NAPF

Securing the future of pensions

WORKPLACE PENSIONS SURVEY

April 2013

Contents

Introduction

The NAPF conducted its biannual Workplace Pensions Survey from 15 to 17 February 2013, receiving 2,050 responses. This paper reports the opinions, attitudes and expectations of 923 of the respondents who were in employment. This report covers respondents' views on auto-enrolment, investment risk, pension charges, corporate governance and expectations for their retirement.

The data has been weighted to match the profile of respondents from earlier waves of the Workplace Pensions Survey to ensure comparability.

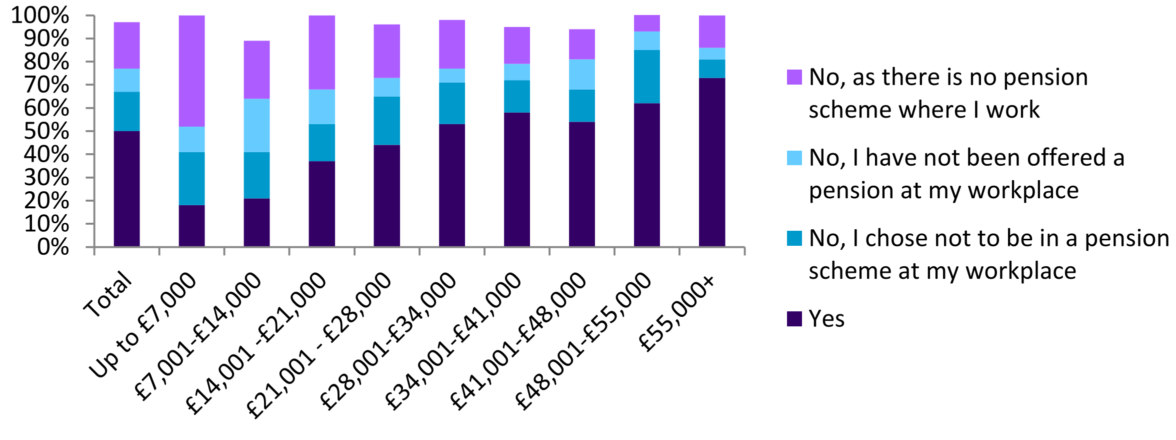
Access to workplace pensions

By spring 2018 all employers will have auto-enrolled their employees into a workplace pension scheme in order to comply with the Government's auto-enrolment reforms. As these reforms come into effect over the next 5 years, employers will have to contribute a minimum of 3% of an employee's salary towards a workplace pension, while the employee contributes a minimum of 4% and receives 1% in pensions tax relief from the Government[1]. The total contributions made into the pension pot are expected to be a minimum of 8%.

This survey measures employees' access to, and interest in, the pension scheme at their workplace. Half (50%) of survey respondents stated that they were members of a workplace pension scheme. Respondents aged 35 and older were most likely (58%) to be members of a pension scheme at their workplace, while young people aged 18-24 and those earning £7,000 or less per year were least likely (18%) to be in this position. Looking at responses by sector, 70% of those who worked in the public sector were members of a workplace pension scheme compared to 43% of private sector employees.

Of those who were not members of a pension scheme, 36% said that they chose not to be members of one, while 42% work for an employer who currently does not have a scheme in place. 22% had not been offered a workplace pension by their employer. Figure 1 shows that almost half (48%) of those earning £7,000 or less worked for an organisation that did not have a workplace pension scheme in place.

Figure 1: Access to workplace pension schemes



Note: All respondents

[1] Assuming a basic rate taxpayer.

