NAPF

Securing the future of pensions

WORKPLACE PENSIONS SURVEY

March 2012

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Introduction

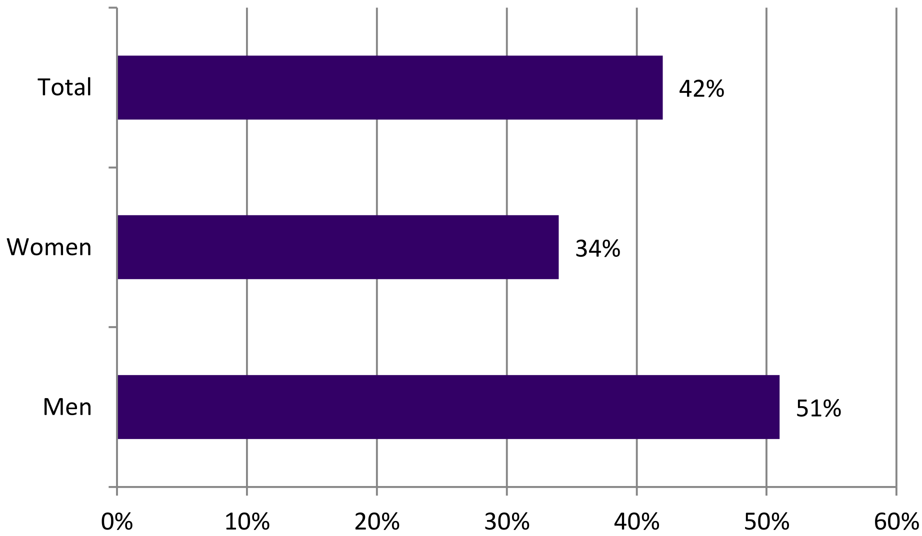
This short report summarises the findings from the NAPF's Workplace Pensions Survey. The Workplace Pension Survey tracks the opinion of the general public on pensions and assesses how confident they are in pensions as a way of saving for retirement. It also includes a section on the likelihood of respondents opting out from auto-enrolment.

The survey had 2050 respondents, of whom 913 were employees and 235 were self-employed. The data has been weighted to match the profile of respondents from earlier waves of the survey to ensure comparability. Fieldwork was conducted from 17 to 19 February 2012. The respondents answered the questions online.

Auto-enrolment

The Department for Work and Pensions launched an £11bn advertisement campaign to raise awareness about auto-enrolment in mid-January. A new question in the Workplace Pensions Survey asked respondents if they had heard about the Government's plans to start to put workers automatically into an employers' pension scheme this year. As Figure 1 shows, 42% of all respondents had heard about auto-enrolment. For men, this figure rose to 51%, but only 34% of women had heard about auto-enrolment. Awareness of the reforms rose with age and ranged from 25% of those aged between 18 and 24 to 50% of those aged between 55 and 64.

Figure 1: Proportion of respondents who had heard about auto-enrolment



Note: All respondents

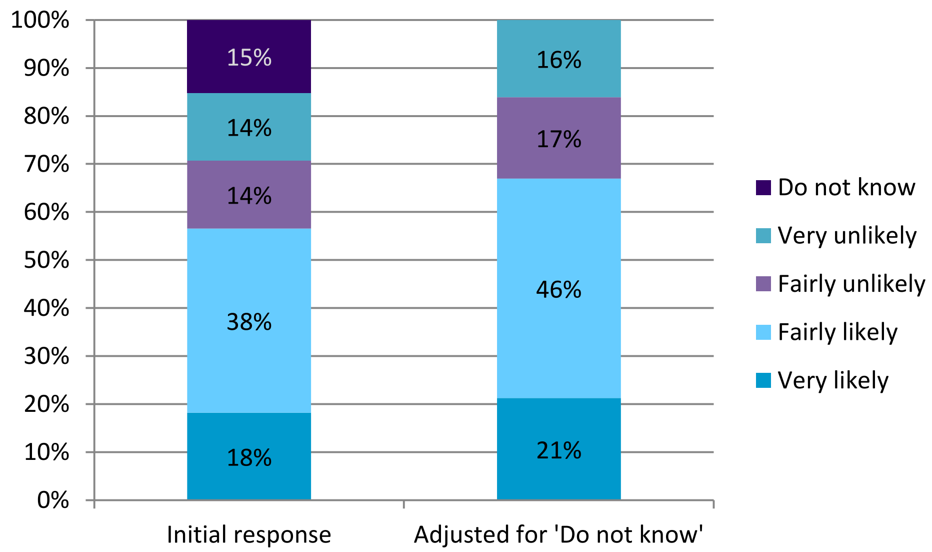
Those who are already in a workplace pension will only be affected by the reforms if their employer or employee contributions will change. It is therefore more important to inform those who currently are not a member of a pension scheme at their workplace and who are in the target group for auto-enrolment (those aged 22-64 and in employment and earning over £7,500). 59% of those who would be eligible for auto-enrolment but already are a pension scheme member had heard about the reforms, compared to only 39% of those who are not.

