

**Department for Work and Pensions**

**Research Report No 434**

# **Attitudes to pensions: The 2006 survey**

**Elizabeth Clery, Stephen McKay, Miranda Phillips and Chloe Robinson**

A report of research carried out by NatCen and School of Social Sciences,  
University of Birmingham on behalf of the Department for Work and Pensions  
and HM Revenue and Customs

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First Published 2007.

ISBN 978 1 84712 215 5

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Printed by Corporate Document Services.

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# Acknowledgements

This research was commissioned by the Department for Work and Pensions (DWP), with a contribution towards funding from HM Revenue and Customs (HMRC). The survey was carried out by the National Centre for Social Research (NatCen) in collaboration with Stephen McKay. The authors would like to thank Athena Bakalexi, Arthur Fleiss and Karen Elsmore at DWP and Andrea Collier at HMRC for their suggestions and encouragement throughout the project.

At NatCen, a variety of people are due our thanks: Alison Park for her help with research design and question development; the Operations team who were responsible for managing the fieldwork (in particular, Sandra Laver and Alexandra Toy); our programmer Iain Templeton; and all those working in our fieldforce, including the interviewers who worked on this survey.

Last but not least, we want to thank our respondents who gave up their time to take part in the survey.

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# Glossary

**'A' Day**

This is the term used to refer to the introduction of changes to the regulation and tax treatment of pensions that took place in April 2006.

**Contracted-out schemes/  
arrangements**

These are contracted out of the State Second Pension (S2P) and must provide broadly similar benefits to those that would have accrued under S2P. In return, rates of employer and employee National Insurance (NI) contributions are reduced. In schemes or arrangements that are not contracted out of S2P, employers and employees pay full rate NI contributions, which entitle employees to S2P (in addition to the basic State Pension).

**Current pension**

These are pension schemes of which the individual currently considers themselves to be a member. They or someone else on their behalf (including employers) could be making contributions to these pensions.

**Defined benefit (DB)/  
salary-related schemes**

Occupational schemes specifying the benefits that are paid on retirement (e.g. a fraction of salary for each year of service).

**Defined contribution (DC)/  
money purchase schemes**

Occupational schemes where the amount of pension is determined by contributions paid into the scheme and investment returns.

<b>Employer pensions</b>	These are any pension schemes which are run or arranged by an employer. This could be a current or past employer and the individual and/or the employer may or may not contribute. Employer pensions include occupational or company schemes and group personal pensions and stakeholder pensions arranged by an employer and any other personal pension to which an employer contributes.
<b>Home Responsibilities Protection (HRP)</b>	This helps to protect the basic State Pension and to build up additional S2P for people who have caring responsibilities at home or are eligible for certain benefits.
<b>Individual Savings Account (ISA)</b>	ISAs are accounts which can be used to hold many types of savings and investment products, including cash, life insurance and stocks and shares. The returns earned in an ISA are tax free.
<b>Mean</b>	The sum of all values divided by the number of these values. All data have equal influence on the mean, so it is affected by outliers and skews and may not be a very good measure for unevenly distributed and skewed datasets.
<b>Median</b>	The halfway point in a series of data where equal number of values are above and below it. It is often preferred measure to the mean, particularly for skewed datasets, as it is not affected by skews and outliers.
<b>Mode</b>	The most commonly observed value. It is often used as the 'typical value' in a series of observations and it is a useful measure when values are not evenly distributed.
<b>National Insurance (NI)</b>	The national system of benefits paid in specific situations, such as retirement, based on compulsory contributions.
<b>Occupational pension scheme (OPS) arrangements</b>	Arrangements organised by an employer to provide employees with a pension. These include DB and DC schemes.