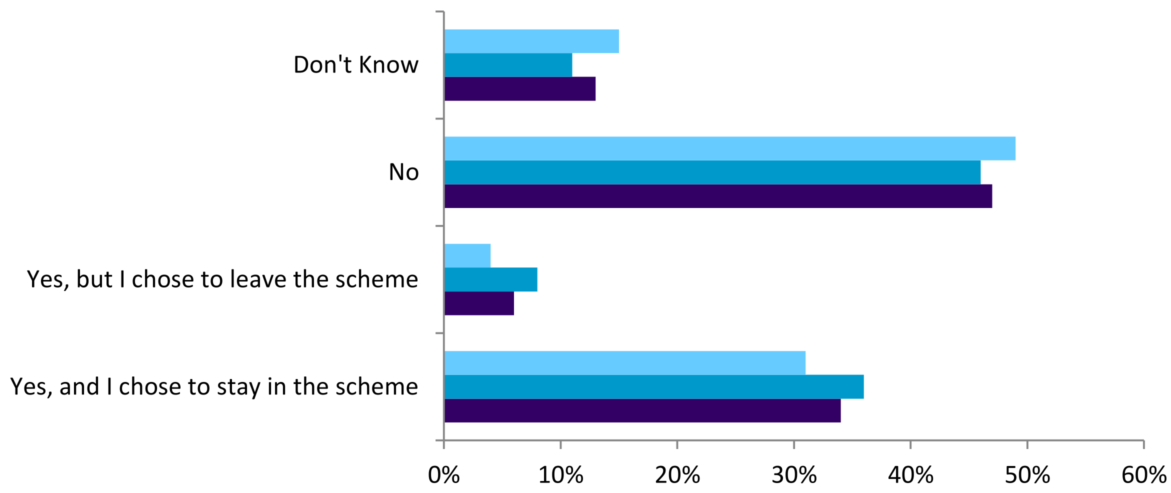
Auto-enrolment

Now that employers are starting to reach their staging dates for auto-enrolment – the deadline by which they have to auto-enrol their employees into a workplace pension scheme – we can monitor whether people are choosing to stay auto-enrolled.

Two in 5 (40%) respondents stated that they had been auto-enrolled into a workplace pension scheme, with 15% of those who were auto-enrolled choosing to opt-out. This is likely to include those groups who were auto-enrolled prior to the reforms, including those working in the public sector, where 53% of respondents said they had been auto-enrolled. At 48%, 25-34 year olds were most likely to have been auto-enrolled compared to other age groups, with almost 9 in 10 (87%) choosing to stay in their scheme. In the autumn 2012 workplace pension survey conducted just before the reforms came into effect for the largest employers, 55% of 25-34 year olds stated that they were not members of a pension scheme. Six months later, 39% of respondents in this age group state that they are not members of a scheme – suggesting that a high proportion of 25-34 year olds may have been auto-enrolled into a workplace pension scheme since the autumn survey was conducted.

18% of men who said that they had been auto-enrolled into a pension scheme chose to opt-out, compared to 12% of women. A third of respondents aged 24 and under and almost 30% of those aged 55-64 opted out. At 19%, private sector workers were more likely to opt-out compared to public sector workers (12%).

Figure 2: Have you been auto-enrolled into a workplace pension scheme



Note: All respondents

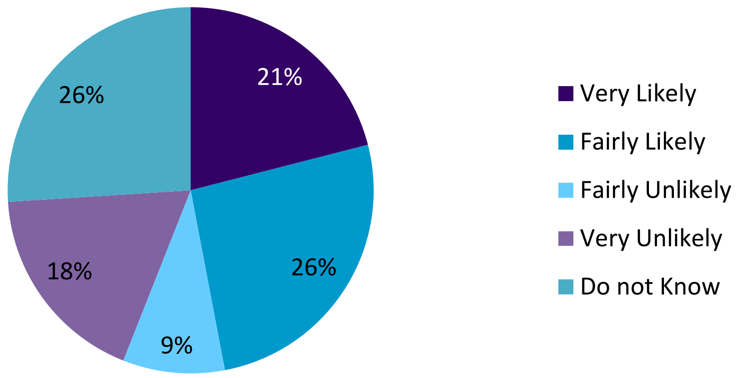
Waiting to be auto-enrolled

Auto-enrolment has the potential to create a culture of long term saving in the UK. Some workers will make an active decision to stay in a scheme, others may not respond to the changes and save by default, while there will be some who will actively choose to leave the scheme they have been auto-enrolled into by their employer.

