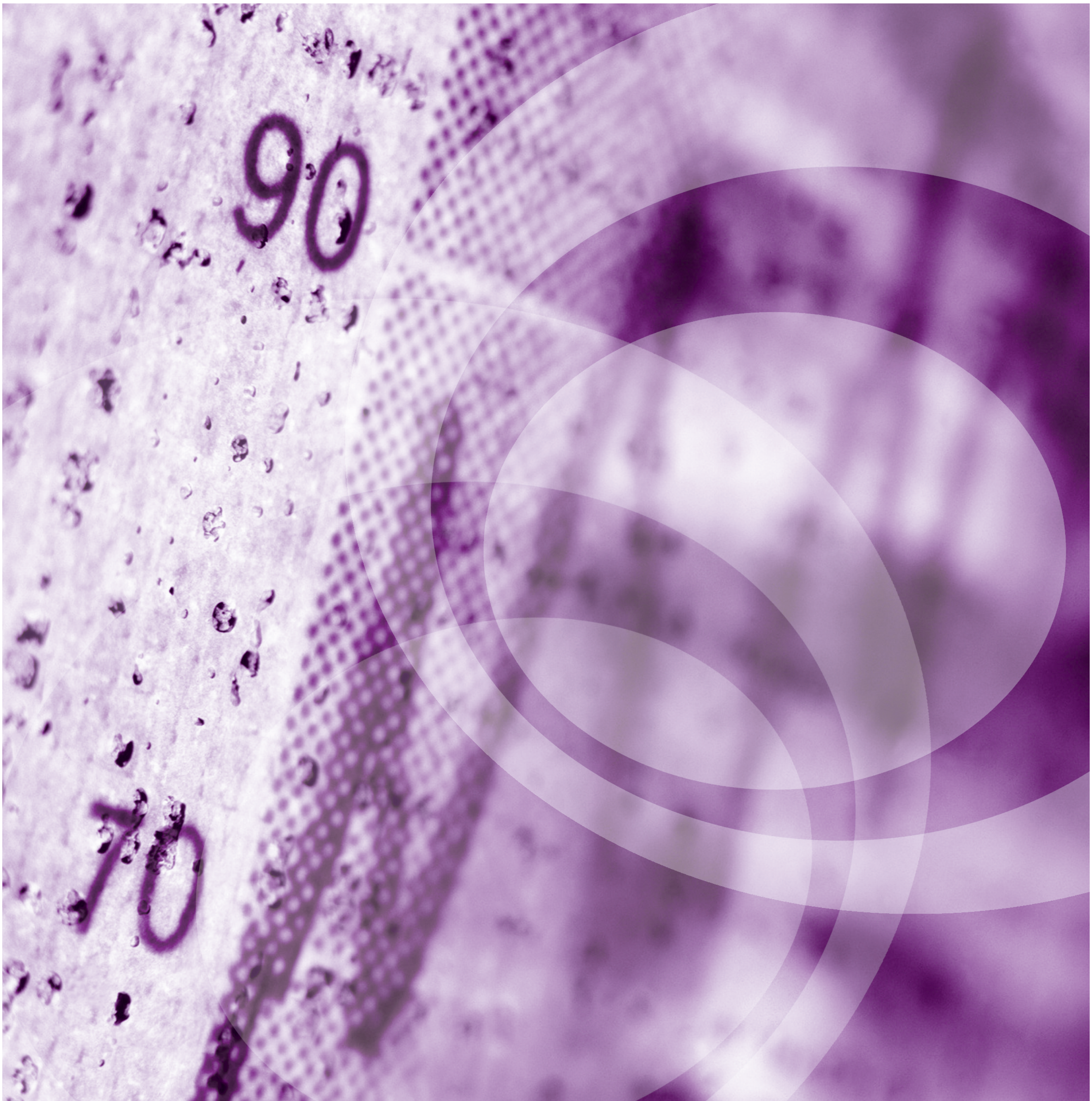
NAPF

Securing the future of pensions



WORKPLACE PENSIONS SURVEY

October 2012

Contents

Introduction

The NAPF conducted its quarterly Workplace Pensions Survey from 14 to 16 September 2012, receiving responses from 2,069 people living in the UK. This report summarizes respondents' opinions on current pensions issues – particularly around auto-enrolment, charges, and confidence in pensions in achieving long term savings.

The online survey measured 1,008 people in employment and 176 people who are self-employed. The data has been weighted to match the profile of respondents from earlier waves of the survey to ensure comparability.

