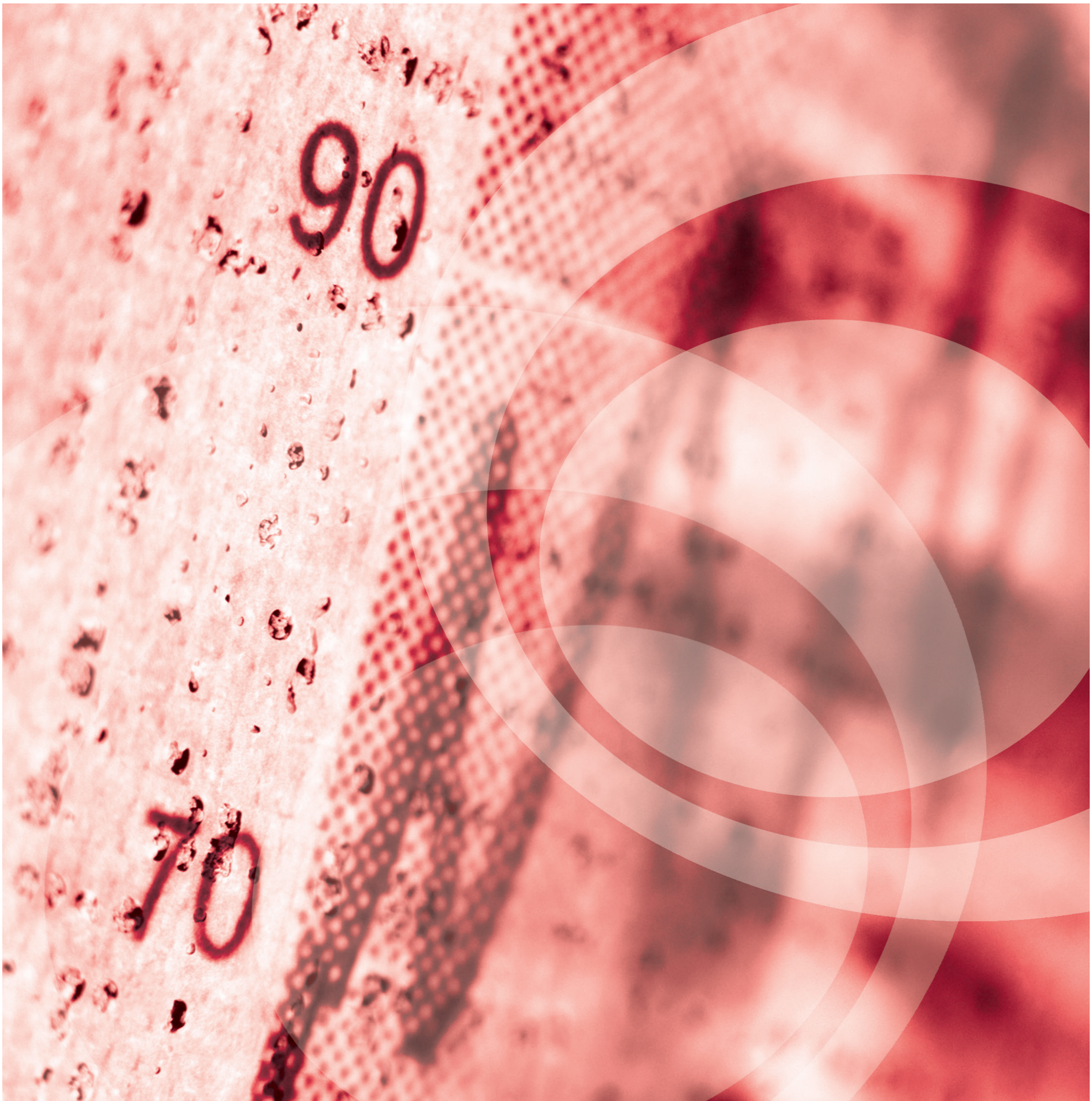
NAPF

Securing the future of pensions



WORKPLACE PENSIONS SURVEY

May 2014

Contents

Executive Summary

The Spring 2014 Workplace Pension Survey continued to monitor levels of participation and confidence in pensions but also gauged public views on the pension reforms announced in the Budget 2014, which will allow people to access their defined contribution pension savings as they wish from the point of retirement.

Over half of respondents were members of a workplace scheme, while one in four had not been offered a scheme and 15% had chosen not to join one. Membership has consistently increased since the introduction of automatic enrolment in October 2012. The greatest increase was seen among the youngest workers, aged 18 to 24, among whom participation has increased from 18% to 35%.

Confidence in pensions compared to other methods of saving continues to improve from its low point in 2012. Men are more likely to be confident than women (57% compared to 33%), as are older people, with 68% of people over 65 being quite or very confident in pensions compared to other forms of saving.

When asked about the Budget reforms, awareness was very high (91%). Two thirds (67%) felt that it was likely to make no difference to their savings levels but 28% stated they were likely to start saving more as a result of the reforms.

Once the reforms are introduced, there will be no requirement for any pensioner to purchase an annuity. The onus will be on the individual to make their savings last for the rest of their lifetime. This means they will need to understand how much they will need to provide them with the retirement income they want and be appropriately equipped to make the right investment choices at retirement. Under a quarter of respondents (23%) thought they would need more than £150,000 to fund their retirement. To put this in perspective, a DC pension pot of £150k with modest investment growth above inflation will provide approximately £9k over a 25 year retirement over and above the State Pension. Therefore a significant number of people may still be underestimating how much they need to fund the retirement they want.

One in five respondents agreed that they would be likely to take their entire pension savings as a lump sum once the new flexibility is brought in, irrespective of whether or not they have sufficient savings outside of their pension.

In order to ensure people make appropriate choices, the Government has proposed that people should be provided with fact-to-face guidance as they near their retirement date. Most people thought they would need some form of guidance (86%). 29% wanted to receive face-to face- guidance and 23% preferred online tools. Very few wanted help via telephone (6%). More than a third wanted the advice to be provided by an independent third party (35%), although a quarter were still unsure about who they thought should provide the guidance.