Opt-out tracker

A key factor in determining the success of the upcoming pension reforms is whether those who are auto-enrolled into a pension scheme will stay in, or whether they will opt out and leave it. For the second time, the NAPF ran its Opt-out-tracker, which asks those eligible for auto-enrolment what their likely reactions will be if they were auto-enrolled in a workplace scheme where respondents would contribute 4% of their salary, their employer would contribute 3% and they would get another 1% back in tax.

Overall, 56% of respondents were either likely or very likely to stay auto-enrolled (left column in Figure 2). However, 15% of respondents had yet to make up their mind. Adjusting the results for those who did not know, the figure of those who were either likely or very likely to stay auto-enrolled increased to 67% who are likely to stay in (right column in Figure 2).

Figure 2: How likely is it that you will stay auto-enrolled? – Overall response



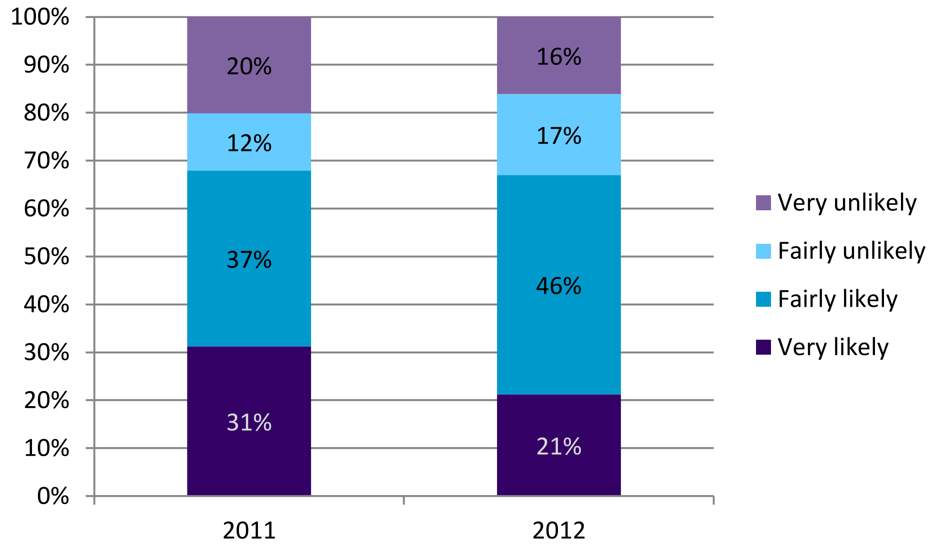
Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over £7,500

Comparing the results from February 2012 to October 2011, the overall figure of those who are likely to stay auto-enrolled has remained relatively stable around 66-68%. However, fewer people felt that they were very likely to remain auto-enrolled (a decline from 31% to 21%). The number of those fairly likely to remain auto-enrolled has increased from 38% last autumn to 45% in February 2012.

The Department for Work and Pensions conducted research in 2007 and found that between 69% and 77% would stay auto-enrolled.[1] The NAPF reran the survey to test whether attitudes had changed since the downturn, and in particular whether they had changed in light of pressed household budgets and affordability concerns. The results between our two waves of the survey are consistent and suggest the most pessimistic scenario from the survey conducted five years ago has now become the most optimistic one.

[1] Department for Work and Pensions, Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey, 2008.