SUMMARY OF FINDINGS

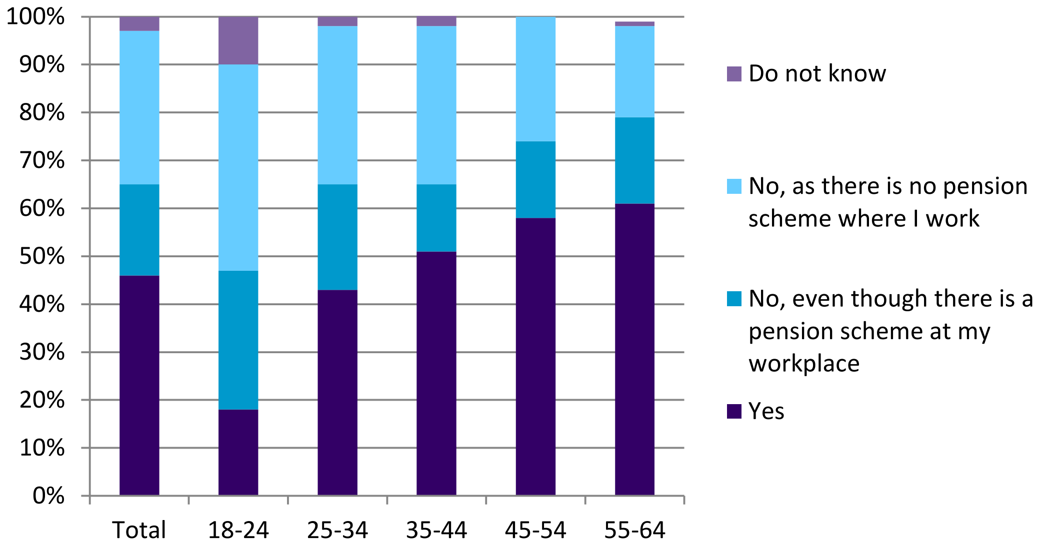
- Over half (51%) of respondents are not members of a workplace pension scheme.
- 58% of men have heard about pension reforms compared to 47% of women.
- 65% of respondents are likely to stay auto-enrolled
    - 9 in 10 believe that the State Pension will not be enough for them in retirement
    - 7 in 10 would increase their contributions in future years.
- 35% of respondents are likely to opt-out
    - 73% could not afford to pay into a pension scheme
    - 3 in 4 are concerned about losing money through their pension investments.
- 58% of men and 52% of women would choose a lower return on investment if they were guaranteed a minimum income on retirement.

Access to workplace pensions

This survey was conducted prior to October 1, before the very first group of employers started automatically enrolling eligible workers into a pension scheme in their workplace. Respondents were asked whether, when the survey was being conducted in mid-September 2012, they were a member of a workplace pension scheme. Figure 1 shows that 51% are not members of a workplace pension scheme, increasing to 72% for young people aged 18-24. Only 1 in 5 respondents in this age group were members of a scheme, compared to more than 50% of those aged 35 and over.

Respondents earning £14,000 or less were least likely to be in a workplace pension scheme. Over half of those earning between £7,000 and £14,000 worked for employers who did not offer a pension scheme and over a third of those earning less than £7,000 worked in a place with a pension scheme but were not members of one.

Figure 1: Access to workplace pension schemes



Note: All respondents

The survey shows that young people are less likely to have access to workplace benefits like pensions compared to their older colleagues. They are more likely to work for smaller businesses and/or in low income occupations where workplace benefits are uncommon. The Office of National Statistics (ONS) reports that over 20% of young people work in sales and customer service jobs – with mean earnings of only £6.43 an hour[1] or approximately £10,566 a year[2].

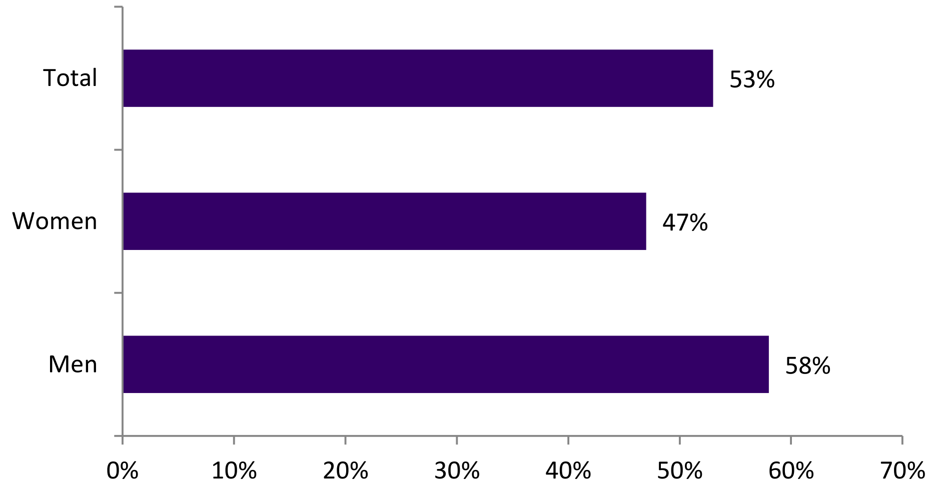
Auto-enrolment

Auto-enrolment came into effect on October 1, 2012 and as employers start complying with the new requirements the Workplace Pensions Survey continues to look at how aware workers are about the changes, how they feel about staying auto-enrolled, and what their reasons are for staying in or opting out of auto-enrolment.

