



WORKPLACE PENSIONS SURVEY

October 2013

Contents

Introduction.....	3
Access to workplace pensions	3
Automatic enrolment	5
Waiting to be automatically enrolled	7
Confidence in Pensions.....	8
Managing and understanding pensions	10
Planning for Retirement	11
Worries about Retirement.....	13
Conclusions.....	13

Introduction

The NAPF conducted its biannual Workplace Pensions Survey from 6 to 8 September 2013, receiving 2,025 responses. This paper reports the opinions, attitudes and expectations of the 969 respondents¹ who were in employment. This report covers respondents' views on automatic enrolment, confidence in pensions and retirement income.

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

Even with a long history of workplace based pensions, where the first employer affiliated pension scheme was established in 1670s², participation in such pension arrangements has fallen dramatically over the last few decades. Peaking at 12.2 million in 1967, active membership in workplace pensions has continued to decline and in 2012 stood at 7.8 million, a decrease of 400,000 compared to the year before.³ Not only are fewer people and a smaller proportion of the working age population saving in a pension, those who are have underestimated how much they need to save in order to achieve their expected income in retirement. Recent research conducted by the Institute of Fiscal Studies (IFS) and co-sponsored by the NAPF and ESRC, found that at current annuity rates, a median individual would need to accumulate a further £20,200 on top of their existing DC fund to achieve their expected income in retirement.⁴ Without urgent changes in savings behaviour, many people will find themselves struggling in retirement and working for longer in their old age.

The workplace pension landscape is changing in other ways as well. In 2012 28% of employees were saving in a defined benefit (DB) scheme and 17% were saving in a defined contribution (DC) scheme, compared to 46% and 10% respectively 15 years ago.⁵

Since October 2012, over 1.6 million people have been automatically enrolled into a workplace pension scheme.⁶ This figure is expected to increase to 9-10 million by 2018,⁷ by which time employers of all sizes will have to automatically enrol eligible employees in to a suitable pension scheme. With employers contributing a minimum of 3% between the lower and upper threshold for qualifying earnings⁸ in to a pension scheme while employees contribute 5% (1% of which is pensions tax relief from the Government), the numbers saving and amount saved is expected to significantly increase. For example, the value of assets invested in DC schemes is expected to increase from the current £275 billion to £550 billion in less than 10 years.⁹

The NAPF's Workplace Pension Survey measures employees' perspectives on workplace pension saving and their preparations for retirement. 71% of respondents to the most recent survey stated that they had access to

¹ 969 people in employment filled out the survey, though the weighted base of respondents (adjusted for population characteristics) that the findings in this report are based on is 995.

² NAPF, 'Pensions in the UK webpage' http://www.napf.co.uk/PolicyandResearch/Policy_topics/Pensions_in_the_UK.aspx and <http://www.nationalarchives.gov.uk/records/research-guides/royal-navy-officer-pensions.htm>.

³ Office of National Statistics, 'Occupational Pension Scheme Survey 2012' <http://www.ons.gov.uk/ons/rel/fi/occupational-pension-schemes-survey/2012/stb-opss-2012.html>.

⁴ Institute of Fiscal Studies, 'Expectations and experience of retirement in Defined Contribution pensions: a study of older people in England', November 2012.

⁵ Office of Fair Trading, 'DC workplace pension market study' published in September 2013. P56.

⁶ The Pensions Regulator, Automatic Enrolment publications.

⁷ Department of Work and Pensions, 'Pensions Act 2011: Impacts Annex B', published 2011.

⁸ UK Government, <https://www.gov.uk/workplace-pensions/what-you-your-employer-and-the-government-pay>.

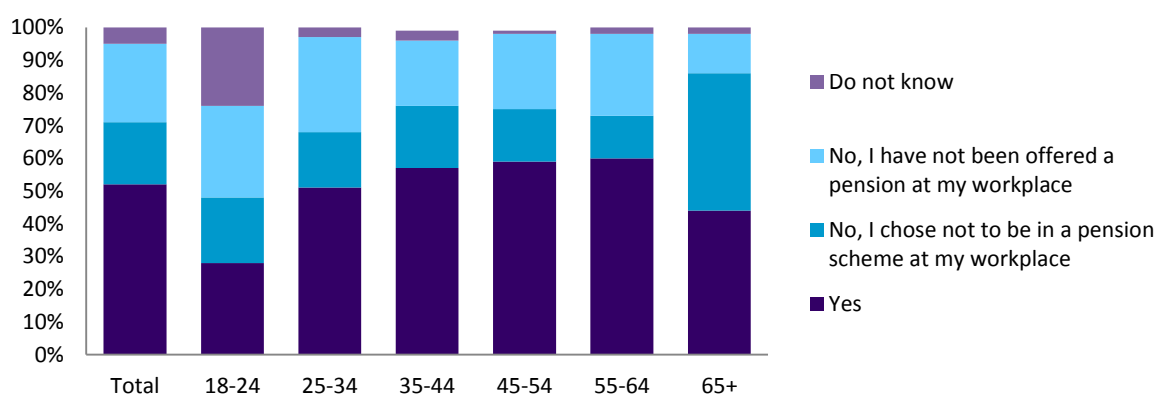
⁹ Office of Fair Trading, 'DC workplace pension market study' published in September 2013. P13.

a pension scheme through their workplace. 73% of those with access are members of the scheme, while a quarter chose not to be in the scheme. One in four of all respondents stated that they had not been offered a scheme at their workplace, while a small percentage (4%) did not know if they were in one or not.