Those with the lowest household incomes (<£14,000) were most doubtful about whether they would use the guidance service. One in four did not know whether they would use it at all.

When asked what they thought the guidance should cover, the most common response was that it should help people to make sure they have a regular income (64%). Those closer to retirement (55-64 year olds) were also keen to receive advice on minimising tax (61%), ensuring there would be money for unexpected costs (59%) and that they would not lose out on welfare benefits (43%).

Introduction

The spring 2014 Workplace Pensions Survey continued to monitor general levels of confidence in pensions but primarily focussed on respondents' opinions about the pension reforms announced in Budget 2014 to allow people to access their defined contribution pension savings as they wish from the point of retirement. Drawdown of pension income under the new arrangements will be taxed at marginal income tax rates rather than the current rate of 55% for full withdrawals. The tax-free pension lump sum will continue to be available. Those who want to purchase an annuity will still be able to do so but it will also be possible for people to withdraw all their pension savings in a lump sum or keep their pension invested and access it over time.

The Workplace Pensions Survey was conducted from 9 to 10 April 2014, receiving 2,051 responses. This paper reports the opinions, attitudes and expectations of the 1009 respondents[1] who were in employment.

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

[1] 897 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 1009.

Access to workplace pensions

The NAPF's Workplace Pension Survey measures employees' perspectives on workplace pension saving and their preparations for retirement. 57% of respondents to the spring 2014 survey stated that they were members of a workplace pension scheme, up slightly from autumn 2013, while 15% had chosen not to be in a scheme.

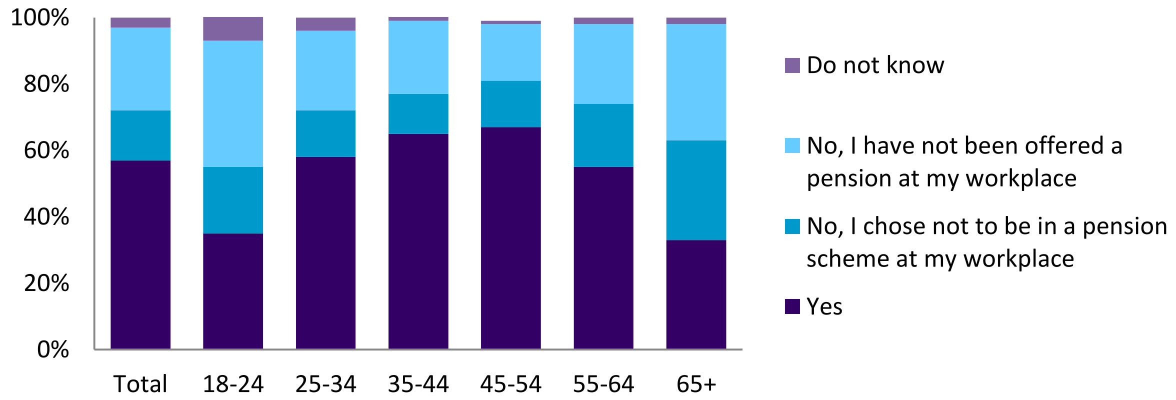
This figure is consistent with the most recent data from the 2013 Annual Survey of Hours and Earnings[2] which indicated that the proportion of employees who belonged to a workplace pension had shown an increase to 50%, the first increase since 2006.

One in four of all respondents stated that they had not been offered a scheme at their workplace, while a small percentage (3%) did not know if they were in a pension scheme or not.

Figure 1 shows that young people aged 18-24 and those aged over 65 were least likely to be a member of a scheme (35% and 33% respectively); however 35% of respondents in the youngest age group stated that they were now in a scheme, up from 28% in the autumn of 2013.

People in their 30s and 40s were most likely to be members of a workplace scheme, with membership peaking at 67% in the 45-54 age group. Those with household incomes of less than £14,000 a year were significantly less likely to be scheme members than the average (32%).

Figure 1: Membership in workplace pension schemes

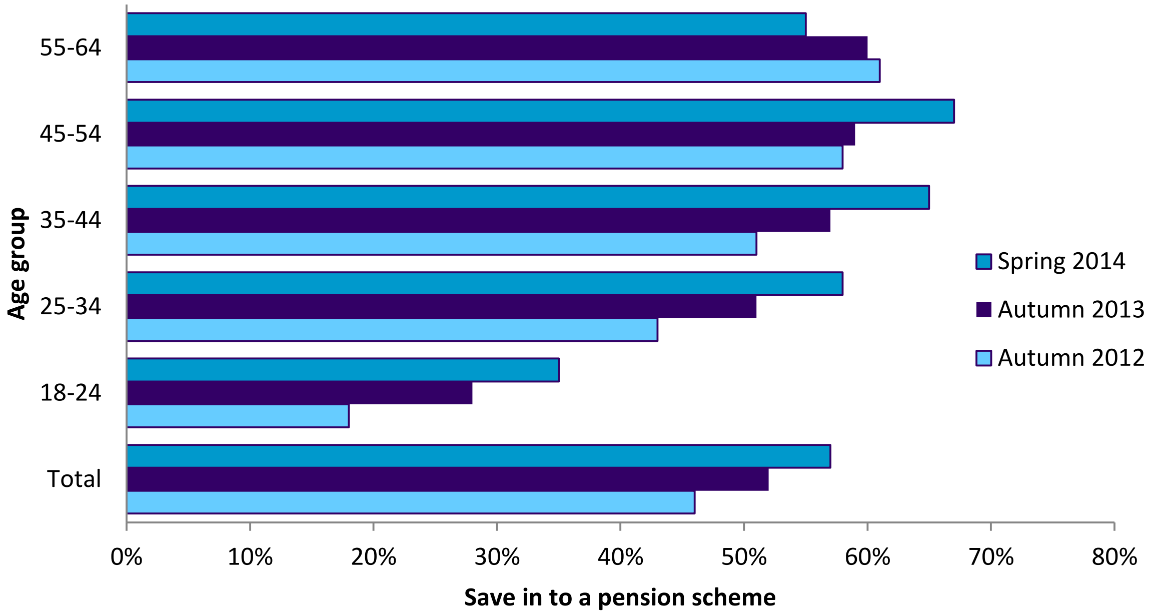


Base: All respondents who are employees

Figure 2 shows that, when comparing results from this survey to those conducted since the eve of automatic enrolment coming in to effect in autumn 2012, membership of workplace schemes has consistently increased among all age groups other than 55-64 year olds.

