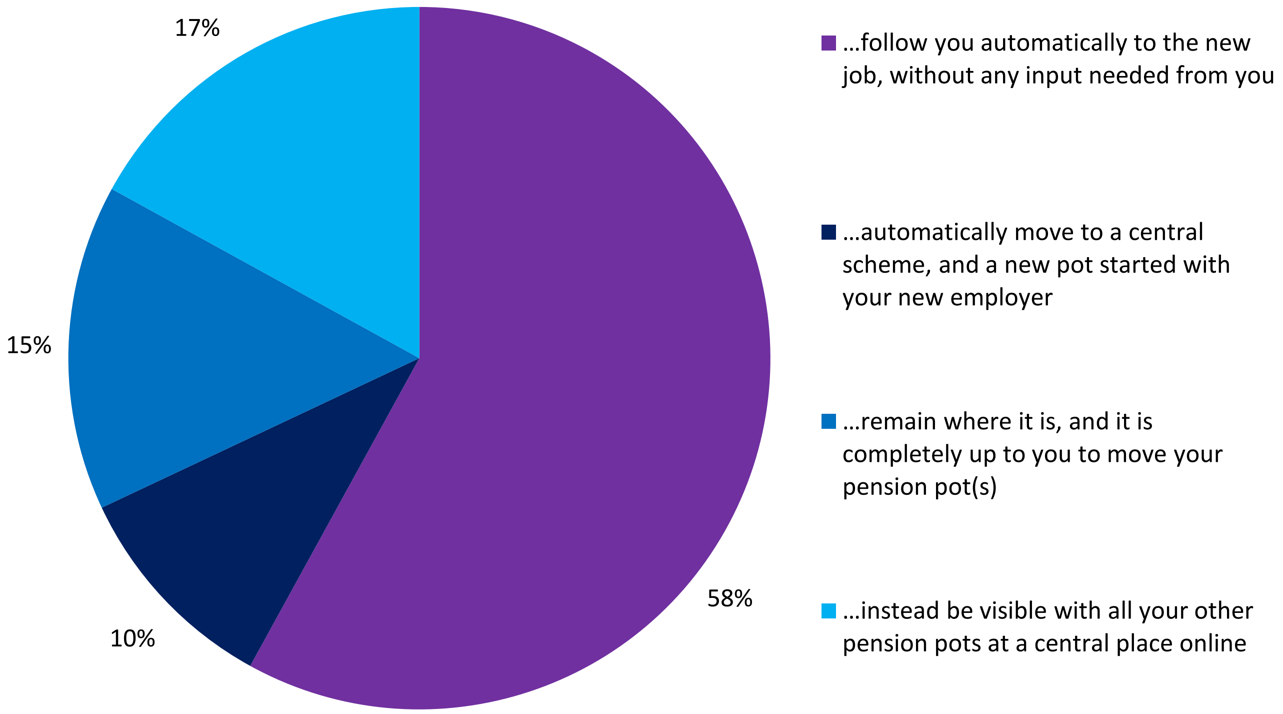
Consumer research on small pots and transfers

In July 2012, the Government responded to its consultation on improving transfers and dealing with small pots, indicating a preference for pot follows member for automatic transfers. In support of its argument, the Department for Work and Pensions cited consumer research by the Association of British Insurers (ABI).

This research by the ABI found that 58% of respondents would prefer their old pots to follow them automatically to their new employer's scheme.[1] This research used a sample of 2,652 adults aged between 18 and 70, which was weighted to represent the British population. The sample is likely to include a large number of respondents who do not have any experience of saving into a defined contribution (DC) pension. The results are shown in Figure 1.

Figure 1: Each time you switch jobs, your new employer may start contributing into a pension pot separate to your old one. Do you think that the old pot should:



The Government's argument for pot follows member was partly informed by this research, which suggests that pot follows member is popular amongst consumers. However, consumer polling in this area is problematic due to high levels of disengagement by scheme members. For example, research by The Pensions Regulator has found that less than a third of active members of DC schemes have looked at employee and employer contributions in the last 12 months. Only 21% of active DC members had looked at their scheme's charges.[2] These high levels of disengagement can make it challenging to neutrally frame a question while still providing enough information for consumers to make informed decisions.