Almost a third (33%) of those earning £21,000 or less stated that they were members of a workplace pension scheme, while 41% stated that they had not been offered one at their workplace.

Figure 1 shows that young people aged 18-24 were least likely to know if they were a member of a scheme; only 28% stated that they were in one, while 24% did not know. In comparison, just over half (51%) of 25-34 year olds stated that they saved in a workplace pension scheme and only 3% did not know if they were members. 41% of those aged 18-24 and who stated that they had access to a scheme chose not to save in one, compared to 26% of 25-34 year olds.

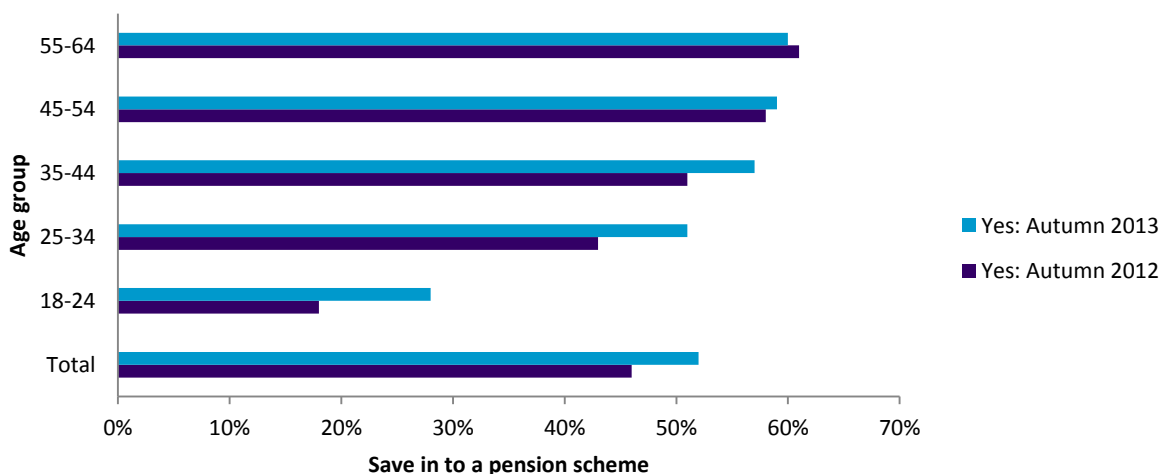
Figure 1: Membership in workplace pension schemes



Note: All respondents who are employees

Figure 2 shows that, when comparing results from this survey to the one conducted a year ago on the eve of automatic enrolment coming in to effect, membership in pension schemes has increased most amongst those aged 18-44, from 41% in 2012 to 48% in 2013.

Figure 2: Pension savers by age: Autumn 2012 and Autumn 2013

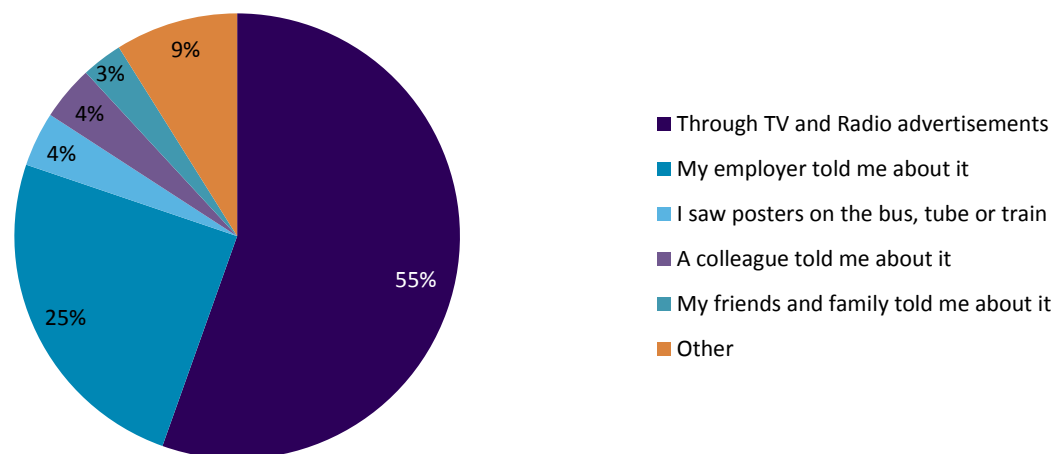


Note: All respondents who are employees

Automatic enrolment

The UK's largest employers have already automatically enrolled eligible employees into their workplace pension schemes. 78% of respondents stated that they knew about the automatic enrolment reforms. Over half (56%) of those who were aware stated that they had found out about the changes to workplace pensions through TV and radio advertisements, while a quarter (25%) had heard about the new pension arrangements through their employer.

Figure 3: Finding out about automatic enrolment



Note: All respondents who have heard about automatic enrolment.