Opt-out tracker: The NAPF's Opt-out tracker looks at respondents' interest in staying in a workplace scheme that meets the minimum 8% contribution requirements under auto-enrolment.

Of the eligible respondents (those employed, but not auto-enrolled), 26% 'did not know' whether they would stay in a pension scheme - slightly lower than the 31% of respondents in October last year who were in this position.

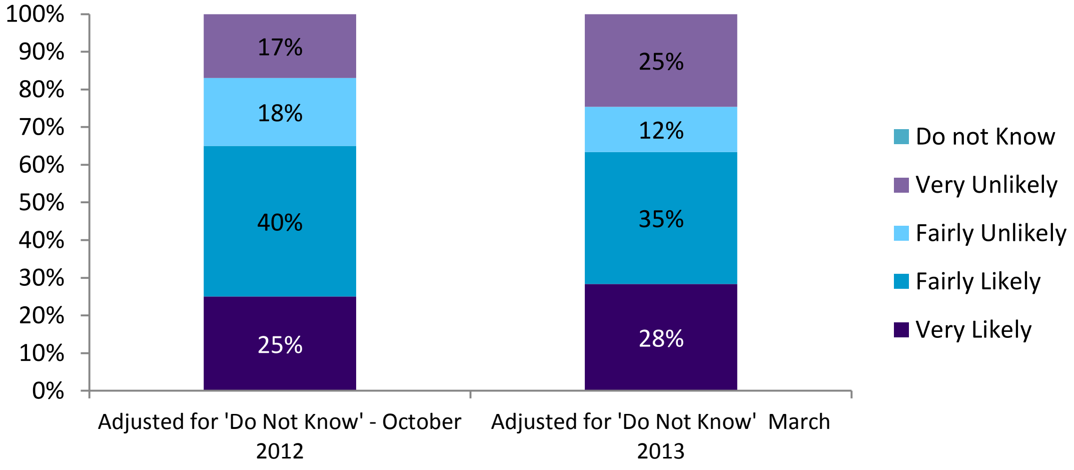
Figure 3: How likely is it that you will stay auto-enrolled? – Overall response



Note: All respondents aged 22 and over, earning the minimum for auto-enrolment, who are full time employees and are not a member of the pension scheme at their place of work.

When we adjust the figures for the group of respondents who are undecided ('do not know') whether they would like to stay auto-enrolled into a pension scheme, we find that 64% of respondents are fairly or very likely to stay auto-enrolled, compared to 36% who would choose to opt-out. This has been remarkably constant over time – with around two thirds consistently saying they will not opt out in the last four surveys undertaken. At 73%, those aged 34 and under are more likely to consider staying in a scheme than those who are older.

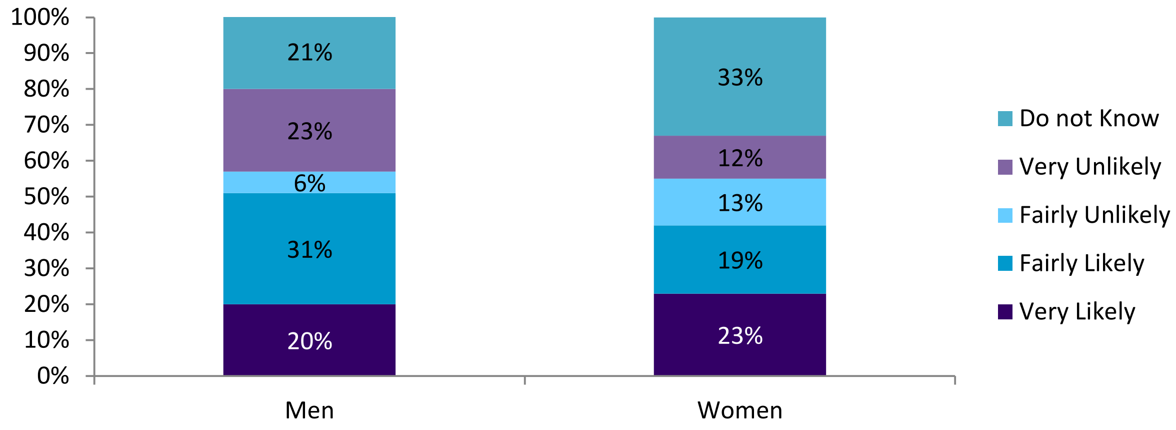
Figure 3: How likely is it that you will stay auto-enrolled? – adjusted for 'do not know'