[2] Annual Survey of Hours and Earnings Pension Tables – 2013 Provisional Results, ONS

Figure 2: Pension savers by age: Autumn 2012 to Spring 2014



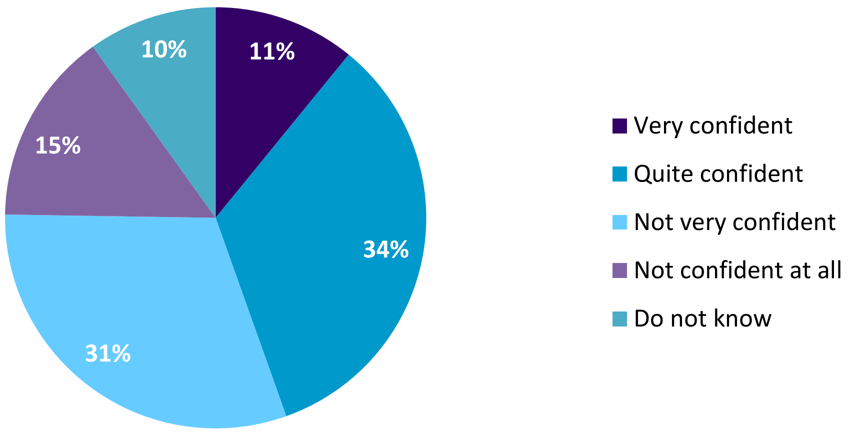
Base: All respondents who are employees

Confidence in Pensions

The NAPF monitors the difference between the number of respondents who are confident and not confident in pensions compared to other ways of saving for retirement. 45% 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. 11% stated that they did not know how they felt. At 57%, men were more likely to be confident, compared to 33% of women.

Confidence also increases with age, with 68% of those over 65 being either quite or very confident in pensions compared to other forms of saving.

Figure 3: Confidence Measure 2014



Base: All respondents who are employees

The confidence measure remained almost unchanged at -1 in the most recent survey, up from -2 six months ago. Confidence in pensions does appear to be on a recovering trend. This could reflect the ongoing success of automatic enrolment, which is still experiencing very low opt out rates, along with the recent improvement economic conditions in the UK. The latest data from DWP reflects a current opt out rate of 9-10% and DWP has lowered its estimate of opt outs over the life of the programme from 30% to 15%.[3]

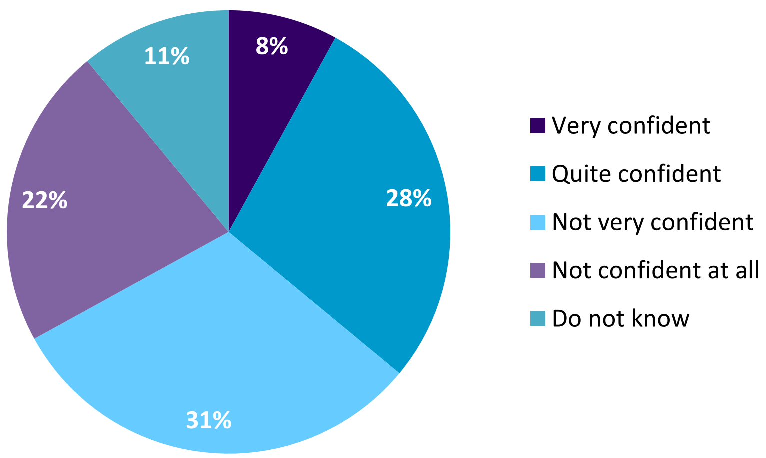
Figure 4: NAPF Confidence Measure 2008-2014

Base: All respondents who are employees

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.

Only 36% of respondents believed pensions will give them enough income in retirement, with 53% believing it will not be enough. These figures are almost unchanged from the previous survey. Men were more likely to have confidence in their pension being enough (48%) compared to women (25%). At 51%, those earning £55,000 or more were more likely to be confident in their retirement income.

Figure 5: Confidence that pension savings will be adequate for retirement



Base: All respondents who are employees

[3] Employers' Pension Provision Survey 2013, DWP

Budget 2014 – Pension Reform

In his Budget statement in April 2014, the Chancellor of the Exchequer announced a package of radical measures affecting the way in which pension income can be drawn from April 2015:

- **Pension lump sums.** DC scheme members will have the option to take their whole pension pot as a lump sum, 25% of which will be tax free and the remaining 75% will be subject to marginal tax rates.
- **Guidance guarantee**. In recognition of the need for pension savers to make good financial decisions about their income in retirement, the Government will be introducing a duty on pension providers and trustees to put in place a face-to-face guidance service for DC scheme members approaching retirement.
- **Private pension age.** The Government will allow DC pension savers aged 55 and over to access their DC pension savings without incurring any tax penalties. The age for such access is expected to increase to 57 by 2028, as the state pension age rises to 67.