Respondents were also asked whether they had been automatically enrolled in to a scheme. Those who stated that they had been automatically enrolled into a workplace pension scheme are likely to include those groups who were automatically enrolled prior to the private pension reforms (including those working in the public sector), those who were in a workplace pension scheme prior to the reforms coming in to effect in October 2012 and those who have been enrolled in to a workplace pension scheme under their employment contract.

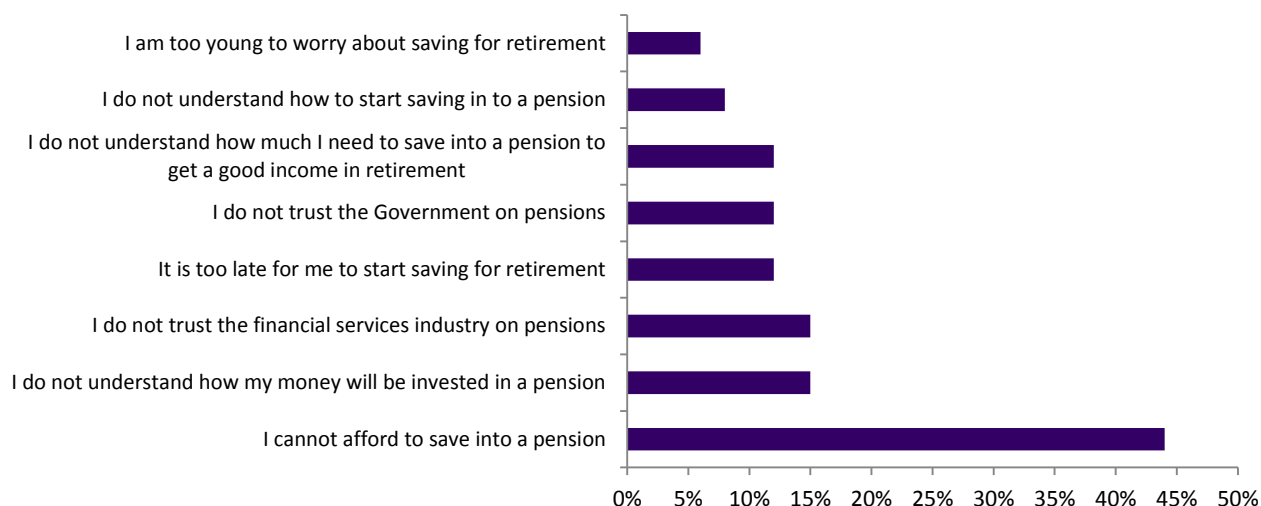
On the question of staying in or opting out, 12% of survey respondents who stated that they had been automatically enrolled also stated that they chose not to save in the workplace pension scheme. Those aged 35-54 were most likely (at 89%) to stay in their automatic enrolment scheme, compared to 75% of 22-34 year olds.

Reasons for opting out: Those who are not saving into a pension scheme were asked to choose from a set of reasons for not doing so. 44% of those who stated that they chose to opt out of their automatic enrolment scheme and are not saving in to a pension agreed that they could not afford to save in one. 42% of all respondents who do not save in to a pension scheme (including those who state that they were automatically enrolled but also state that they chose to opt out) stated that they were in this position.

30% of respondents who stated that they have been automatically enrolled but chose to opt out of the scheme agreed that they are concerned that they do not understand how investments work on their savings or that they do not trust the financial services industry on pensions - 26% of all respondents who do not save in

to a pension scheme agree. Only 7% of all respondents who do not save in to a workplace pension scheme right now agreed that the reason for choosing not to save was because they were too young to worry about retirement.

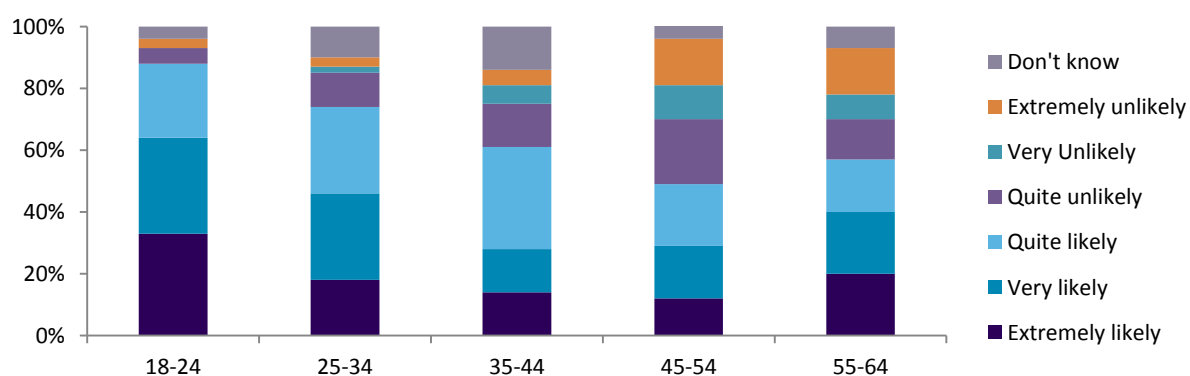
Figure 4: Reasons for not saving



Note: All respondents aged 22 and over, earning the minimum for automatic enrolment, who are full time employees, are not a member of the pension scheme at their place of work and state that they have been automatically enrolled.