Note: All respondents aged 22 and over, earning the minimum for auto-enrolment, who are full time employees and are not a member of the pension scheme at their place of work.

Men (51%) were more likely to say that they think they would stay auto-enrolled compared to women (42%). This does not mean, however, that these women would choose to opt-out – instead only a quarter of women respondents stated that they were likely to opt-out while a higher proportion (33%) did not know what they would do. Two in 5 of those who are eligible and on relatively low incomes (earning less than £14,000 a year) were also unsure whether they would stay auto-enrolled or would opt-out.

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

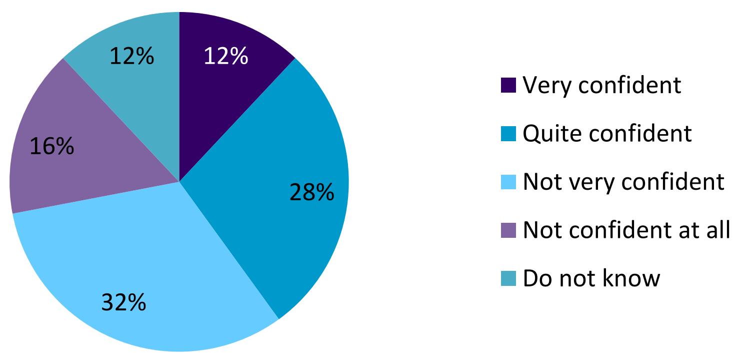


Note: All respondents aged 22 and over, earning the minimum for auto-enrolment, who are not self-employed and are not a member of the pension scheme at their place of work.

Confidence Index

The Confidence Index measures the difference between the number of respondents who are confident and not confident in pensions, compared to other ways of saving for retirement. As shown in Figure 5, 12% of respondents were very confident in pensions and 28% were quite confident. This compares to 48% who were either not very confident or not confident at all in pensions. 45% of those aged 25-34 were very or quite confident in pensions compared to other forms of saving, as were half of those earning £41,000 or more and almost 60% of those who had been auto-enrolled.

Figure 5: Confidence Index 2013



Note: All responding employees

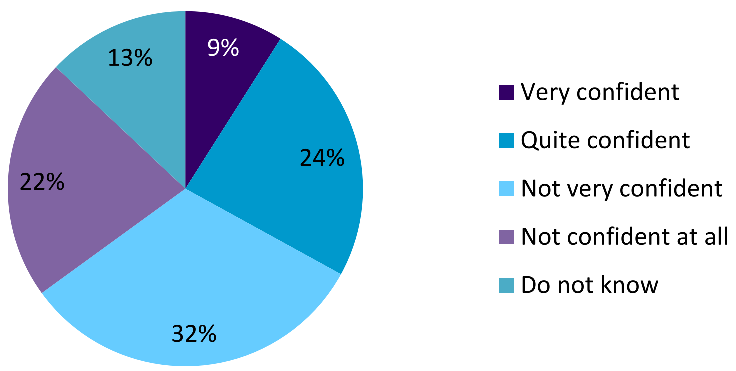
The confidence index increased to -8 this spring, up from -17 in the autumn, showing confidence in pensions as a way of saving is improving. This is perhaps a result of the campaign promoting workplace pension reforms, the announcement of reforms to simplify the state pension or the wider efforts by the industry to raise consumer confidence. In interpreting these numbers, it is important to note that small changes to confidence can lead to bigger changes in the index (because we adjust for those who do not know and calculate it as the difference between those who are confident and those who are not), so the Index can be volatile.