<b>Past pension</b>	Any pension scheme of which the individual considered themselves to be a member in the past. For the purposes of this survey, this is a pension scheme to which the individual no longer contributes (in addition, non-contributory past pensions may have been included). Past pensions from which the individual is currently receiving an income may also have been included.
<b>Pension Credit</b>	A means-tested benefit for pensioners, combining the Guarantee Credit and the Savings Credit.
<b>Pension Protection Fund (PPF)</b>	Established to pay compensation to members of eligible DB pension schemes, when the employer becomes insolvent and there is a deficit in the scheme. Operational from 6 April 2005.
<b>Personal Equity Plan (PEP)</b>	A tax-free shelter for stock market based investments such as shares, corporate bonds, unit and investment trusts. New investments in PEPs ceased in April 1999.
<b>Personal pension (PP)</b>	A private pension arrangement between an individual and an insurance company, building society or bank. This survey only covered personal pensions where the employer made a contribution.
<b>Private pension</b>	Any non-state pension including employer, personal and stakeholder pensions.
<b>Stakeholder pension (SHP)</b>	Low-charging pension scheme aimed at people without access to occupational or private pensions, introduced in April 2001. Employers with five or more employees and no other pension provision must provide access to SHPs.
<b>State Earnings Related Pension Scheme (SERPS)</b>	The forerunner of the S2P.
<b>State Pension age (SPA)</b>	The age at which a person can claim their State Pension. This is currently 60 for women and 65 for men and is set to equalise in the future (between 2010 and 2020).

**State Second Pension**

Earnings-related second pension, based on an individual's earnings and NI contributions.

**Tax Exempt Special Savings Account (TESSA)**

A purely cash deposit tax-free savings account. No new TESSAs could be opened after 5 April 1999.

# Summary

## Introduction

This research report presents the findings from the 'Attitudes to pensions' survey, carried out in 2006. The survey explored attitudes, knowledge and behaviour relating to pensions and saving for retirement.

1,950 adults aged between 18 and 69 took part in the study. The sample was drawn from the Postcode Address File (PAF), commonly used in general population surveys. Interviews were conducted during the summer of 2006 with an overall response rate of 57 per cent.

## Pension provision and other assets for retirement

- A third of all respondents had never contributed towards a private (non-state) pension. In comparison to those with a private pension, these respondents were more likely to be younger, and to be single and economically inactive.
- Of those respondents working as employees, just over half (53 per cent) were members of an employer pension scheme. Around one employee in five worked for a company offering a pension, but had not joined the scheme even though they thought they were eligible.
- Of those who were self-employed nearly half (46 per cent) were currently contributing towards a personal pension.
- A quarter of those with a private pension had both an employer pension and a personal pension.
- Those who did not have a private pension reported few other options to help fund their retirement income (above receipt of the State Pension). Just under one in five of this group had any of the following options to fall back on:
  - a property worth £250,000 or more which they would be willing to use to fund retirement;
  - £50,000 or more in savings and investments;
  - expecting to inherit £100,000 or more.

- Younger people were less likely to have a private pension, with just over half of those aged under 35 not having a private pension (54 per cent). They were also less likely to have built up other substantial resources because of their current life-stage. This helps to explain why those without a private pension may also have few other options to help fund their retirement.

## General attitudes towards saving for retirement

- Most respondents recognised the importance of saving and setting money aside for retirement, and many people had concerns about their retirement income.
- However, for some people their recognition of the need to save did not always match their intentions. Thirty-seven per cent said they sometimes bought things that they could not afford and 29 per cent prioritised a good standard of living today over saving for retirement.
- This was particularly true of younger respondents, those with low incomes and those with self-perceived lower life expectancies.
- Only one quarter of respondents (24 per cent) agreed they would definitely have enough to live on comfortably in retirement. Levels of worry about retirement income were significantly higher among older age groups, women and those with fewer financial resources.

## Pensions knowledge

- Knowledge of pension matters was generally very low. Just five per cent of respondents felt they had a 'good' knowledge; a quarter (25 per cent) said they knew little or nothing about pensions.
- Respondents' self-perceived knowledge of pensions was generally confirmed by their scores in a knowledge 'test'. In the test, respondents were most knowledgeable about the State Pension age (SPA) – over eight in ten knew the current SPA for men and women and that the SPA for women will increase. Respondents were least knowledgeable about pension deferral, Home Responsibilities Protection (HRP), the State Second Pension (S2P) and Pension Credit.
- Age was the most significant factor in relation to knowledge about pensions, with older respondents being generally more knowledgeable than younger ones.
- Along with a lack of knowledge about pensions issues, respondents' confidence about how to save for retirement was very low: only 23 per cent agreed that they 'knew enough about pensions to decide **with confidence** about how to save for retirement'.