Saving more in the age of automatic enrolment: Even though those who were younger were least likely to stay automatically enrolled compared to their older colleagues, those aged 18-24 and saving in to a pension scheme were most likely (88% agreed) to consider saving more into their pension in the future compared to 51% of those aged 45-64 and who are closer to retirement. 57% of all respondents saving in to a pension scheme, including those who have been automatically enrolled, stated that they would be encouraged to save more if their earnings increased, while 36% would consider increasing their pension contributions if they got a larger tax break from the Government. A quarter (23%) would wait to pay off their debt (loans and credit cards) before increasing their pension saving. At 28%, women were more likely to consider saving more after paying off their debts compared to 19% of men.

Figure 5: Saving more in the future



Note: All respondents saving in to a workplace pension scheme.

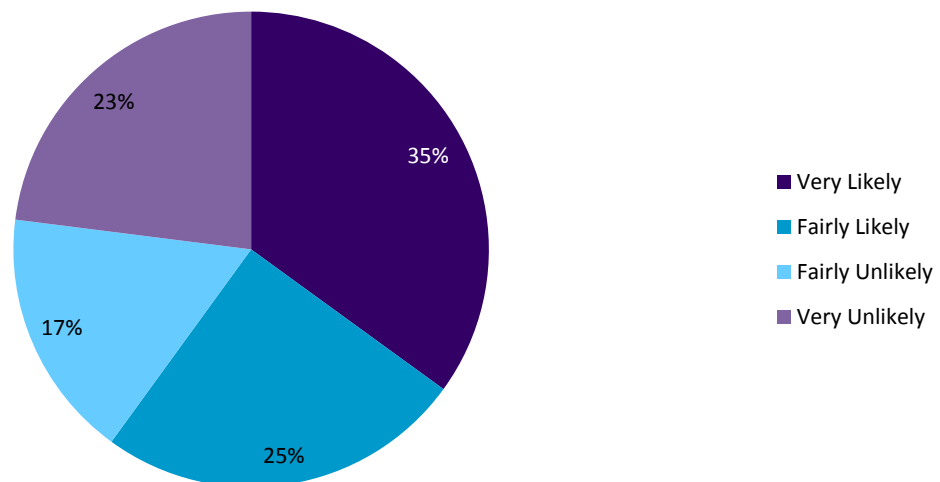
Waiting to be automatically enrolled

Employers with approximately 250 workers are approaching their staging date deadlines for automatic enrolment. Employees will be in a position to make an active decision to leave the pension scheme they are automatically enrolled in should they choose to opt out. The NAPF's opt-out tracker measures respondents' potential interest in staying in their employer's workplace pension scheme once they are automatically enrolled.

75% of respondents who stated that they have yet to be automatically enrolled have heard about the changes. 55% of these heard about automatic enrolment through TV and radio advertisements while a quarter have already been informed by their employer.

Of those who stated that they have not been automatically enrolled, 60% believed that they are very or fairly likely to stay automatically enrolled.

Figure 6: How likely is it that you will stay automatically enrolled?



Note: All respondents aged 22 and over, earning the minimum for automatic enrolment, who are full time employees and state that they have not been automatically enrolled.

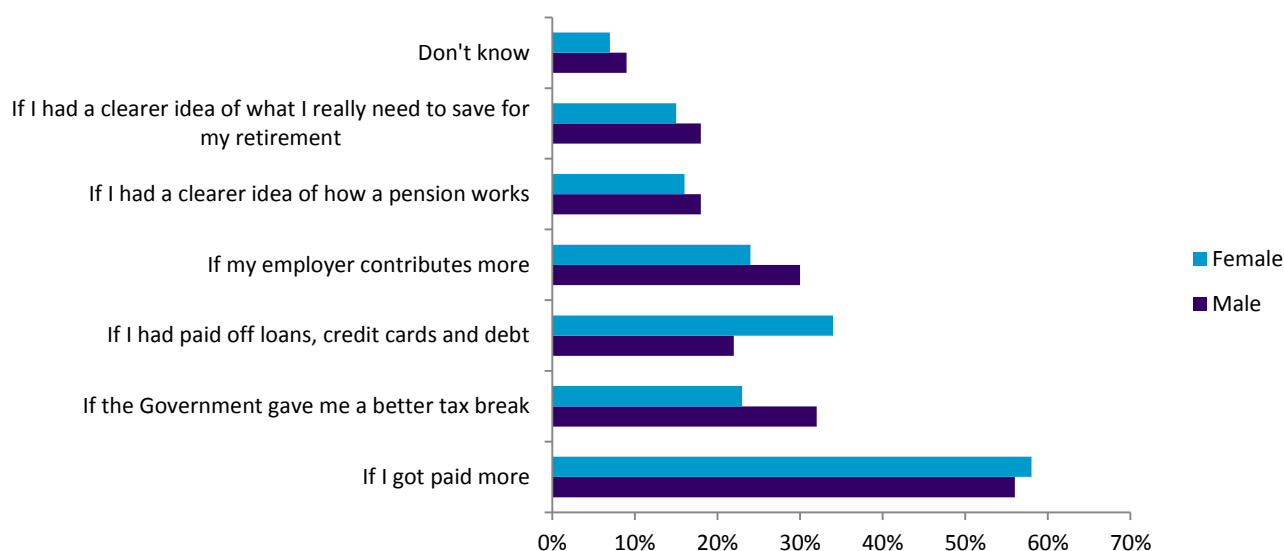
At 71%, women were more likely to state that they expect to stay in the automatic enrolment scheme compared to 51% of men. 70% of those aged 34 and under saw themselves staying their automatic enrolment workplace pension scheme.