Figure 6: Confidence Index 2008-2013

Note: All responding employees

When asked whether respondents felt that pensions would give them enough savings in retirement, a third responded positively – 10 percentage points higher than a year ago. Just over half (54%) of all respondents said that they were not confident that pension savings would be enough – compared to 70% in spring 2012 and 63% in autumn 2012.

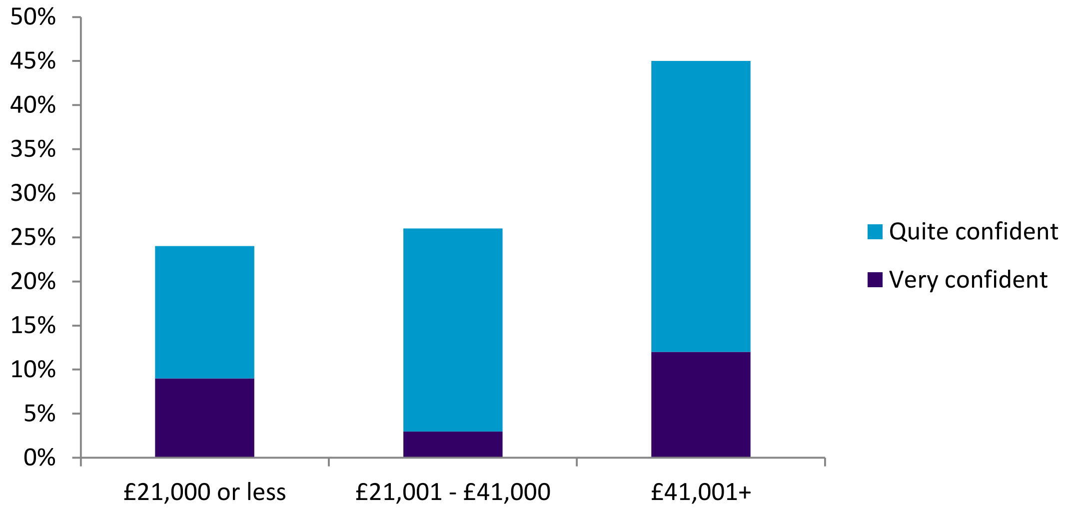
Figure 7: How confident are you that your pension will give you enough money to live on in retirement?



Note: All responding employees

At 38%, men were more likely to be confident in their pension giving them enough in retirement compared to women (25%). 43% of public sector employees agreed that they were confident in their pension giving them enough compared to 28% of private sector workers. Higher earners (45%) were more likely to agree that a pension will be enough for retirement. This may be because higher earners are likely to have saved into a pension scheme for a longer period of time and/or with a higher level of benefits and contributions.

Figure 8: Confident that your pension will give you enough money to live on in retirement: by income tax bands



Note: All responding employees

Responsibility, awareness and risk

The Workplace Pensions Survey also looks at respondents' opinions on responsibility, awareness and risk in pensions. Respondents were asked to agree or disagree on whether certain statements applied to them.

Responsibility:

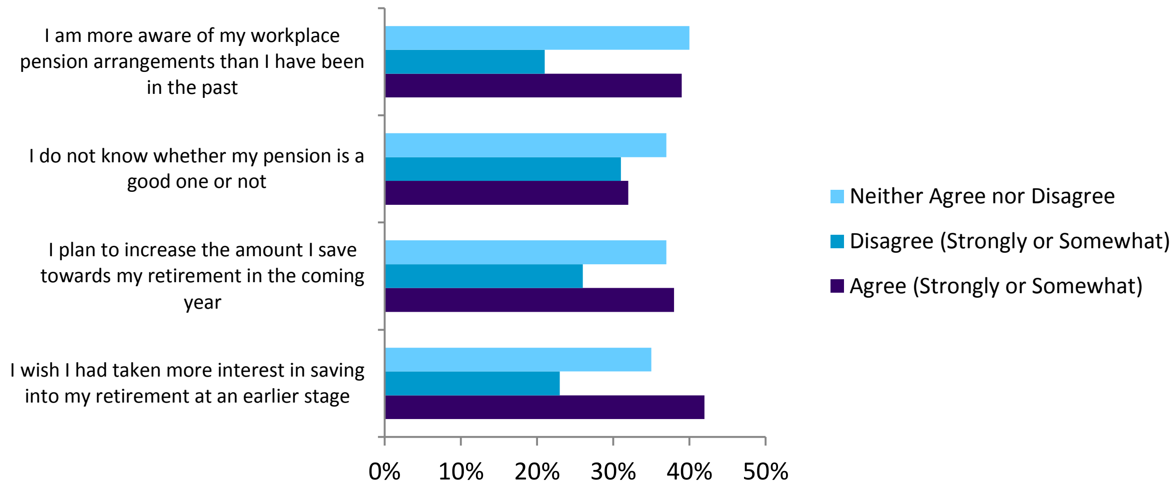
Two in 5 respondents (42%) agree that they wished they had taken more interest in saving for their retirement at an earlier stage and a similar number (38%) agree that they plan to increase the amount they save towards their retirement in the coming year. Those aged 25-34 were most likely to agree that they wished they had saved more (47%), with 45% agreeing that they were not comfortable with their approach of saving for retirement. 53% of 25-34 year olds agree that they were planning to increase the amount they save towards their retirement in the coming year. While only 29% of those aged 45-64 agree that they plan to increase the amount they save in the near future.

Awareness

Two in 5 respondents said that they had talked about their pension more in the past year than in previous years. Among the younger cohorts, those aged 25-34 were more likely to agree with this statement (44% compared to 32% of 18-24 year olds).

One in 3 respondents (32%) said that they do not know whether their pension is good or not, whilst less than half of respondents (39%) said they were more aware of their workplace pension arrangements now than in the past. Those aged 25-34 years old (49%) and those in the public sector (44%) were more likely to be aware of their pension arrangements.

Figure 9: Responsibility and awareness of pensions



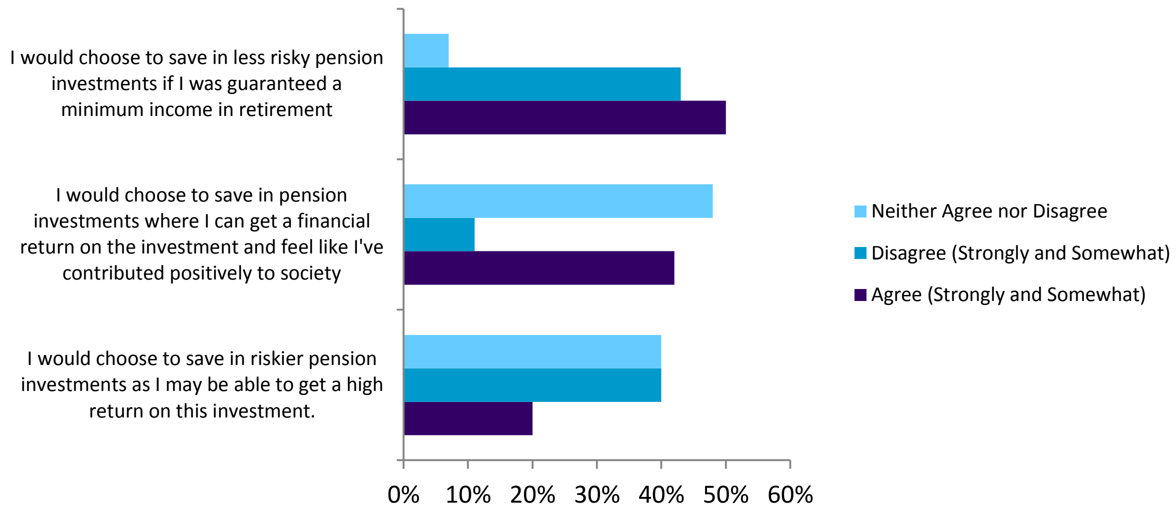
Note: All responding employees

Risk

Respondents were relatively risk averse, with only 1 in 5 (20%) likely to choose to save into a riskier investment even if it meant they could get a higher return in the end than otherwise would be the case. 50% would choose to save in less risky investments if they were guaranteed a minimum income in retirement.