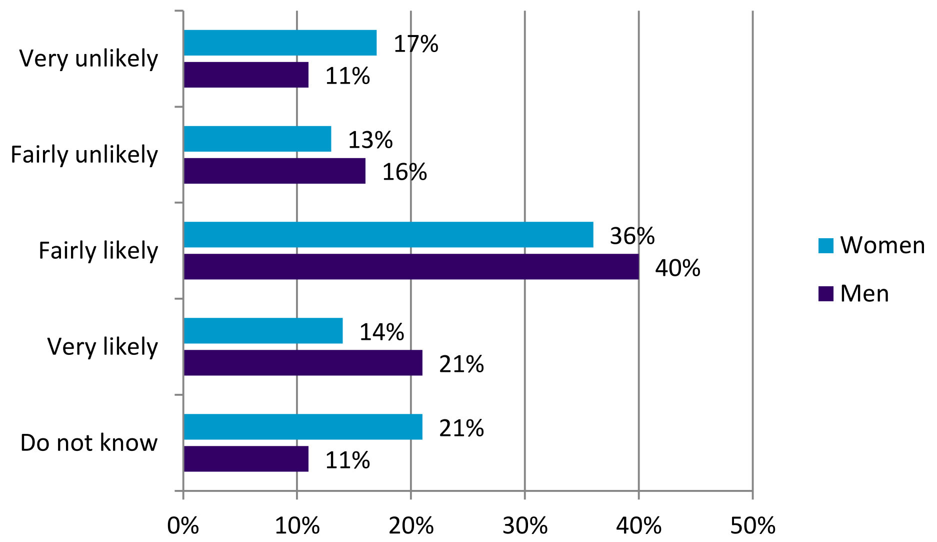
Figure 3: How likely is it that you will stay auto-enrolled? – 2011 and 2012



Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over 7,500

Looking at men and women in the target group (those aged between 22 and 64, earning over £7,500 and currently not part of a workplace pension scheme), men are more likely to stay auto-enrolled than women. 21% of men are very likely to stay, compared to 14% of women; 40% of men are likely to stay, compared to 36% of women. Men were more likely than women to make a decision on whether they would stay auto-enrolled or opt out.

Figure 4: How likely is it that you will stay in? – men and women



Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over £7,500

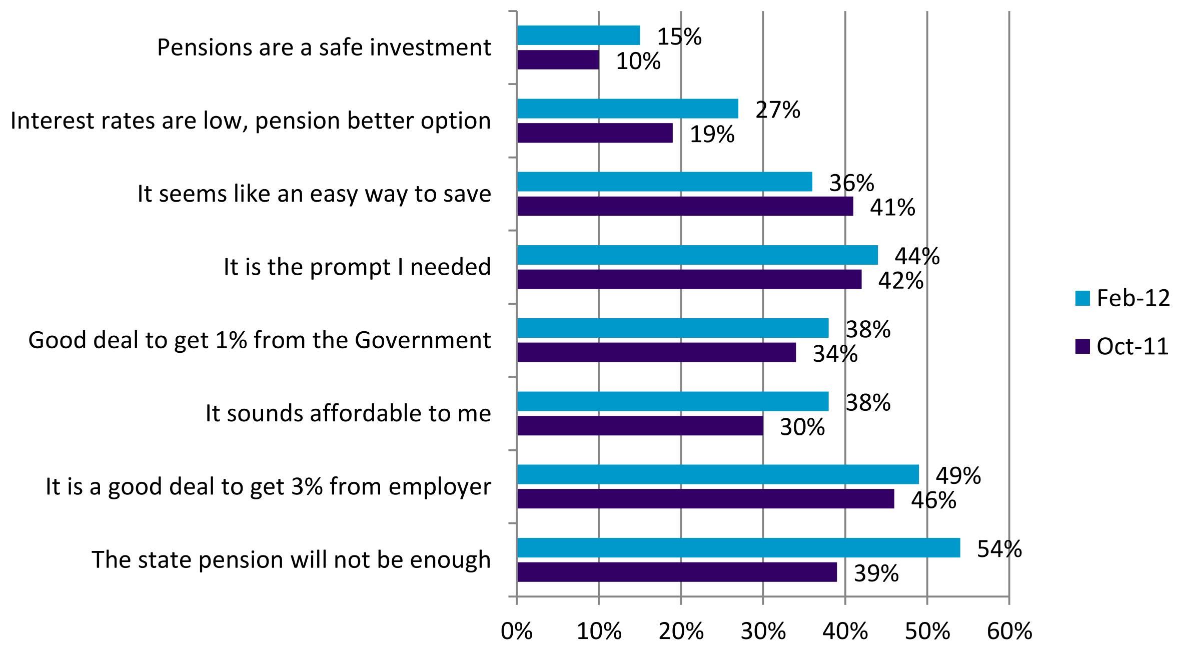
Reasons for staying auto-enrolled and opting out