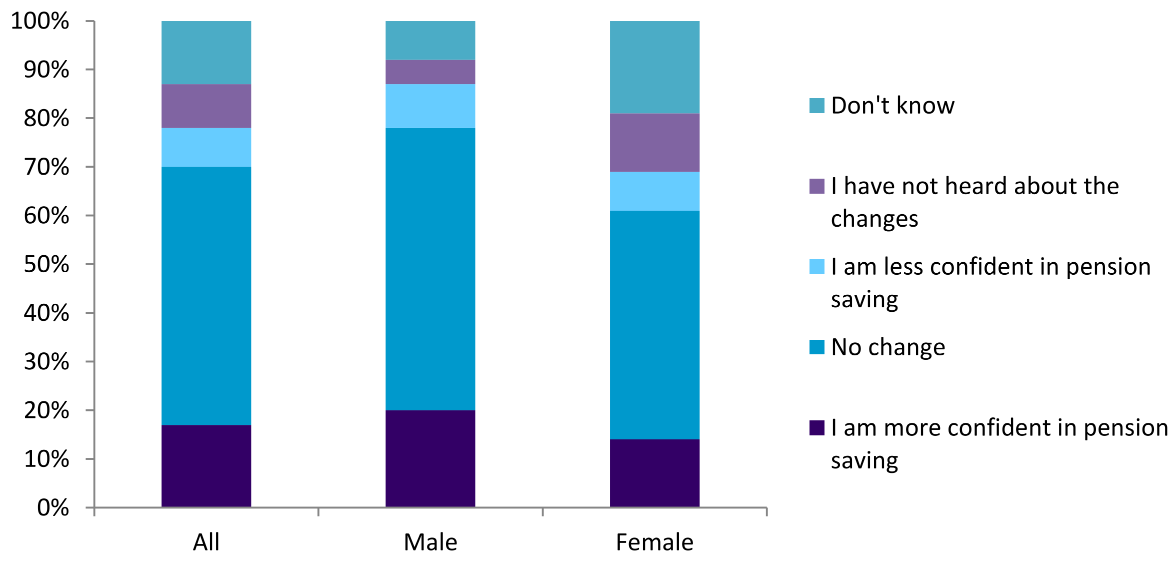
We wanted to know how that change had impacted people's confidence in pension saving and attitudes towards saving for retirement. Encouragingly, only 9% had not heard about the reforms. Younger people were slightly less likely to have heard about the reforms but even among the youngest age group (18-24 year olds) only 13% of respondents had not heard of them.

Confidence in pensions

For the majority of people (53%), the reform had had no impact on their confidence in pension saving. 17% were more confident and 9% were less confident. The remaining 13% did not know.

Men were more likely to be sure of their answer to this question. They were more confident in pension saving than before the reforms compared to women (20% vs 14%) and were also more likely to be aware of the reforms. 12% of women had not heard about the reforms compared to only 5% of men.

Figure 6: Change in confidence post Budget reforms by gender



Base: All respondents who are employees

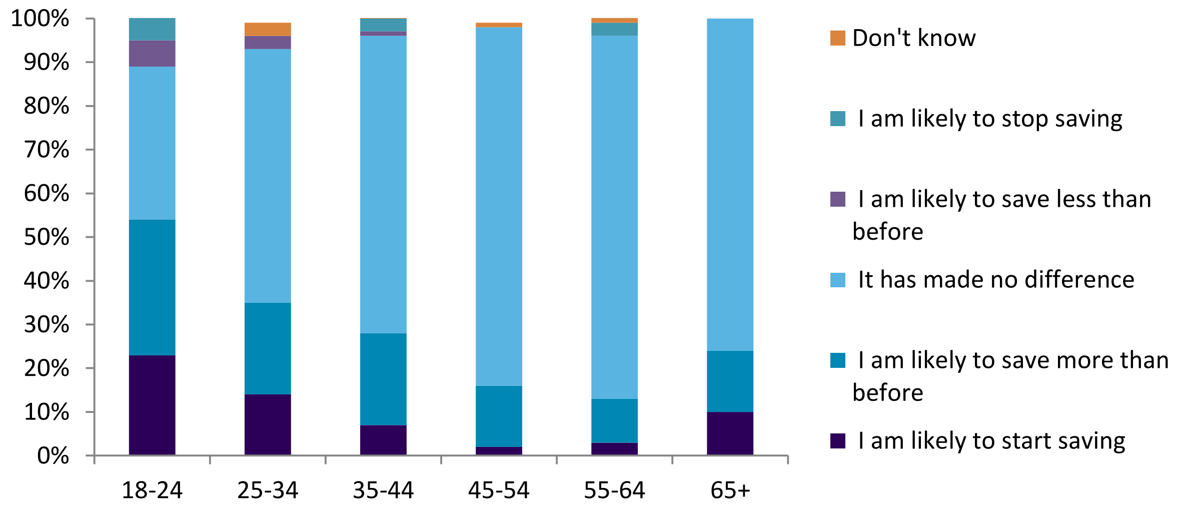
Young people were less confident in pension saving following the reforms compared to older workers. 13% of 18-24 year olds felt less confident compared to only 2% of 55-64 year olds.

We then asked respondents how the reform was likely to influence their probability of saving into a pension. Two thirds of respondents (67%) said it would make no difference to their saving levels. There was no significant difference of opinion between men and women on this matter.

However, 28% of respondents said they were likely to start saving or save more compared to only 3% who were likely to save less or stop completely.

There were significant differences in the response to this question depending upon age. The youngest group of respondents (aged 18-24 years) were more likely to say they would start saving or save more (54%). The older people were, the less likely the reforms were to have any impact upon their savings patterns.

Figure 7: Likely change in savings behaviour by age



Base: All respondents who are employed and aware of the changes

Those with household incomes of less than £14,000 a year said they were more likely to start saving or save more. 42% of people with combined annual household income of this level agreed they were likely to start saving, or to save more. Those with a university education were significantly more likely than average to say they would begin saving or save more (43% compared to 28%). This could imply that these groups are incentivised by the option of having more flexible access to their pension savings, although it is far from certain at this stage whether intent will feed through to actual changes in savings behaviour.

