the **perception that information would be difficult to find and understand**, and the assumption that most people do not understand the details of their private pension scheme because it is too complicated. This acted as a **disincentive for participants to seek help**. Throughout the discussion participants regularly highlighted that **they required further information about their pension** particularly regarding **the value of their pension, how their money was being invested, and the fees that they were paying.**