Those respondents who said they were likely to stay auto-enrolled were asked to say with which of the following statements they agreed.

- Pensions are a safe investment.
- Interest rates are so low for ISAs and savings that a pension is a good option.
- It seems like an easy way to save.
- I need to start saving for retirement – it's the prompt I've been needing.
- It is a good deal to get 1% of my salary back in tax from the Government.
- It sounds affordable to me.
- It is a good deal to get 3% of my salary from my employer.
- The state pension won't be enough for me in retirement.

Figure 5 shows that the reasons given for staying auto-enrolled have changed between October 2011 and February 2012: in February, 54% said they would stay auto-enrolled because the state pension was not enough (up from 39% in October 2011), 27% agreed with the statement 'interest rates are so low for ISAs and savings that a pension is a good option' (up from 19%) and 15% felt that 'pensions are a safe investment' (up from 10%). Employer contributions have remained high on the list in both waves of the survey, motivating almost one out of two respondents to stay auto-enrolled.

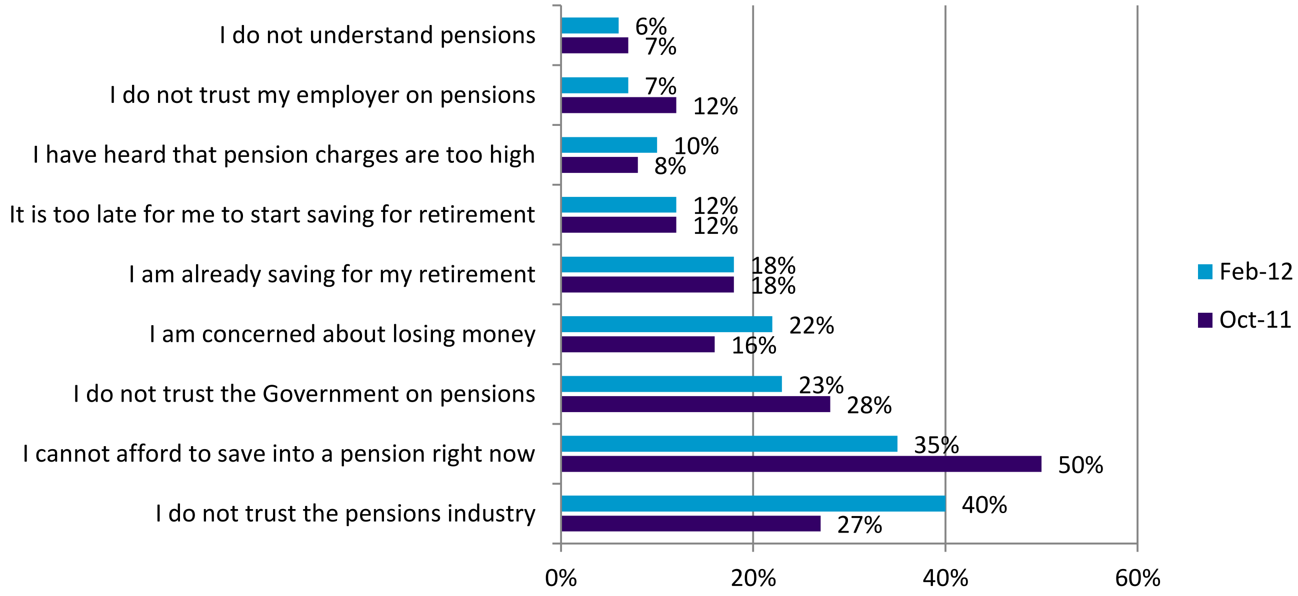
Figure 5: Reasons for staying in the scheme



Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over £7,500 and are likely to stay in the scheme

Those who said that they were unlikely to stay auto-enrolled were also asked for their reasons. While in October 2011 the main reason for opting out was affordability, in February a lack of trust in the pensions industry topped the list. The proportion of people who said they were concerned about losing money increased from 16% in October 2011 to 22% in February 2012.