Figure 2 shows that 53% of respondents stated that they had heard about auto-enrolment. Men (58%) were more likely to have heard of the new pension reforms than women (47%). The awareness of auto-enrolment has increased since the last workplace pension survey was conducted in February 2012 where 42% of respondents said they had heard about auto-enrolment, which suggests that awareness campaigns run by the Government and others are having a positive effect. When we look at awareness amongst different age groups, three quarters of respondents aged 55 to 64 had heard about auto-enrolment, compared to 43% of 18 to 24 year olds.

[1] Office of National Statistics. 'Young People in Work -2012'. 29 February 2012. http://www.ons.gov.uk/ons/dcp171776_257979.pdf accessed on October 3,2012.
[2] Office of National Statistics. 'Labour Market Statistics, September 2012'. http://www.ons.gov.uk/ons/dcp171778_276985.pdf accessed on October 3,2012.

Figure 2: Proportion of respondents who had heard about auto-enrolment



Note: All respondents

Over 50% of those earning £14,000 or less had heard about auto-enrolment, as had two thirds of those who are already members of a workplace pension scheme.

Those who already contribute to a workplace pension scheme are only likely to be affected by the reforms if their current pension scheme doesn't comply with the Government's requirements, and/or if the contributions made into their scheme need to change.

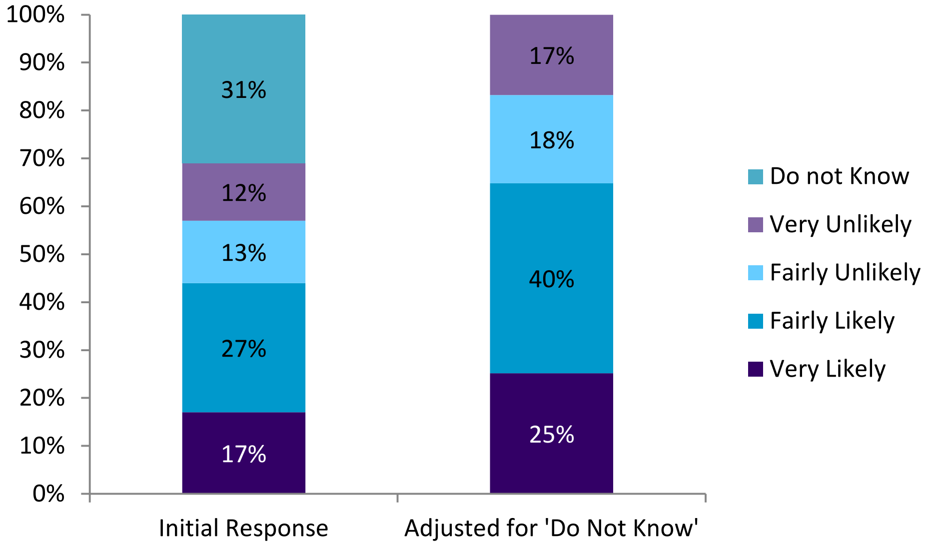
Staying in or opting out

Opt-out tracker: The NAPF's Opt-out tracker looks at respondent's interest in staying in a workplace scheme that meets the contribution requirements set out under auto-enrolment – therefore where employers contribute 3% of a worker's salary into a scheme, followed by a 4% contribution from the worker, and where the Government gives 1% back in tax[3].

When we adjust for the group of respondents who are undecided (do not know), only considering those who are either likely or unlikely to stay in a workplace scheme if they are not already enrolled in one, we find that 65% of respondents are fairly or very likely to stay auto-enrolled compared to 35% who would choose to opt-out. This is very similar to the response rate seen in the workplace survey conducted this spring where 67% of respondents were likely to stay in a workplace pension scheme if they were auto-enrolled into one.

[3] Where it is assumed that the individual receives tax relief at a marginal rate of 20%.