Reasons for opting out: 40% of respondents who stated that they have yet to be automatically enrolled expect to opt out. It is possible that some of these employees may have previously opted out of a workplace pension. Others may never have been offered a pension and may be hesitant to lose some of their earnings as a result of this reform. Recent research conducted by the Government shows that even when people have previously stated that they plan to opt out, many continue to save in a workplace pension scheme once they have been

automatically enrolled.¹⁰ Of those who stated that they are waiting to be automatically enrolled and currently do not save in to a pension, 47% agreed that they cannot afford to save in a pension, while 20% did not trust the Government on pensions and 18% did not trust the financial services industry on pensions. Interestingly, 45% of respondents to the NAPF's autumn 2012 workplace pension survey who stated that they had not been automatically enrolled and did not expect to stay in their scheme agreed that they did not trust their employer on pensions. This could be a concern especially where people work for small businesses and will be automatically enrolled in to a scheme in the next few years.

Saving more when automatically enrolled: 56% of respondents that expect to be automatically enrolled in the future stated that they are likely to consider saving more in to a pension. 65% of those aged 44 and under agreed that they are likely to increase their contributions, as did 62% of women compared to 51% of men. Three in five (57%) would save more in a pension if they got paid more while 28% would be incentivised by a further Government tax break. Debts are a worry as well – more than a quarter (27%) would save more in their pension if they had paid off their loans and credit cards.

Figure 7: What would encourage you to save more?



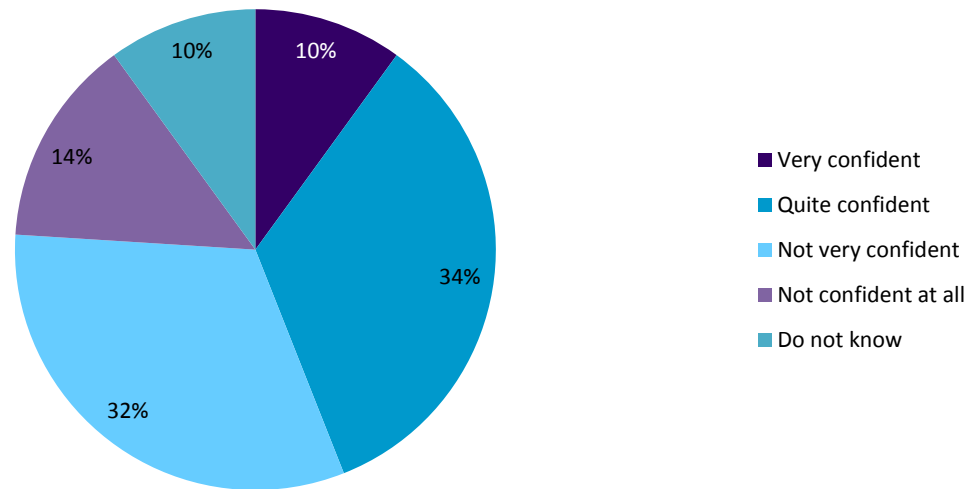
Note: All respondents aged 22 and over, earning the minimum for automatic enrolment, who are full time employees and state that they have not been automatically enrolled.

Confidence in Pensions

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. 44% of respondents were very or quite confident in pensions. This compares to 46% who were either not very confident or not confident at all in pensions. 10% stated that they did not know how they felt. At 53%, men were more likely to be confident compared to 35% of women.

¹⁰ DWP, Automatic enrolment opt out rates: findings from research with large employers.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227039/opt-out-research-large-employers-ad_hoc.pdf.

Figure 8: Confidence Index 2013



Note: All responding employees

The confidence index increased to -2 in the most recent survey, up from -8 six months ago and -17 this time last year. As confidence in pensions seems to be improving, this could be attributable to the automatic enrolment reforms, the increased awareness about pensions and the work being undertaken by the Government to simplify the State Pension. Three in five (59%) of respondents who stated that they save in a workplace pension scheme, including those who have been automatically enrolled in to one, agreed that they are confident in pensions, while only 28% of those who stated that they do not save in to a pension scheme feel the same. The industry has been working to raise consumer confidence through initiatives such as the Pension Charges Made Clear: Joint Industry Code of Conduct¹¹. 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 year on year.