Figure 6: Reasons for opting out

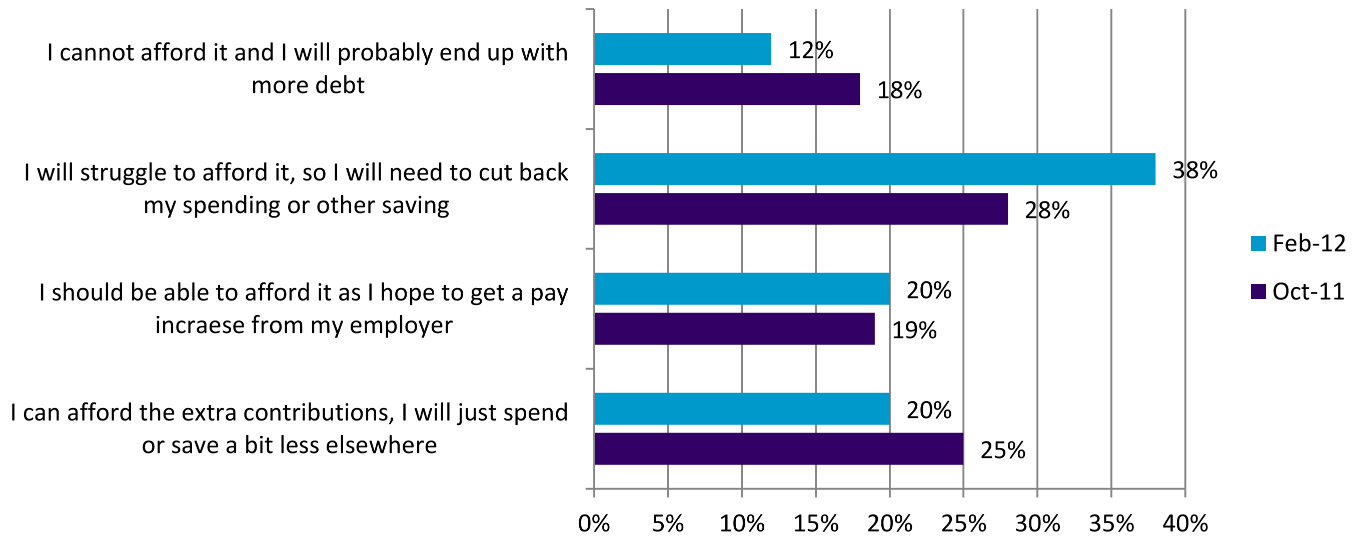


Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over £7,500 and are likely to opt out

Affordability is still the second most important reason mentioned by those who say they are unlikely to stay, and will be a concern for some of those who decide to stay auto-enrolled.

Figure 7 shows how those eligible for auto-enrolment are assessing the affordability of pension saving. Compared to October 2011, fewer respondents said that they could afford the extra contributions, and the proportion of respondents who said they would struggle to afford them increased by more than a third.

Figure 7: Which of the following is the best description of how you will afford it?