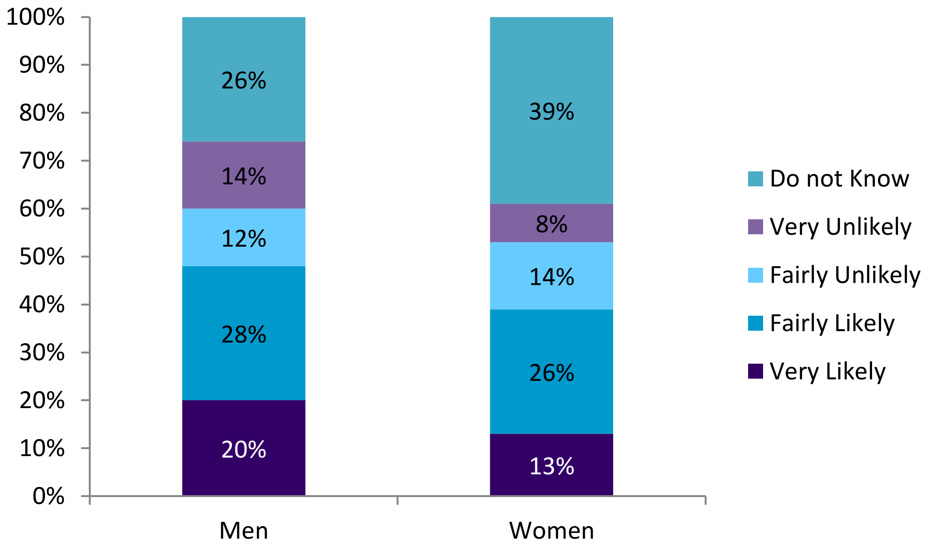
Figure 3: How likely is it that you will stay auto-enrolled? – Overall response



Note: All respondents aged 22 and over, working full-time, 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.

Generally, men were more likely than women to stay auto-enrolled (49% compared to 39% respectively), though more women (39%) were just unsure of what they would do, compared to 26% of men.

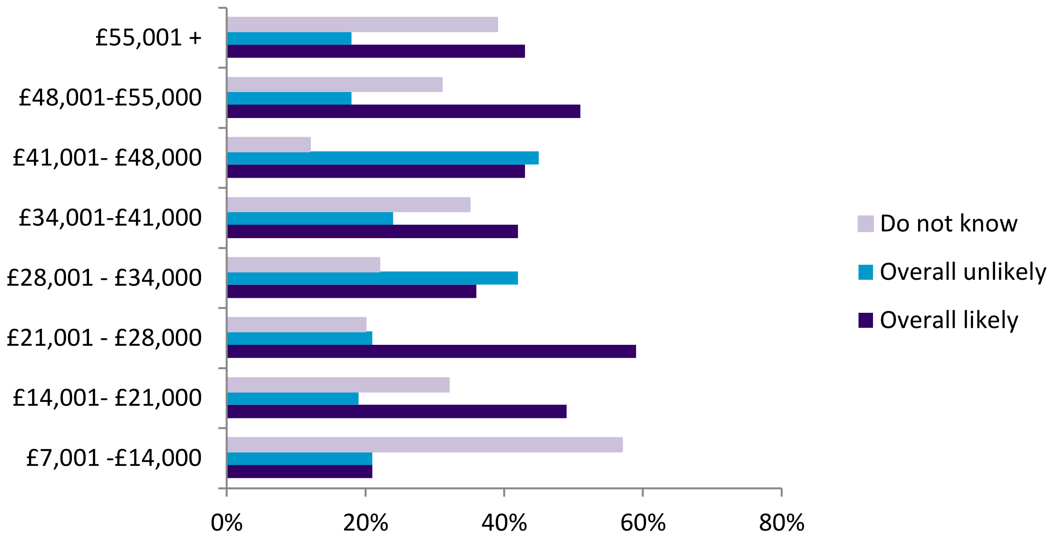
Figure 4: How likely is it that you will stay auto-enrolled? – men and women



Note: All respondents aged 22 and over, working full-time, 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.

When adjusted for 'do not know', a similar proportion of men and women were very or fairly likely to stay auto-enrolled (65% and 64% respectively).

Figure 5: How likely is it that you will stay auto-enrolled? – income based



Note: All respondents aged 22 and over, working full-time, 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.

Respondents earning £14,000 or less are most unsure about what they would do under auto-enrolment. 57% do not know whether they would choose to stay in a workplace pension scheme, while only 1 in 5 (21%) state that they would stay auto-enrolled and a similar proportion advise that they are most likely to opt-out. This group is more likely to consider whether they can afford to contribute to their workplace pension scheme.

Three in 5 of respondents earning £21,000 to £28,000 state that they are likely to stay in a scheme. This group includes respondents with national median earnings of £26,200[4].