---

[1] Association of British Insurers, *Consumer Survey 2012 Q2*, June 2012

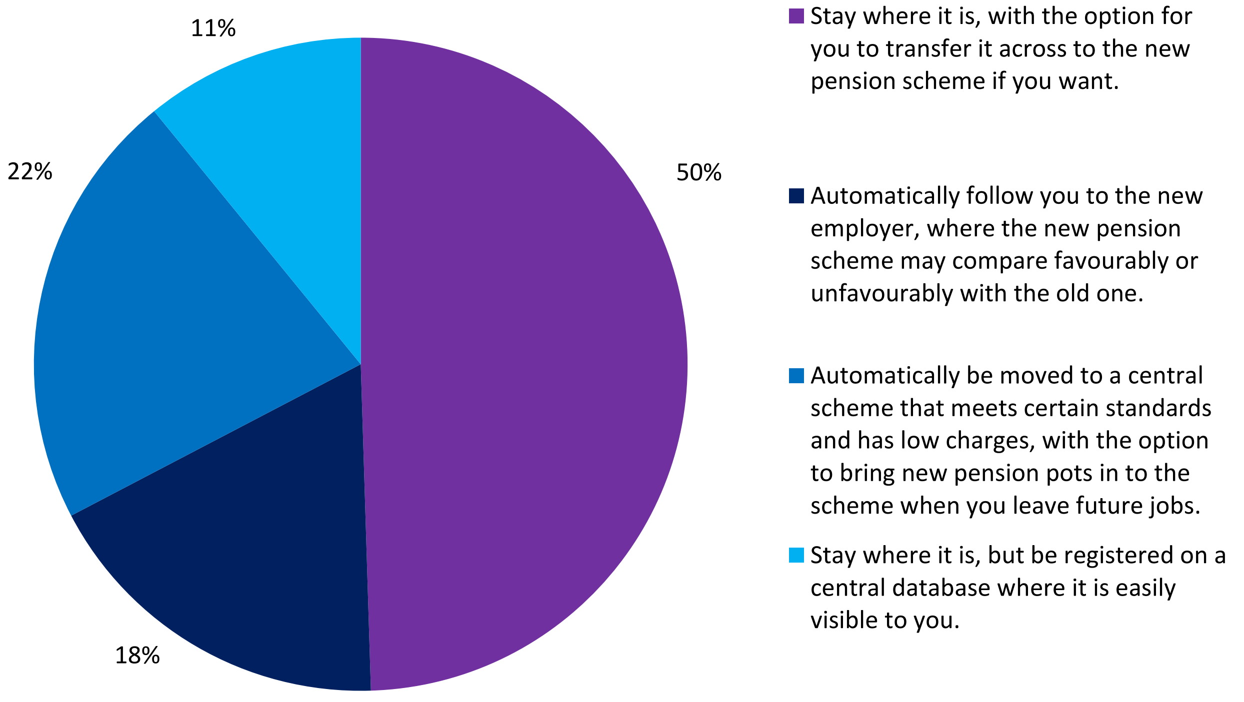
[2] The Pensions Regulator, *Survey of DC pension scheme members*, August 2012.

As a result of low engagement levels, consumers may be unaware of the risks involved in automatically transferring their savings. Research by the OECD has shown that a 1% annual management charge could reduce a pension pot by 20% over the course of an individual's working life. The level of charges has a substantial impact on the size of a members' pot, yet only a minority regularly check the charges they are paying. While consumers did appear to be attracted to pot follows member where it would require no effort from them, it is likely that they were unaware of the impact it could have on savings. Consumers could not, therefore, make an informed decision.

To address the challenges of framing a neutral set of questions and to test the robustness of the earlier research the NAPF commissioned its own polling. The NAPF polling used a sample of 503 adults currently in employment, who are currently saving or have saved into a DC pot. The research took a sample of DC savers since these individuals are more likely to be familiar with DC pensions, and so it should be easier to elicit balanced responses from individuals who have at least some degree of engagement with the DC market. Although it is worth recognising that individuals brought into DC pensions through auto-enrolment may not be current DC savers, these individuals would have savings when their pots are transferred, and so this sample may be more representative.