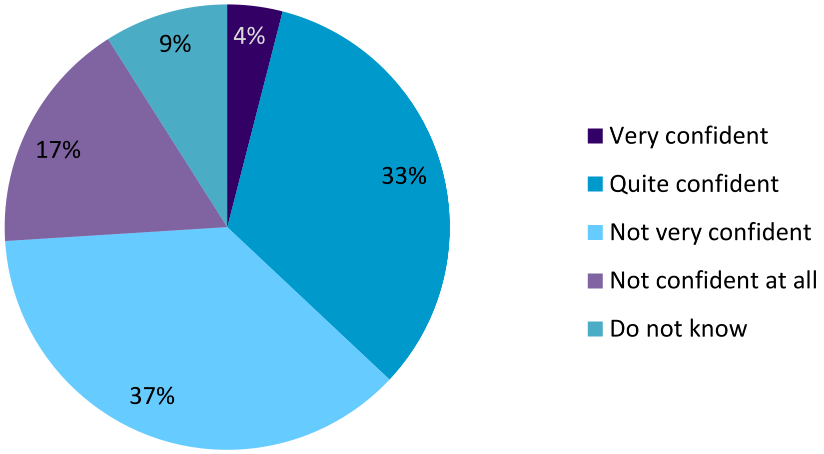


Note: All respondents who work full time, are not self-employed, and are not a member of the pension scheme at their place of work, aged between 22 and 64 and earn over £7,500

Confidence Index

The Confidence Index measures the difference between the numbers who are confident and not confident in pensions, compared to other ways of saving for retirement. Figure 8 shows that only 5% of respondents were very confident in pensions and 30% were quite confident.

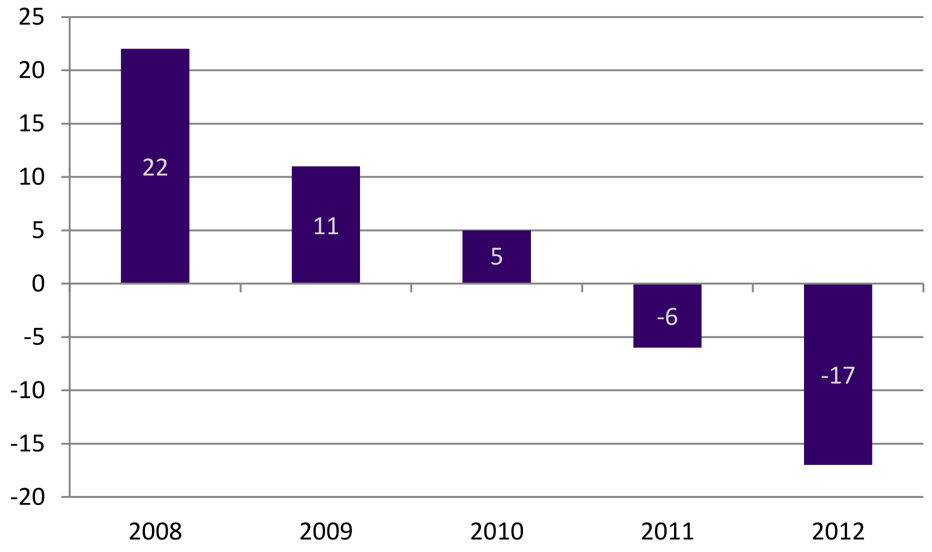
Figure 8: Confidence Index 2012



Note: All responding employees

The Confidence Index shows the difference between those who were confident in pensions (37%) and those who were not confident in pensions (54%). As Figure 9 shows, the Confidence Index fell from -6 in autumn 2011 to -17 in spring 2012. While this is a big change, it is important to consider that small changes to confidence lead to bigger changes in the index (because it is calculated as the difference between those who are confident and those who are not), so the Index can be volatile.

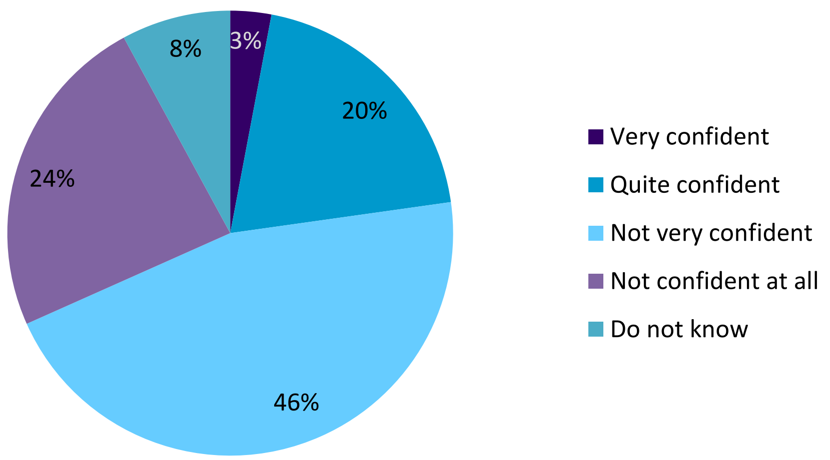
Figure 9: Confidence Index 2008-2012



Note: The figures up to 2011 refer to the data from the autumn, the 2012 figure is for the spring of the year

Respondents were also asked how confident they were that their pension would give them enough money to live on in retirement. Overall, less than a quarter (24%) were very or quite confident that they would have enough money to live on in retirement.