Figure 9: Confidence Index 2008-2013

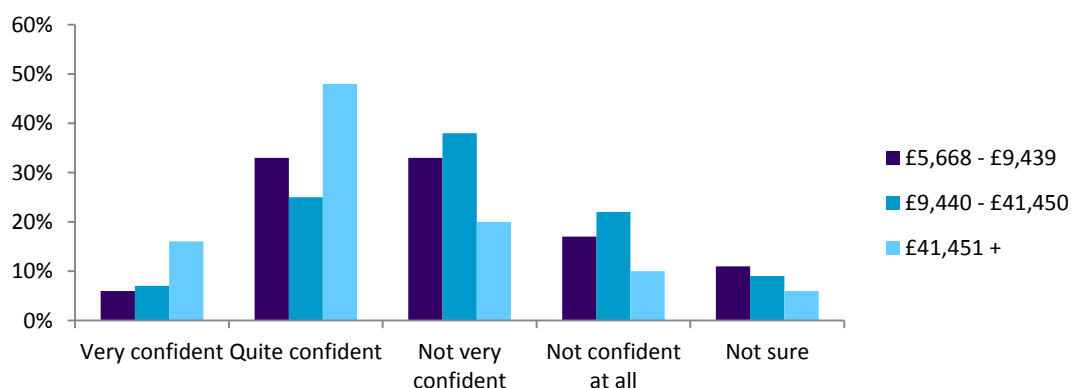


Note: All responding employees

¹¹ Pension charges made clear: joint industry code of conduct <http://www.napf.co.uk/PolicyandResearch/DC/DC-Charges.aspx>

Even though people's confidence in pensions is increasing, their confidence in pensions giving them enough to live on in retirement is still relatively low. This is not surprising given that the average DC pot size is £28,000¹² at retirement. Only 35% of respondents believed pensions will give them enough income in retirement compared to 55% of respondents who believed their pension will not be enough. Men (45%) were more likely to have confidence in their pension being enough compared to women (24%). Young people aged 18-24 were also likely to be more confident (47%) compared to their older colleagues. At 64%, those earning £41,450 or more were more likely to be confident in their retirement income from a pension compared to 25% of those earning £28,000 or less.

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

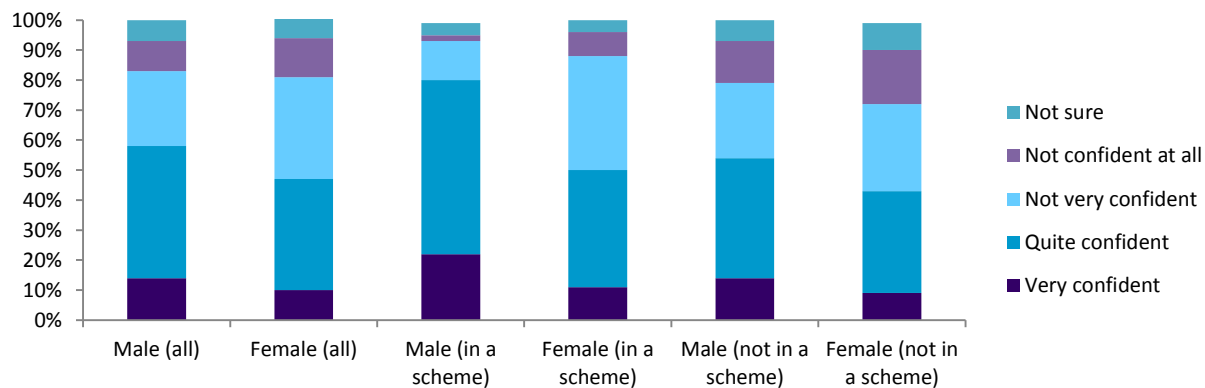


Note: All responding employees

Managing and understanding pensions

When it comes to confidence in managing and understanding a pension, 35% of respondents stated that they were not confident in managing their pension, with almost half (47%) of women agreeing with the statement. At 68%, men were a lot more confident about managing and understanding their pension. Interestingly, those who stated that they save in to a workplace pension were more likely to be confident (67%) compared to 49% of those who stated that they do not save in to a pension right now. Confidence increased substantially amongst men who were saving in to a pension scheme at 81% compared to men who do not save in to a pension scheme (54%).

Figure 11: How confident are you in managing and understanding your pension? – by gender

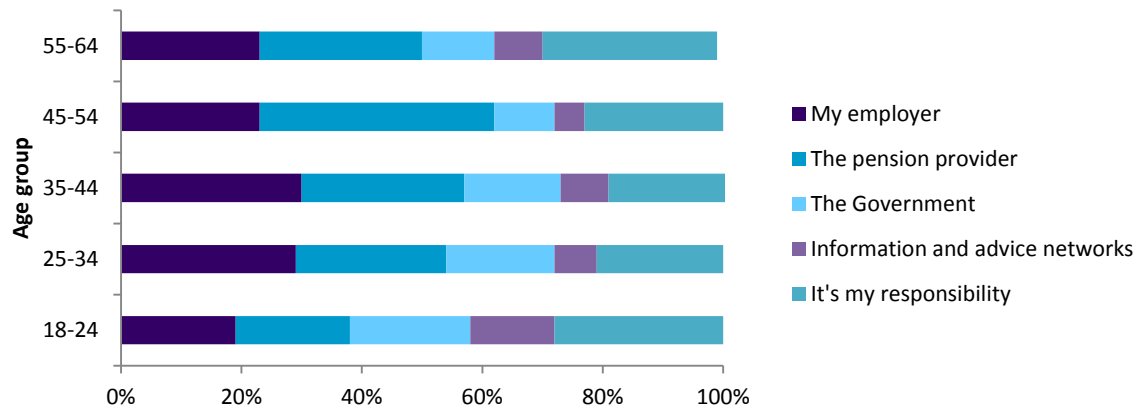


Note: All responding employees

¹² <http://www.bbc.co.uk/news/business-22120914>.