Two in 5 respondents (42%) stated that they would invest in a fund where they could get a financial return and feel like they had contributed to society.

Figure 10: Attitude to risk



Note: All responding employees

Expectations in retirement

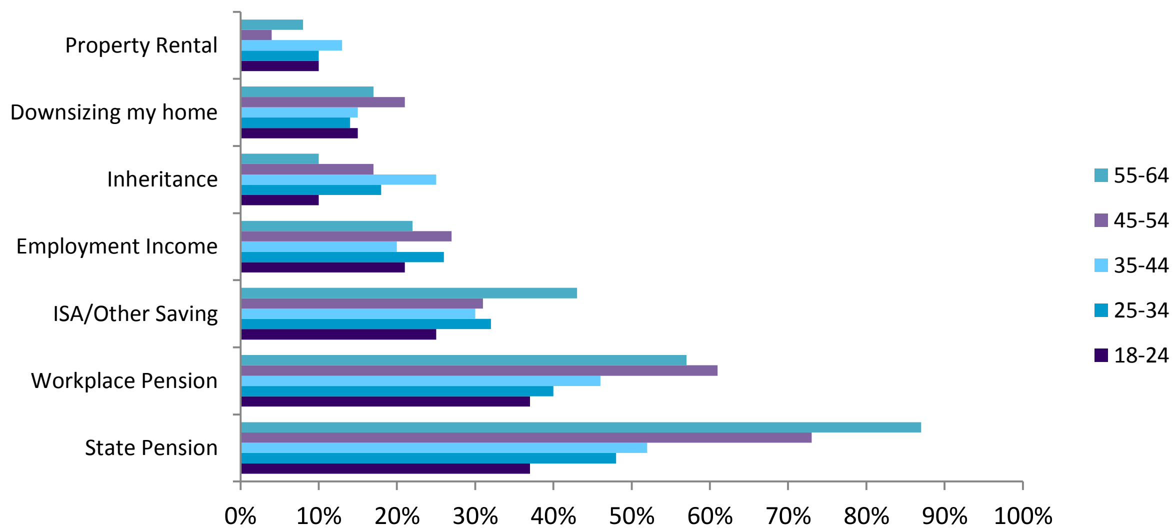
The survey also asked about people's expectations for their retirement, including where they expect their retirement income to come from.

Only 59% of respondents thought that their retirement income will be made up, at least partially, from the state pension. As people grow older they are more likely to be certain of some amount of income in retirement coming from the state, with the 55-64 age group currently the most confident (87%) compared to the 18-24 age group (37%) and 48% of 25-34 year olds. Younger workers may be less confident about receiving state pension because of cuts to public expenditure or because they are unsure of the amount that will be available to them. The new single-tier pension being introduced under recently announced state pension reforms aims to build more confidence amongst savers in how much they will get from the state in retirement.

Those who have been auto-enrolled are more likely (62%) to agree that they expect their income in retirement to come from the savings they have made into a workplace pension. When we look at all respondents in employment, only 48% believe their income in retirement would come from a workplace pension.

Other income sources that respondents expect income from in retirement include ISAs and other savings (32%), personal pensions (27%), employment income (24%), inheritance (17%) and downsizing their home (16%). A very small number of respondents agreed that their income would come from the lottery or in the form of help from their children.