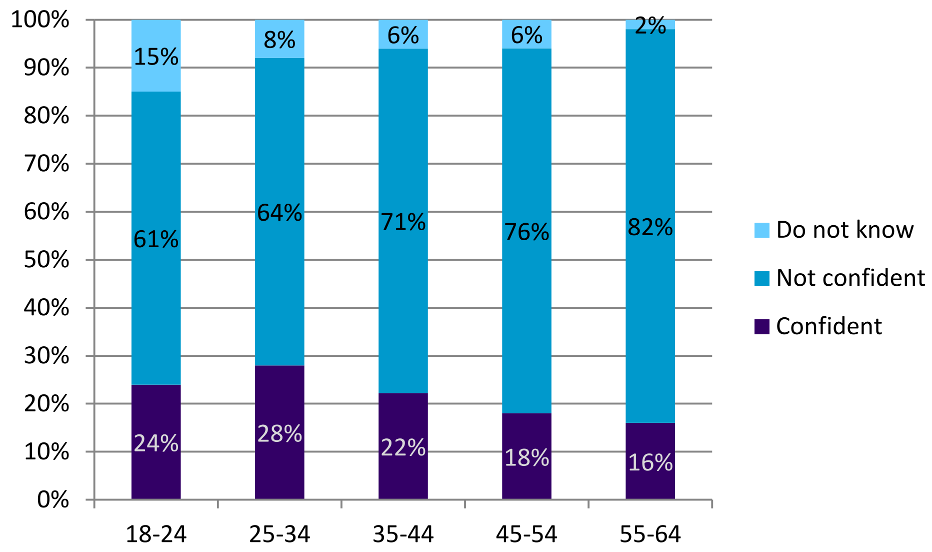
Figure 10: How confident are you that your pension will give you enough money to live on in retirement?



Note: All responding employees

Figure 11 shows the proportion of people who are confident (very or quite) and not confident (again, very or quite) that they will have enough money in retirement. It shows that, the proportion of people not confident that they will have enough money increases with age, being highest for those closest to retirement. This suggests that people may regret not having saved enough as they approach retirement and their financial position becomes clearer.

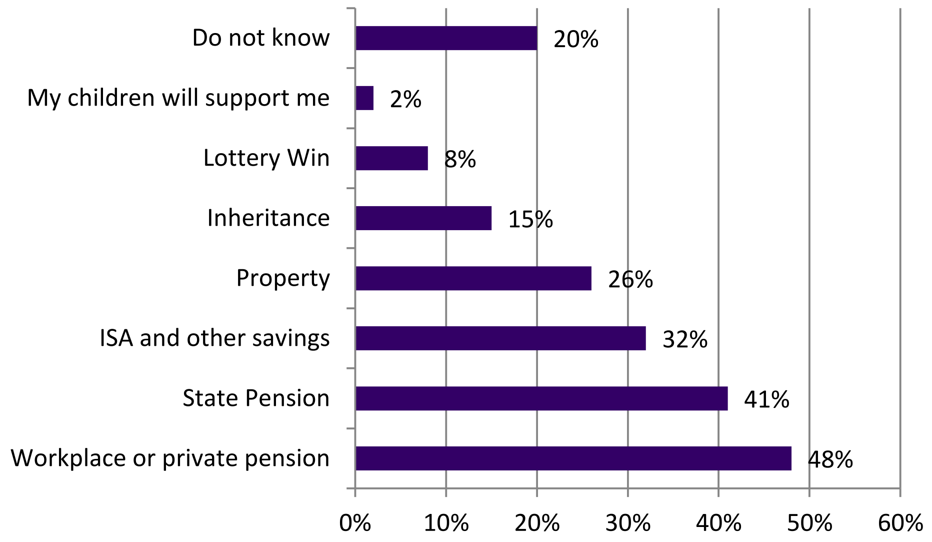
Figure 11: Confidence about financial well-being in retirement, by age



Note: All respondents who full-time or part-time

Figure 12 shows how working respondents were planning to fund their retirement. Almost half (48%) were planning to rely on a workplace or private pension, and 41% were planning to rely on the State Pensions. 32% of working respondents said that they were planning to fund their retirement through and ISA, and 26% mentioned property.