## Pensions information

- Around half of respondents (51 per cent) had contacted a source of information and advice on planning for retirement, such as a financial adviser or their own employer. Sixty-nine per cent had received information or advice without necessarily making contact. Employers were the most frequent source of information or advice.
- Financial advisers were identified as the most popular source for providing information and advice in the future. Sixty per cent of respondents would prefer such advice to be in person, rather than by letter, email or telephone.
- Thirty-two per cent of respondents recalled receiving a State Pension Forecast (SPF) with two-thirds of those stating that they understood all, almost all or most of their forecast. However, very few people had undertaken any action as a result of receiving their SPF (just 16 per cent of those who recalled receiving one took any action) and much of this action had been limited to seeking out further information.

## Attitudes to pensions, risk and retirement planning

- Over half of respondents (53 per cent) believed that putting money into a pension is the most secure way of saving for their retirement.
- Sixty per cent thought the best time to start making pension contributions was as soon as one started earning any money.
- However, nearly three-quarters of respondents (74 per cent) thought that pensions can sometimes seem too complicated to know the best thing to do.
- Young people tended to hold very different views about pensions from other age groups. Those aged 18-24 were the least inclined to engage with planning for the future, although attitudes were quite different from age 25 and above whose attitudes were much closer to those of older age groups.
- Respondents did not want to take risks with their savings, with nearly three-quarters (71 per cent) agreeing that it was better to play it safe with their savings even if investing in higher risk investments could make more money.
- Similarly, respondents tended to take the middle line when considering risk within a pension fund. More than two-thirds (69 per cent) would prefer a medium-risk pension fund, compared to one with a low or high risk. The majority (64 per cent) believed that 'a private pension scheme linked to the stock market is too much of a risk – you never know how much the fund will be worth when you retire'. Those with a personal or stakeholder pension were among those most likely to believe that it was worth the risk.

- Although respondents thought that pensions were a secure way of saving for their retirement, they had more faith in property as the best way of making the most of their money. Just under a half (47 per cent) considered this to be the case (compared to 15 per cent who thought that a pension was the best way to make the most of your money).

## Expectations for retirement

- Most respondents in work (74 per cent) expected to retire from their main jobs before or at SPA. However, many of them (60 per cent) expected to undertake further paid work after this. Younger respondents and the self-employed were more likely to expect to retire late while high earners tended to expect to retire early.
- Those who expected to retire before or at SPA generally explained this was due to personal preference. For those expecting to retire after SPA (18 per cent), around four in ten explained this was because they enjoyed working, while the same proportion said it was because they could not afford to retire.
- Almost half of respondents yet to retire had no idea how much their income in retirement would be, although for those approaching retirement (55-64 years old) the proportion was much lower (21 per cent). The majority expected a pension to be their main source of retirement income, most frequently from their own employer or the State Pension.
- Respondents had little knowledge of the value of the basic State Pension. Only one-fifth gave an answer which was close to the actual amount paid. People tended to think the value of the State Pension was higher than it actually is.

## Views on the Government's role and pensions reform

- Over half thought it was up to the individual, rather than the Government or employer, to ensure they had sufficient retirement income although most (82 per cent) thought that the Government should be encouraging people to make their own provision.
- However, respondents did believe there was a role for the Government in topping up the incomes of low-income pensioners. There was less consensus, though, on whether this would discourage people from saving.
- In terms of longer-term options for funding the basic State Pension, when respondents were asked for their favoured option among three choices, the most popular option was for taxes to be raised (43 per cent); followed by an increase in SPA (29 per cent), with the idea that the basic State Pension should fall in value over time the least preferred option (18 per cent).
- The vast majority of respondents (85 per cent) were prepared to work beyond SPA to ensure a higher standard of living.