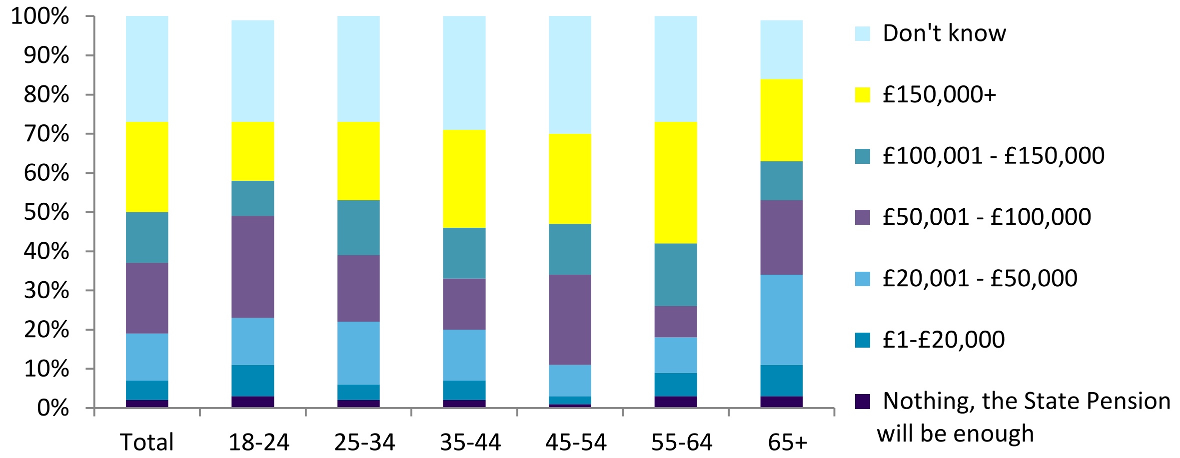
One outcome of the proposed increased choice at retirement is that, in the event that individuals make poor decisions about their pension savings, there is no longer a guarantee that the pensioner will receive a stable income for the rest of their life, as they would have done on purchasing an annuity. It is therefore important that individuals saving for retirement understand:

- what income they wish to receive in retirement;
- how long their retirement is likely to last;
- how much they need to save in order to achieve that income; and
- that they are appropriately equipped at retirement with the knowledge to make the best choice for their individual financial circumstances.

We therefore asked respondents what level of pension they thought they needed to save during their lifetime in order to provide them with a comfortable income in retirement.

Just under a quarter of respondents (23%) thought they would need to save more than £150,000. A pension pot of £150,000 would provide an individual with an annual income of roughly £9,000[4] over a 25 year retirement (£16,000 a year once the single tier state pension has been added). More than a quarter (28%) did not know how much they needed to save.

Figure 8: Expected level of savings required by age



Base: All respondents who are employees

The youngest group of respondents (those aged18-24 years) were less certain about how much they needed to save (a third did not know). Only 15% of this group thought they would need more than £150,000 to provide them with a comfortable income in their retirement.

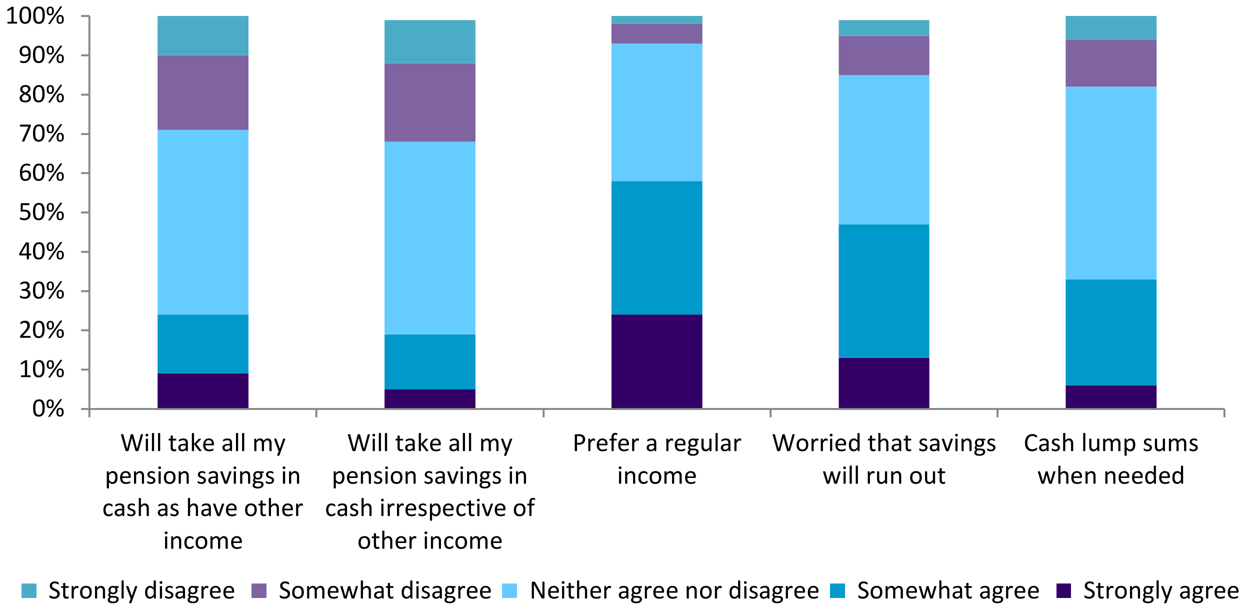
Unsurprisingly, those on higher incomes expected to need more. 40% of people earning more than £55,000 a year expected to need to save more than £150,000 for a comfortable retirement.

We next investigated how people expected to utilise their pension savings, namely

- purchase an annuity as they would have prior to the reforms;
- draw their savings in a single lump sum up front; or
- leave their savings invested and draw on them as and when needed.

[4] This calculation – assuming net interest 3% (inflation at 2% and investment growth at 5%) – equates to a yearly retirement income of £9,000 over a retirement spanning 24.5 years.