Staying in…

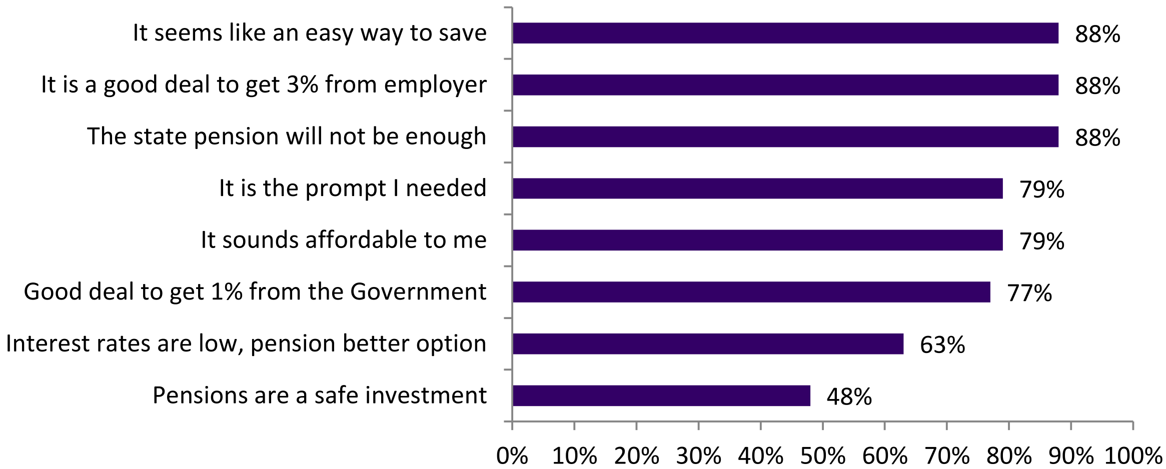
As shown in Figure 6, the workplace pensions survey considered respondents reasons for staying in a workplace pension scheme they would be auto-enrolled into. Respondents who stated earlier that they were likely to stay in a workplace pension scheme were asked whether they agree or disagree with the following statements:

- The State Pension won't be enough for me in retirement
- It is a good deal to get 3% of my salary from my employer
- The contributions under automatic enrolment sound affordable to me
- It is a good deal to get 1% of my salary back from the Government
- I need to start saving for retirement – being automatically enrolled in a workplace pension scheme seems like an easy way to save
- Interest rates are so low for ISAs and savings that a pension is a good option
- Pensions are a safe investment

[4] Office of National Statistics, 2011 Annual Survey of Hours and Earnings. Available at http://www.ons.gov.uk/ons/dcp171778_241497.pdf

Nine in 10 (88%) respondents stated that the State Pension would not be enough for them in retirement - more than double the number of respondents agreed with this statement this year compared to a year ago. The same proportion of respondents considered the contributions under auto-enrolment to be ‘affordable’ and ‘a good deal’.

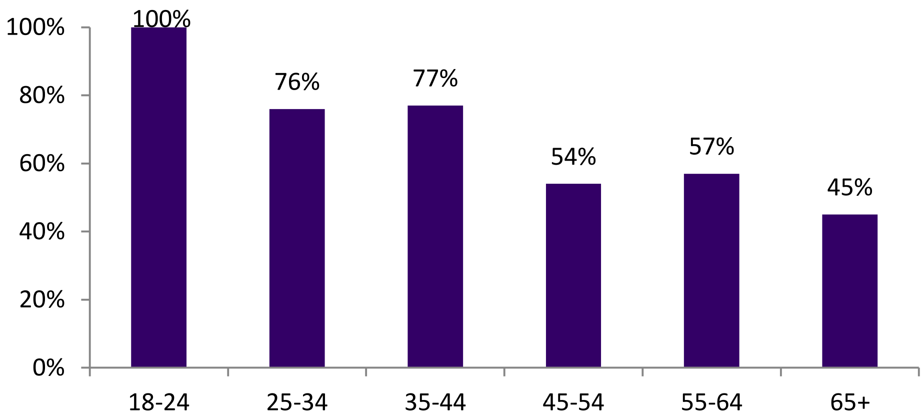
Figure 6: Reasons for staying in the scheme



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

Encouragingly, 71% of these respondents also stated that they are fairly or very likely to increase the contributions they make towards their pension in future years. Men were far more likely to agree that they would increase their contributions (78%) compared to women (58%). As shown in Figure 7, respondents aged 18-24 unanimously agreed that they would increase contributions in the long run.

Figure 7: Increasing contributions in the future – by Age

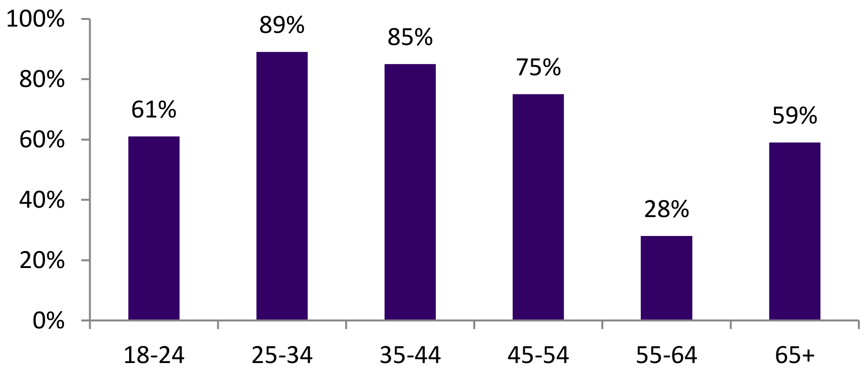


Note: All respondents aged 22 and over, working full-time, earning the minimum for auto-enrolment, who are not self-employed, are not a member of the pension scheme at their place of work and are likely to stay auto-enrolled.