Only a quarter of respondents believed that it was their responsibility to manage and understand their pension. Over half (54%) believed the responsibility lay either with their pension provider or their employer. 59% of those aged 35-54 agreed with this. Only 15% of respondents stated that it was the Government's responsibility to help them manage and understand their pension.

Figure 12: who do you think should be responsible for helping you? – by age



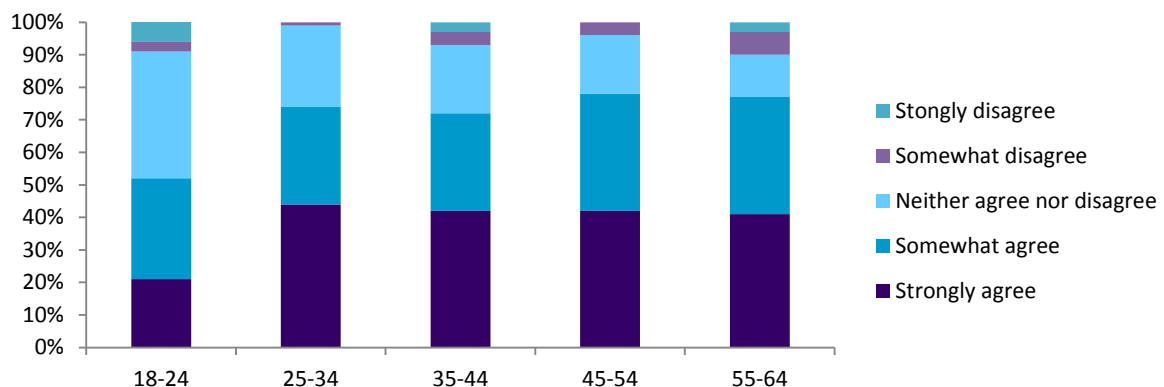
Note: All responding employees

Planning for Retirement

The UK Government has proposed to bring in a new State Pension system from 6 April 2016. The new system is designed to support people in planning and building their private pension provision, assuring them that they will have a set foundation level of State Pension on top of which they can build their own savings for a good income in retirement.

72% of survey respondents agreed that the State Pension will not be enough for them to live on in retirement. Three quarters (77%) of women and two thirds (67%) of men shared these concerns. Those under the age of 25 were less worried about the State Pension giving them enough in retirement, compared to over 70% of those aged 25 and over who believed it will not be enough.

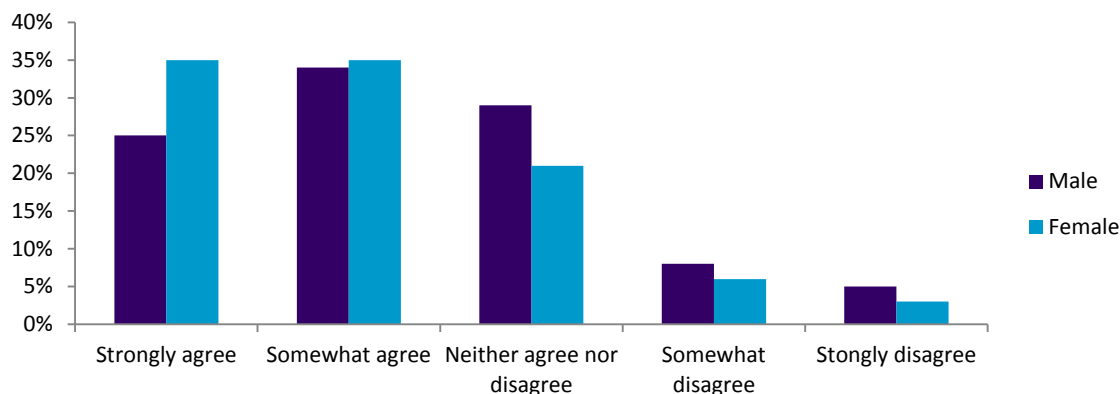
Figure 13: The State Pension won't be enough to live on comfortably – by age



Note: All responding employees

64% of respondents expected to work past State Pension Age to live comfortably in retirement. 71% of women agreed that they will need to work past their State Pension Age compared to 59% of men. Young employees aged 25-34 are most likely (74%) to expect to work past State Pension Age compared to other age groups.