Figure 9: Method of accessing pension savings at retirement



Base: All respondents who are employees

Respondents were generally relatively cautious about how they would spend their pension savings. Most people (58%) said they would rather receive a regular income for life than risk their savings running out. Just under a half (47%) were worried their pension would run out and they would have to rely on the state. Just under one quarter (24%) expected to have sufficient savings in other investments to allow them to take their pension savings as a lump sum. This was particularly true of women, 31% of whom felt they would have sufficient income from elsewhere compared to 24% of men.

The youngest group of respondents (18-24) were also more likely to think they would have other savings and be able to take the lump sum (34%), as were the over 65s (28%) although this might be expected as this group will have greater certainty about their level of pension saving. One third of respondents (33%) agreed they would take smaller lump sums when they needed the extra money.

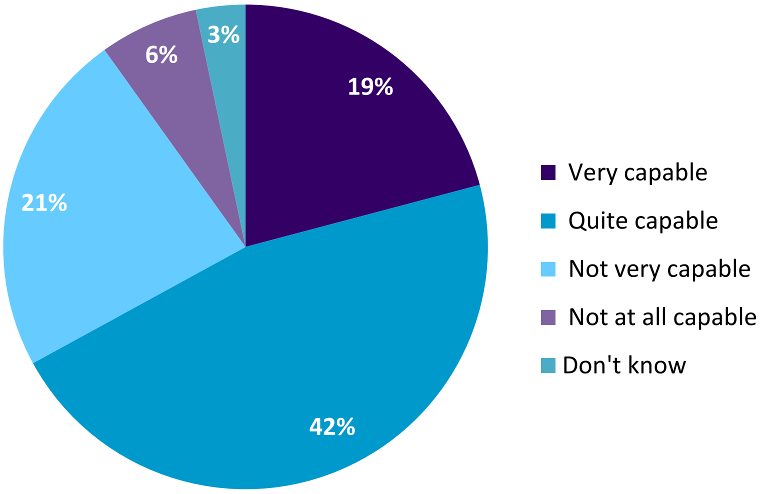
However, one particular note of caution emerged from the responses to this question. One in five respondents agreed to some extent that they would take their pension as a lump sum irrespective of whether they had adequate sources of income from elsewhere. This may indicate that the number of people choosing this route could be significantly higher than the Government anticipates.

Guidance guarantee

As part of the pension reforms, the Government has announced that people will receive free impartial face-to-face guidance to help them decide what to do with their pension savings. We therefore asked respondents how much assistance they were likely to need and what form they would like that guidance to take.

Firstly, we asked people how capable they felt to decide what to do with their pension savings.

Figure 10: Level of capability to decide what to do with pension savings



Base: All respondents who are employees

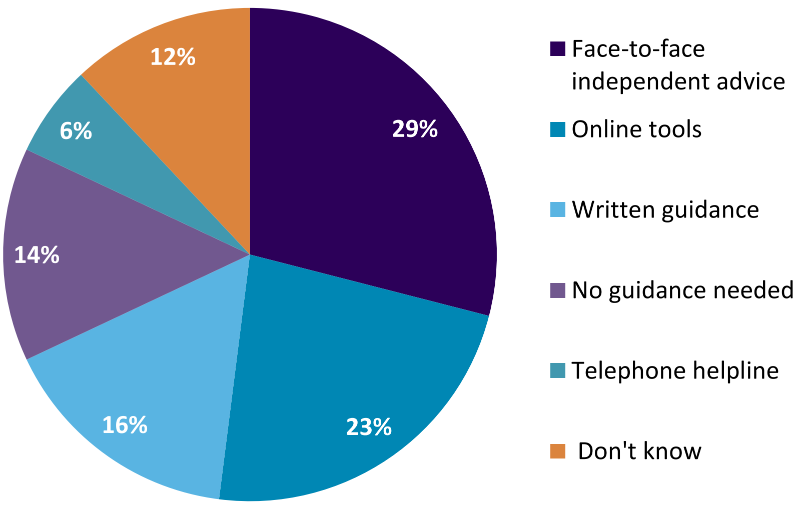
61% of people felt capable of deciding what to do with their pension savings. Men felt significantly more capable than women (73% vs 49%). Older respondents felt more capable than younger ones, with 77% of the over 65s feeling capable compared to 54% of 18 to 24 year olds.

Next, we asked people, given the choice, how they would like to receive advice or guidance about what to do with their retirement savings.

Very few people felt that they would not need any guidance on what to do with their savings (14%). There was little appetite for advice or guidance delivered by telephone (6%) and limited appetite for written guidance (16%). Face-to-face independent advice (29%) and online tools to assist decision making (23%) were the most popular choices. There was very little difference between the views of men and women on this question.

Respondents on higher household incomes were more likely to want face-to-face advice, with 36% of those with household incomes of £55,000 choosing this option.

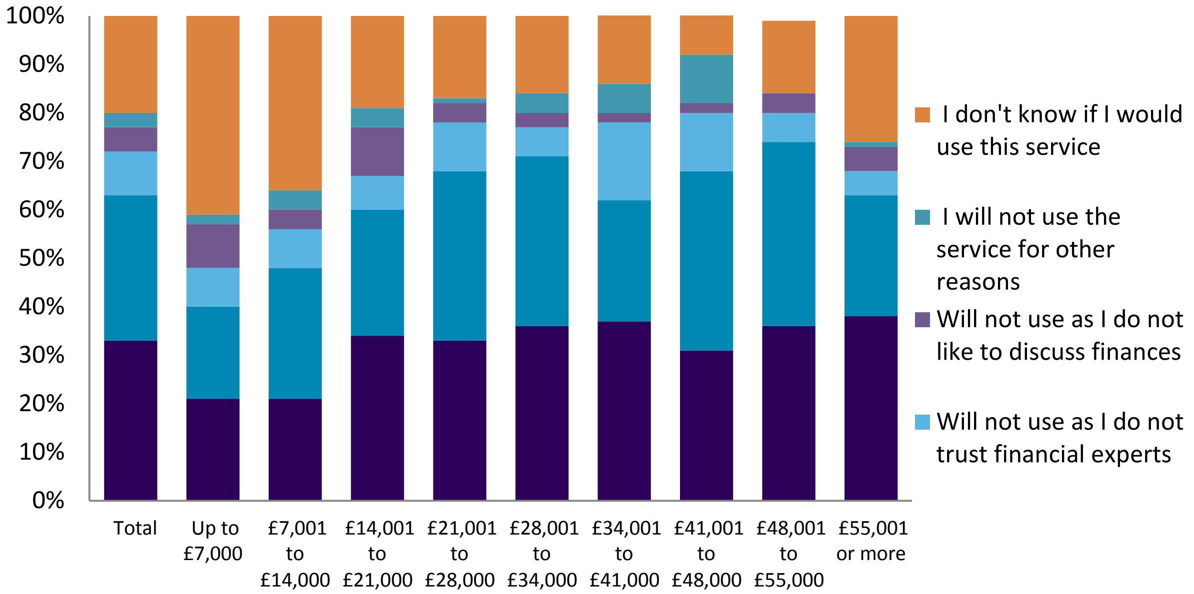
Figure 11: Given the choice, what form of guidance would you find most useful?