Opting out…

In order for the new pension reforms to be a success in raising future retirement incomes high levels of opt-out from the automatic enrolment process need to be avoided. Workers in low paid jobs who may have affordability concerns are at particular risk of opting out and are the key target group for the reforms. Of the 15% of respondents who said they were fairly or very unlikely to stay in a pension scheme, three quarters (73%) stated that they couldn't afford to save into a pension right now. Figure 8 shows that 9 in 10 of those aged 25 to 34 also agreed with this statement, as did 85% of those aged 35-44 and 75% of 45 to 54 year olds. A majority of those earning between £7,000 and £48,000 agreed with the affordability issue as well (ranging from 60% of those earning £34,000 to £41,000 and 100% of those earning £41,000 to £48,000).

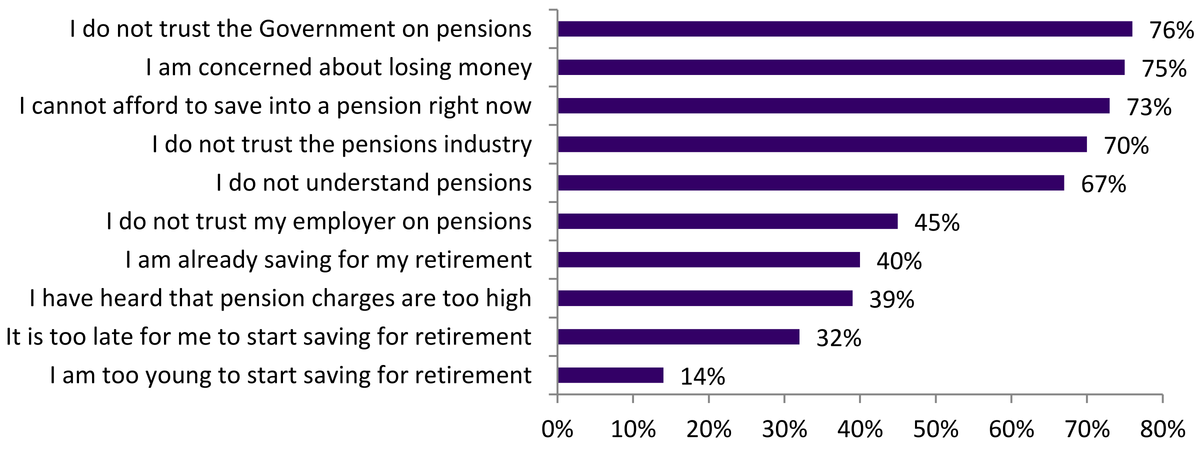
Figure 8: Proportion of respondents who stated that they cannot afford to save in pensions right now



Note: All respondents aged 22 and over, working full-time, 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.

Respondents who stated that they are likely to opt-out were asked whether they agree or disagree with a number of statements. Figure 9 illustrates respondents' responses to these.

Figure 9: Reasons for opting out – statements from previous surveys



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

76% of respondents who are not members of a workplace pension scheme stated that they do not trust the Government on pensions, comparable to the proportion (72%) of all respondents (which includes those who are already enrolled in pension schemes). Three quarters (75%) of respondents who would not stay auto-enrolled are also concerned about losing money through their pension investments (only 1 in 6 respondents chose this statement a year ago) and 70% do not trust the pensions industry.

Two in 5 (39%) of respondents agreed that they had heard that pension charges are too high, compared to 8% of respondents who agreed with this statement a year ago.

The following additional statements were added to the opt-out section of the September survey, measuring concerns around knowledge and communication:

- I don't understand pensions or how much I need to save.
- The information on pension schemes is too complicated and unclear.
- There is a lack of support and engagement from the employer.
- There is lack of communication on how my pensions are performing.

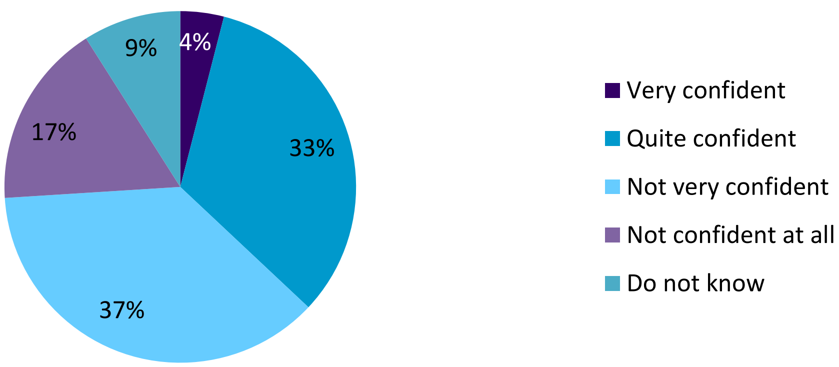
Two thirds (67%) of respondents who are likely to opt-out agreed that information on pension schemes is too complicated and unclear, while more than half (53%) did not understand pensions or how much they would need to save. 45% of respondents agreed that there is a lack of engagement and support from their employer, while 50% stated that there is a lack of communication on how their pensions are performing.