Figure 14: I will need to work past State Pension Age

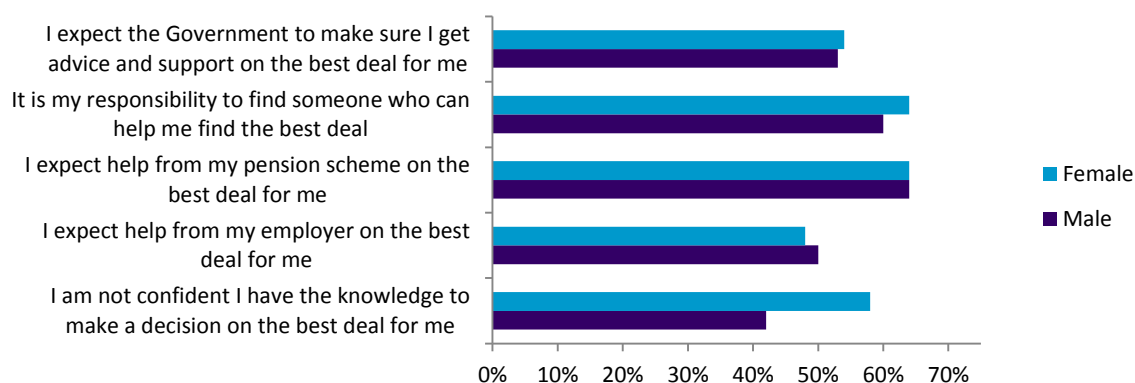


Note: All responding employees

DC Pensions at retirement: People who have DC pensions and some with certain types of DB contributions (e.g AVCs) would need to purchase an at-retirement product like an annuity to turn their pension savings in to income when they retire. Almost half (49%) of respondents agreed that they are not confident that they have the knowledge to make a decision on the best deal for them on the at-retirement product. Women, at 58%, were more likely to agree that they do not have the knowledge for such a decision. 35% of 55-64 year olds and 47% of 45-54 year olds also agreed that they were not confident about making the best decision. These are age groups that will have to make such decisions soon.

Only 5% of respondents strongly disagreed that they are not confident that they have the knowledge to make a decision. Respondents expected help from their pension scheme (64%) and employer (49%) on this, though 62% also agreed that it was their responsibility to find someone to help them. 54% believed that the Government had a role to play. Of those aged 55-64, 68% believed it was their responsibility to find someone to help them, 60% expected help from their pension scheme and only a third (36%) expected help from their employer.

Figure 15: Buying an at-retirement product (e.g annuity): respondents who agree with the statements



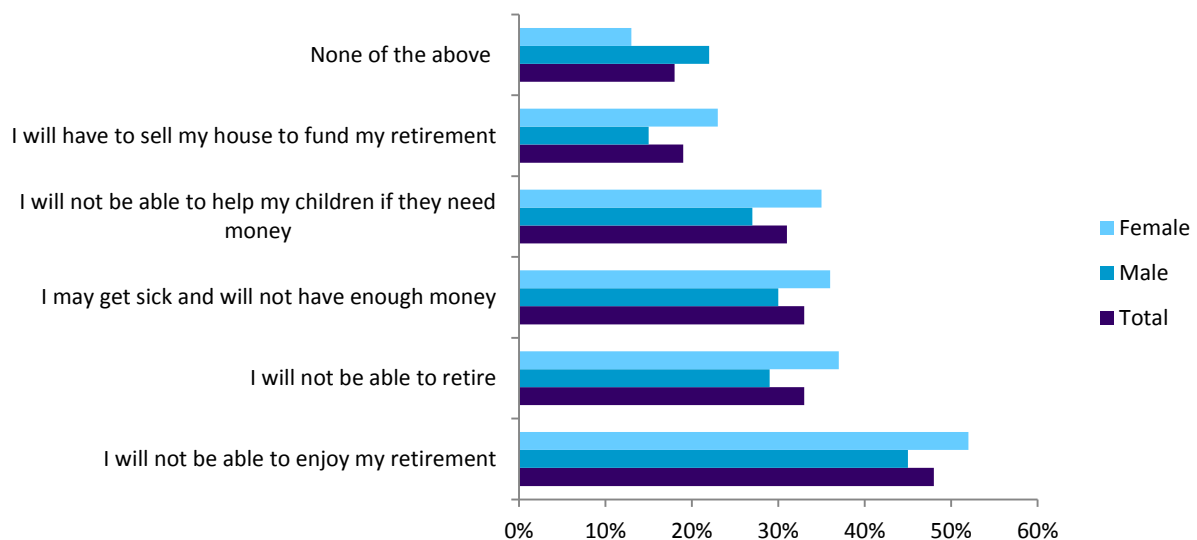
Note: All responding employees

Worries about Retirement

When asked about what worries them most about their retirement, approximately half of respondents (48%) were concerned that they will not be able to enjoy their retirement. Understandably, those on lower incomes (£7,000 to £21,000) were most worried, at 55%, about not being able to enjoy their retirement.

A third of respondents were concerned that they will not be able to retire. At 37%, women were more likely to worry about not retiring than men (29%). 33% were also concerned that they may get sick and not have enough money. Women were more likely (35%) to worry about not being able to help their children if they need money.

Figure 16: Worries about retirement



Note: All responding employees

Conclusions

We have started to see the impact automatic enrolment is having on people's attitudes, confidence and expectations around pension savings. Not only has overall confidence in pensions increased, the change has been most dramatic and positive where employees are saving in a workplace pension, including amongst those who state that they have been automatically enrolled. We have also seen a rise in the number of younger people thinking of saving more in a pension in the future. As medium and smaller employers start automatically enrolling their employees over the next 5 years changes in saving behaviour will become more evident. Income and comfort at retirement, however, remains a key concern for everyone and is especially pronounced in a world where the risks associated with pension savings have shifted from the employer to the employee. These savers are then expected to make a life changing and unalterable decision on their retirement income if they have saving in defined contribution schemes. Though confidence in pensions is seen to be increasing, many issues still need to be resolved to ensure that people get a good income in retirement.



Securing the future of pensions

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‘Securing the future of pensions’