Base: All respondents who are employees

There were significant differences of opinion about how people felt about their right to free face-to-face guidance. Most notably, respondents with lower household incomes were far more uncertain about whether they would use the service at all.

Figure 12: View of guidance service by household income

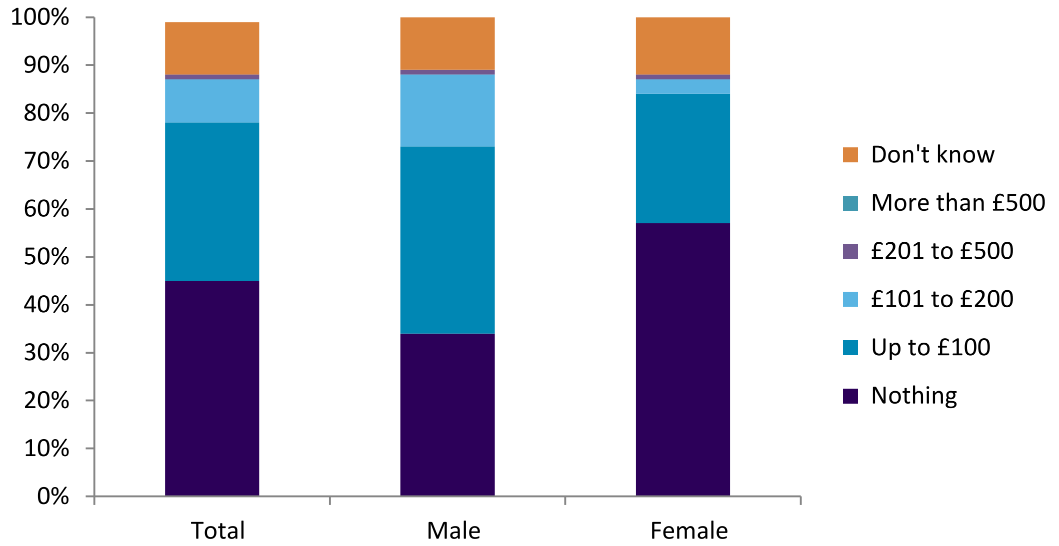


Base: All respondents who are employees

The Government proposes that people should receive free face-to-face guidance. However, this may not mean that individuals will need full financial advice beyond the guidance guarantee, particularly if they will need to pay towards the service. Those respondents that said they wanted to receive independent advice were asked if they would be prepared to contribute towards such a service.

Fewer than half (43%) were prepared to pay something for independent advice. No respondent was prepared to pay more than £500 and only 3% were prepared to pay more than £200. It has been suggested that full financial advice covering the range of at-retirement options could cost as much as £1,000. Women were particularly reluctant to pay for advice, only 31% of women were prepared to pay anything for independent advice and only 4% of women were prepared to pay more than £100.

Figure 13: How much would you be prepared to contribute to independent advice?

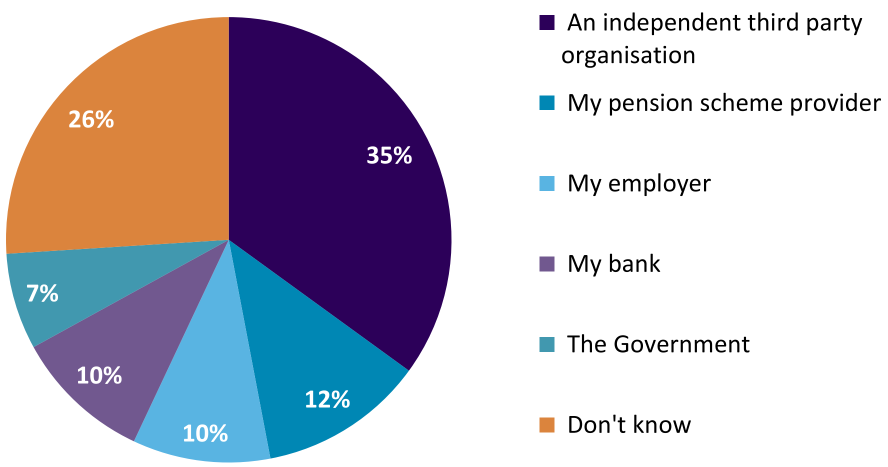


Base: All respondents who are employees

The Government has not been clear about how the face-to-face guidance will be delivered or who should provide the advice. We asked respondents to the workplace survey whom they would most trust to arrange for advice or guidance to help them decide what to do with their pension savings. A significant minority were unable to choose (26% answered 'don't know' to this question).

The most common choice was an independent third party (35%) followed by scheme provider (12%), employer (10%), bank (10%), and the Government (7%).

Figure 14: Who do you most trust to arrange for advice or guidance?