These statements continue to raise a number of issues about trust and clarity that need to be addressed if the pensions industry and the Government wants to encourage people to save into pensions under auto-enrolment.

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 10 shows that only 7% of respondents were very confident in pensions and 29% were quite confident.

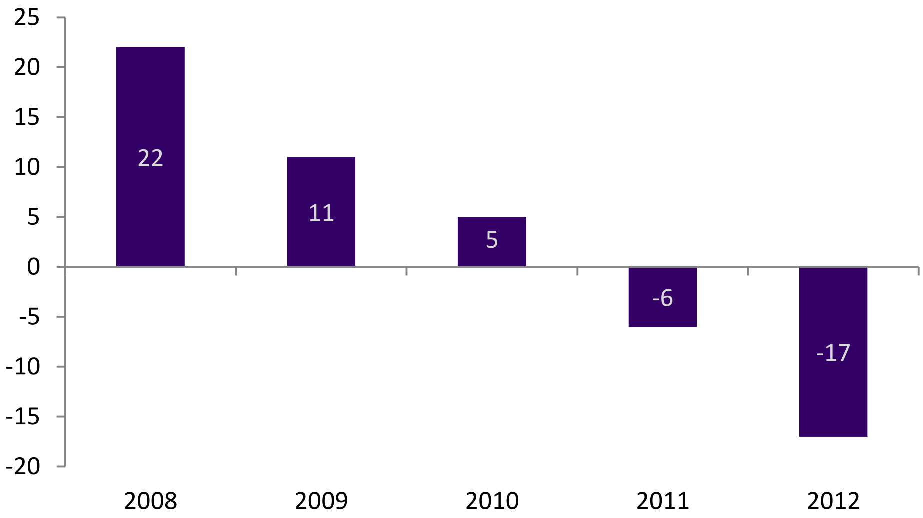
Figure 10: Confidence Index 2012



Note: All responding employees

The Confidence Index shows the difference between those who were confident in pensions (36%) and those who were not confident in pensions (53%). At -17, the confidence index remains unchanged compared to the beginning of the year (see workplace pensions survey report for spring of 2012), though it is 11 points lower than this time last year. 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.

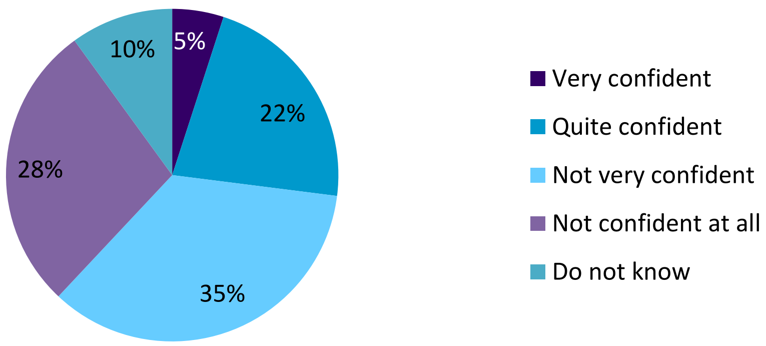
Figure 11: Confidence Index 2008-2012



Note: All responding employees

Only 28% of respondents felt confident that pensions would give them enough income in retirement. Men, at 35%, were more optimistic than women, at 20%, that they would have enough income with a pension. Confidence in pensions only slightly increased with age and income. Respondents who were members of a pension scheme already were more confident, at 41%, about pensions giving them enough in retirement than non-members (16%) who will be auto-enrolled into schemes.

Figure 12: How confident are you that your pension will give you enough money to live on in retirement?