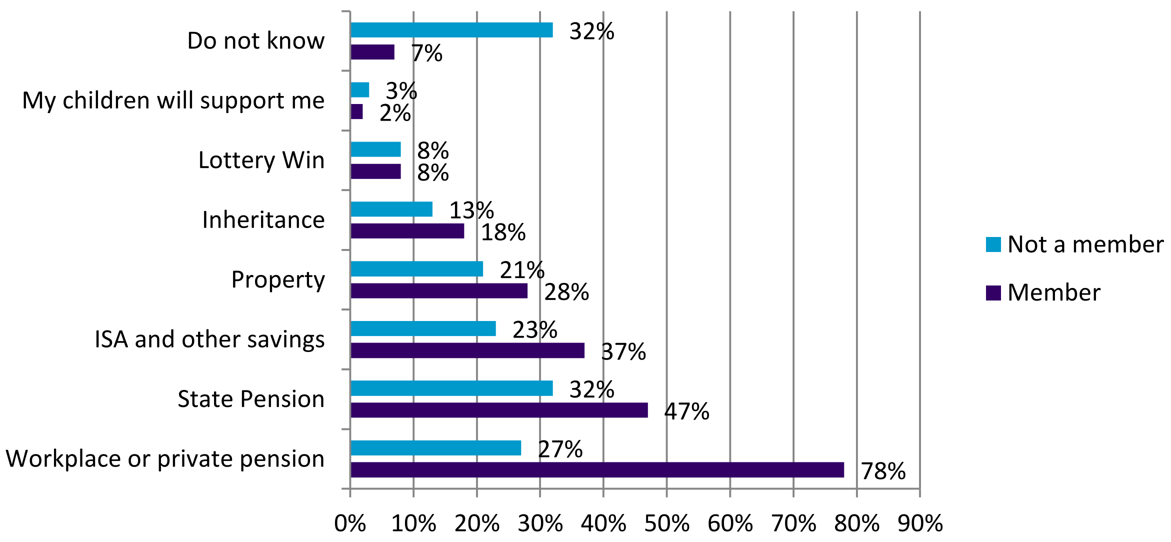
Figure 12: How are you planning to fund your retirement (non-retired respondents)



Note: All respondents who full-time or part-time

Figure 13 shows the different ways employees are planning to fund their retirement by membership of a workplace pension scheme. It shows that, of those who are not a member of a workplace pension scheme, about a third do not know how to fund their retirement or have not given any thought to it. However, for those in a workplace pension scheme, the number falls to only 7%. Importantly, those who are not a member of a workplace pension scheme are not making up for it by making other plans – they are less likely to be saving through an ISA or property for their retirement than those with a workplace pension plan. This group are likely to form the target group for auto-enrolment. Interestingly, over a quarter of those who are currently not a member of a workplace or private pension scheme said that was how they planned to fund their retirement.

Figure 13: How are you planning to fund your retirement, by membership of workplace pension scheme



Note: All respondents who are full time or part time employees, aged 22-64 and earning over £7,500

Conclusions

Overall, confidence in pensions has fallen over the past months, and only a quarter of respondents were confident that they would have enough money in retirement. However, despite this fall in confidence the proportion of people who said that they would stay in a pension scheme when auto-enrolled remained stable at about two thirds. This is encouraging in a time of tight household budgets and against an uncertain economic outlook.

With around two thirds likely to stay in a pension, auto-enrolment has the potential to make a big impact. Over the next the next few years the reforms will reach employees who either have not given much thought to their retirement so far– this survey identified about a third of those eligible for auto-enrolment – or who have not yet taken action. Auto-enrolment should help nudge them in the right direction.

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