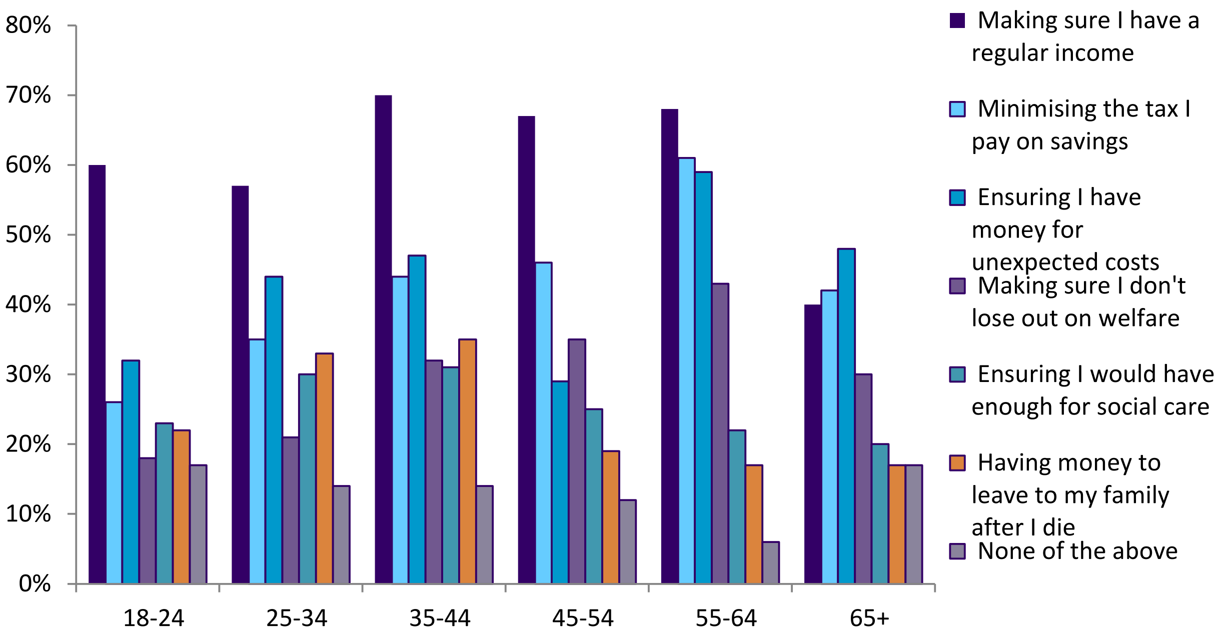


Base: All respondents who are employees

No differences were evident depending on the gender of the respondent. However, age did appear to have some impact. Older people were more likely to want an independent third party to arrange for the advice. This peaked at 57% among the 55-64 age group.

Finally, we asked respondents exactly what they felt they would need advice on before deciding what to do with their retirement savings. In this question we allowed people to choose as many options as they wished so each group of answers will sum to more than 100%.

Figure 15: What will you need advice on before deciding on your retirement savings?



Base: All respondents who are employees

People aged 55-64 were far more likely to be concerned about tax advice, with 61% of them wanting advice on minimising tax compared to 42% of the population as a whole. Similarly, this group was more concerned about receiving advice on how best to ensure they would be able to pay for unexpected costs such as house repairs (59% vs 42%). They were also more worried about not losing out on welfare benefits than the general population (43% vs 29%) but were less worried about paying for social care (22% vs 27%) or having money to leave to their families after their death (17% compared to 26%).

People on higher incomes were also more likely to want tax advice (60% of those earning over £41,000 compared to 42% as a whole) and want to make sure they have a regular income, but showed no significant differences on any of the other choices.

Conclusion

Access and participation to workplace pensions has shown consistent improvement since the start of automatic enrolment in 2012. The improvement is particularly evident among the youngest savers and is an encouraging sign for the future of pension saving in the UK.

Confidence in pensions compared to other methods of saving appears to be sustaining its recovery from the low of 2012, although it still has some way to go to reach the levels seen in 2008. Moreover, the increasing confidence in pensions compared to other methods of saving is not feeding through to confidence that savings levels will be enough to provide individuals with a comfortable income in retirement. More than half do not expect their pension savings to be adequate. This once again highlights the need for individuals to save more, particularly into private sector DC schemes where the average contribution rate stands at 9%[5].

Individuals do appear to be becoming more engaged with pension saving and this was evident from the findings in the survey on the reforms announced by the Government in Budget 2014. Almost everyone taking part in the survey was aware of the reforms, even the youngest respondents. However, women were more than twice as likely as men to be unaware of the reforms, and those that were aware were more likely than men to be less confident in pension saving than before the reforms were announced.

For most people, the reforms are likely to make little difference to their level of pension savings. However, people will need to take far more responsibility than previously for the investment of their savings after they retire. Just under a third of individuals had no idea how much they will need to save to fund a comfortable retirement. Fewer than one in four thought they would need to save over £150,000. This suggests there is significant potential for people to find themselves in difficult financial circumstances towards the end of their lives, which could be exacerbated by poor investment choices once the reforms are implemented.

Whilst people were generally cautious about investing their retirement savings, one in five said they would take their entire pension lump sum in cash irrespective of whether or not they had any other savings to provide them with an income. This indicates the Government may have significantly underestimated the number of people likely to choose this option.

Members of low income households were particularly doubtful about whether they would use the free guidance service. Respondents that did want to receive advice or guidance on their pension savings most commonly wanted to receive it face-to-face or via use of online tools. They were also most likely to want the advice to be provided by an independent third party, although there was significant uncertainty about who should be responsible for the provision that will need to be resolved sooner rather than later.

In order to understand how to best invest their pension savings, people will need to have an understanding of their financial situation in the round. They will need advice or guidance on the potential tax implications of investment, planning for unexpected costs, making sure they have a regular income and advice on the implications for welfare benefits. Whatever guidance or advice people are provided with following the reforms, it will need to be comprehensive to satisfy pensioner expectations and be flexible enough to meet the needs of individuals.

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[5] Pensions Trends, ONS, July 2013

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