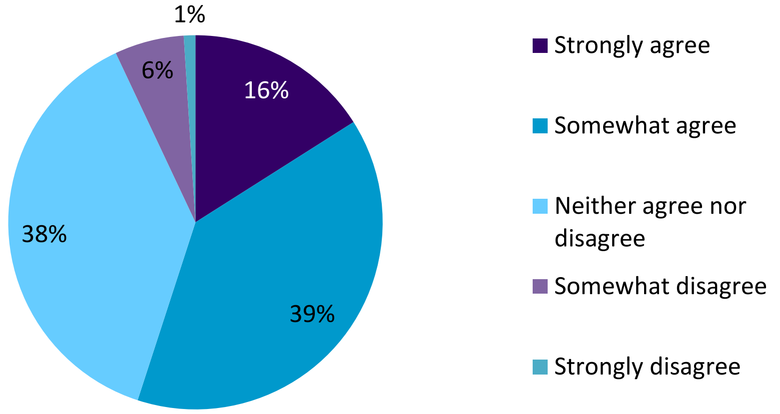


Note: All responding employees

Risk and responsibility

This year the workplace pensions survey measured respondents' attitude towards risk in pension investments. Over half (55%) of respondents agreed with the statement that they would choose a lower return on investment if they were guaranteed a minimum income on retirement. Three in 5 (58%) of men agreed with this statement compared to 52% of women.

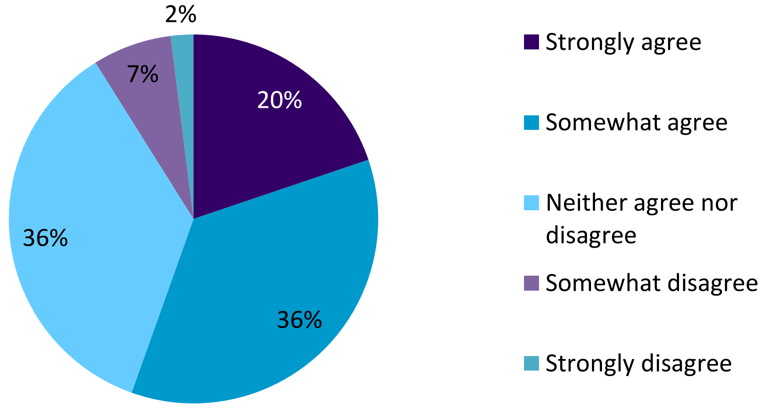
Figure 14: Agree or disagree with the following statement: 'I would choose to save into an investment with a lower return if that meant I was guaranteed a minimum income in retirement based on the contributions I have put in.'



Note: All respondents

56% of respondents would also choose to be as risk averse as possible as they do not trust financial markets.

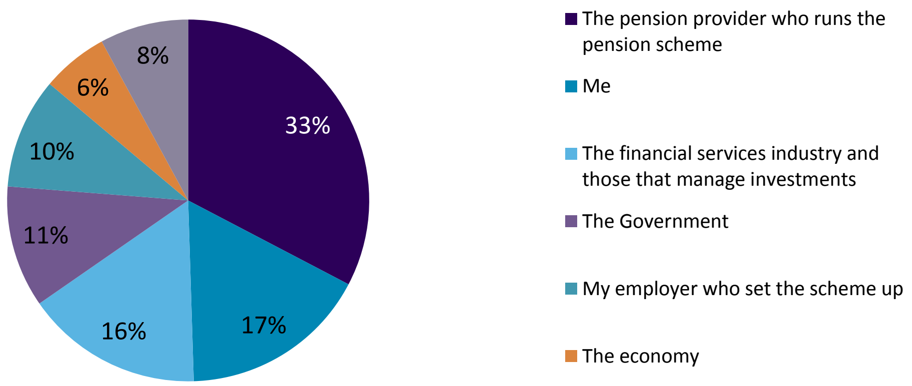
Figure 15: Agree or disagree with the following statement: 'I would choose to save in the least risky pension investment as I do not trust financial markets.'



Note: All respondents

Even though a number of respondents do not trust financial markets, Figure 16 shows that they do not hold the financial services industry most responsible for the performance of their pension investments.

Figure 16: who is responsible for the performance of your pension?



Note: All respondents

A third of respondents agree that the pension provider who runs the scheme is responsible for the performance of their investments. Respondents are next most likely to hold themselves responsible for the performance of investments. Only 1 in 10 (11%) said they would actually hold the Government responsible for how their investments in their personal or workplace pension performs.

Conclusion

As in previous workplace pensions surveys completed by the NAPF, two thirds of respondents who are not currently members of a pension scheme said they were likely to stay enrolled in one under auto-enrolment. Auto-enrolment will have a significant impact on the workplace benefits available to younger people and those on low income, many of who currently do not have access to a pension scheme. A significant proportion of workers may need to be encouraged to stay auto-enrolled in their workplace pension scheme, and many are likely to do so if, their concerns around trust, confidence and communication are dealt with by the industry and the Government. The success of auto-enrolment is dependent on employees staying in their workplace pension schemes and developing a positive attitude towards long term savings and financial investments.

NAPF

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The National Association of Pension Funds Limited©
Cheapside House
138 Cheapside
London EC2V 6AE

Tel: 020 7601 1700
Fax: 020 7601 1799
Email: **napf@napf.co.uk**
www.napf.co.uk

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