Figure 11: Expected Income in Retirement (Sources of Income) – All respondents



Note: All responding employees

Expectations are not always realised and we asked respondents what they thought would stop them receiving their expected income in retirement. Two in 5 (39%) agreed that the current low interest rates on saving would affect their actual income in retirement, and a similar proportion (37%) pointed to Government policies reducing this income (older adults were more likely to blame the Government compared to younger cohorts – 46% of those aged 45-54 versus 24% of 18-24 year olds and 30% of 25-34 year olds). A third (33%) agreed that they may not have saved enough to achieve their expected income. Three in 10 (29%) also thought not having built up their pension pot a bit more through extra contributions would have an impact, while a quarter (23%)

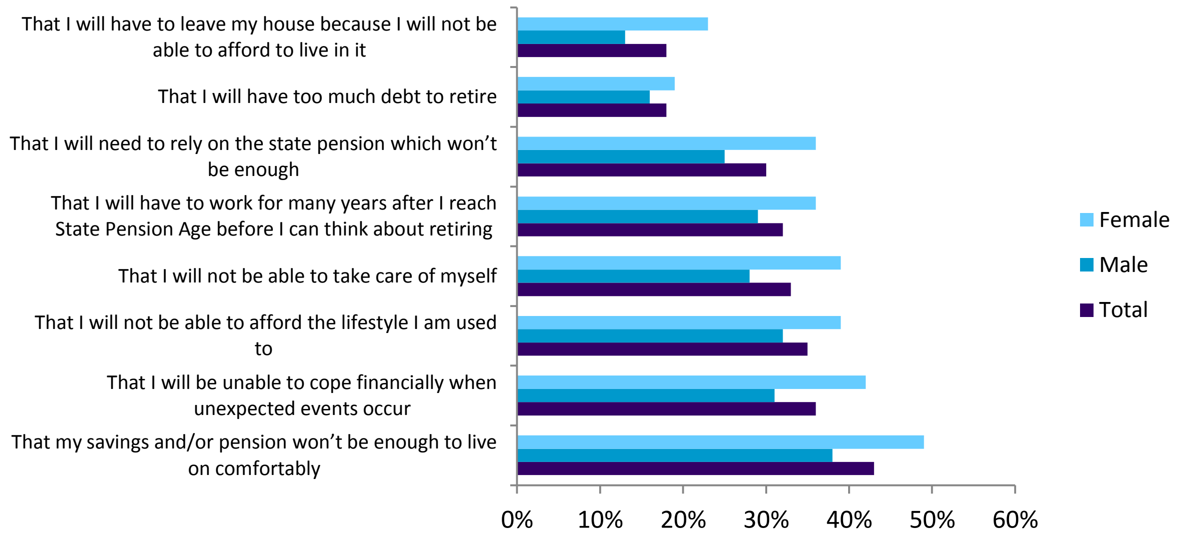
blamed charges levied on their pension pot. One in 6 (17%) referred to rates offered by annuity providers as potentially having a negative effect on their expected income in retirement. Men, more than women, thought that financial markets would be to blame if they did not receive their expected income in retirement (36% versus 28% respectively). 15% were sure they would be able to realise their expected income in retirement.

Worries in retirement

This year respondents were also asked to share what worries them most about retirement. Over 2 in 5 (43%) of respondents agreed that they worry that their savings and pensions will not be enough to live on comfortably. Almost half of women (49%) agree that this is their main worry compared to 38% of men. Women were also more likely (42%) than men (31%) to worry that they would be unable to cope financially if unexpected events occur. A third of respondents (33%) were worried that they will not be able to take care of themselves and a similar proportion (30%) were worried that they will have to rely on state pension which would not be enough. Respondents were relatively less worried about the burdens of debt in retirement (18%).

Worryingly, more than 1 in 10 respondents (12%) had not thought about their retirement, including 27% of respondents earning £7,000 or less.

Figure 12: Worries in retirement – All respondents



Conclusions

Auto-enrolment will change how people perceive saving for retirement. This survey not only looks at people's attitudes to pensions and risks but also their expectations for the future. It is too early to say what impact auto-enrolment will have on people's attitudes and behaviour to long term saving, but a workplace pension is still considered the second most important source of income in retirement after the state pension, and there are tentative signs that confidence in pensions is improving as the auto-enrolment reforms are rolled out.

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