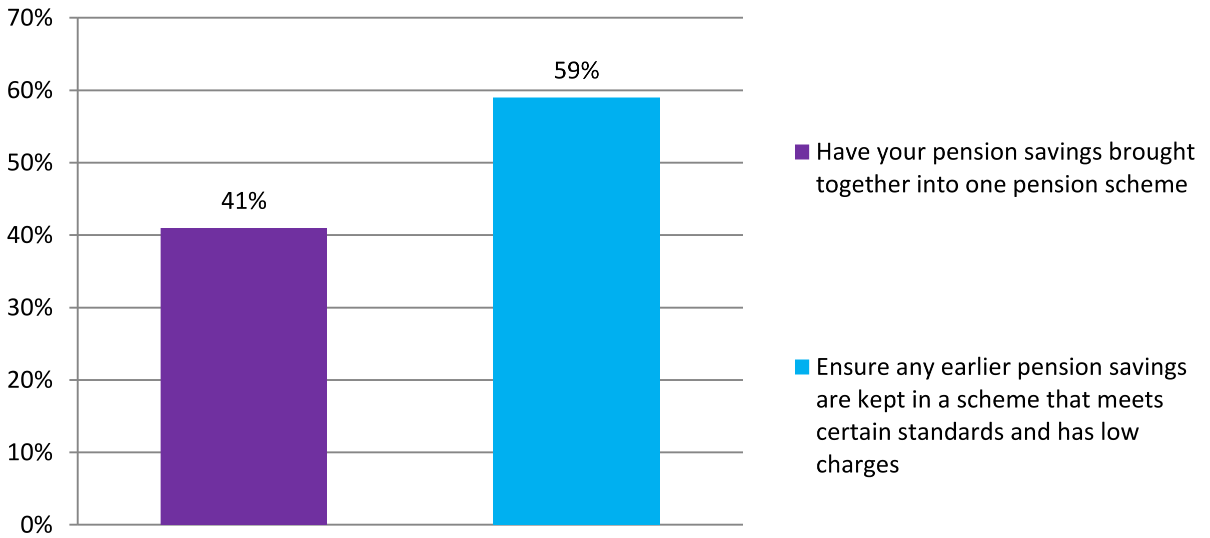
While keeping the wording of the questions neutral, it is also important that respondents are given enough information to make an informed decision. Therefore, the NAPF referenced that an individual's new scheme may compare favourably or unfavourably with their previous scheme. The NAPF's wording also informed respondents of the guarantees on scheme quality, inherent in the aggregator model, and which could be incorporated in a pot follows member model. These results are shown in Figure 2.

Figure 2: Under new pension reforms, each time you change job you will be placed into a pension scheme by your new employer and will start to build a new pension pot. Do you think your pension pot with your old employer should:



While keeping the wording of the questions neutral, it is also important that respondents are given enough information to make an informed decision. The NAPF also asked whether respondents would prefer their savings to be brought into one scheme, or kept in a scheme which meets certain standards including low charges. These results are shown in Figure 3.

Figure 3: If you are starting a new job do you think it is more important to:



Further polling by the NAPF found that 60% of DC savers would be more concerned by their savings following them automatically where their new employer's scheme may compare favourably or unfavourably. By contrast, 40% would be more concerned by having to keep track of a new pot in addition to any earlier savings from previous jobs. Again, the questions were worded carefully to ensure that respondents had enough information to give valid answers, but without allowing the questions to become imbalanced.

The two sets of polling results produce quite different pictures of consumers' attitudes towards automatic transfers. In many ways, the different results reflect differences in the wording of the questions; individuals are more likely to be cautious about an automatic transfers regime when they are aware of the potential risk to their savings. However, the lack of consumer engagement makes it difficult to conduct meaningful polling that points to one solution or another without giving prior information.

Striking a balance between neutral questions and informed responses can make consumer polling on automatic transfers problematic. Neither set of questions is perfect, though both attempted to minimise the risks of prejudiced answers. The significant differences in responses identified by the two polls call into question the robustness of the earlier research and suggest that more in-depth qualitative research is likely to be needed before firm conclusions can be drawn about which of the proposed solutions is better from a consumer perspective.