- Respondents were overwhelmingly in favour (84 per cent) of the concept of a National Pensions Saving Scheme (since renamed personal accounts) and supported the idea of automatic enrolment into a pension scheme (57 per cent), particularly if there was also an employer contribution (68 per cent).
- There was support for employers being compelled to contribute to employees' pensions (73 per cent) with some support also for employees being compelled to join a pension scheme (40 per cent).

### Tax treatment, simplification and 'A' day

- The availability of tax relief was infrequently mentioned as an incentive for taking up a private pension. Just 13 per cent of those buying a personal pension and seven per cent of those with an employer pension mentioned tax relief as a reason for taking up a pension.
- Two in five respondents (40 per cent) were unaware of any of the tax rules relating to pensions that were in place before April 2006.
- Over a third (36 per cent) said they had heard at least something about the changes to the pensions regime introduced in April 2006, known as 'A-Day'.
- Large proportions of those who had some awareness of A-Day had neither made concrete changes to their pension provision as a result of the A-Day reforms, nor had they found out more about the reforms (84 per cent and 75 per cent respectively).



# 1 Introduction

In this report we describe the results of the 'Attitudes to pensions' survey, carried out in 2006. A sample of 1,950 adults aged between 18 and 69 years provided information about their attitudes, knowledge and behaviour with regard to pensions and financial planning for retirement. The survey was designed with repetition in mind, with the possibility of repeating the survey every two years in order to measure continuity and change in public attitudes in this area. This report describes the findings of the 2006 survey.

In this opening chapter we describe the main aims of the research and provide some background to the survey.

## 1.1 Background and objectives

The Department for Work and Pensions (DWP) commissioned the National Centre for Social Research (NatCen) and Stephen McKay (then of the University of Bristol) to carry out a survey of attitudes to pensions in Great Britain (GB). The main aim of the survey was to explore people's attitudes towards pensions, as well as establishing their views on associated topics such as saving, risk and financial decision-making. In addition to collecting a broad range of attitudinal data, a second aim was to explore the extent of people's knowledge about pensions, from the way that the State Pension and private pensions work, to the respondent's knowledge of their own situation (for example, about future retirement income and likely life expectancy). Lastly, we also collected information regarding people's behaviour in relation to pension provision and savings. These data are complemented by socio-economic and demographic information to allow analysis by respondent characteristics.

## 1.2 Pensions policy context

Pensions – and planning for retirement – have probably never been higher up the policy agenda. The population is ageing, both as a result of trends in fertility and continuing increases in longevity, particularly at older ages. Latest projections (ONS/GAD 2006: Table 1.1) show the number of those aged 65 and older (and the total population of the United Kingdom (UK)) increasing from:

- 9.4 million out of a total of 59.1 million in 2001 – or 16 per cent; to
- 15.3 million out of 67 million in 2031 (23 per cent); and
- 17.6 million out of 69.2 million in 2051 (25 per cent).

With more people retired, and people facing longer in retirement, it is particularly important that people make good choices about the means they use to provide financially for their retirement. In the UK, people face a wide array of choices. An overview of the challenges faced has recently been provided by the independent Pensions Commission, who noted that the UK had 'the most complex pension system in the world' (Pensions Commission 2004).

In the UK, the State Pension and benefits system has traditionally given a high priority to keeping people out of poverty. Recent increases in state expenditure have targeted extra resources to the poorest pensioners, through Pension Credit (which is income-tested). Voluntary private arrangements, through employer and personal pensions, have long been available for people to provide a higher level of retirement income. Where those of working age are able to make their own provision, they are encouraged to do so through tax incentives and National Insurance (NI) rebates for those contracting out of the State Second Pension (S2P) (previously State Earnings Related Pension Scheme (SERPS)).

Recently, however, there have been signs that private pension provision is static or even declining. Many firms have closed their salary-related employer schemes to new members (McKay 2006), and other forms of provision (such as stakeholder pensions) have often provided less generous employer contributions for those taking advantage of them, though it could be argued that they have certain advantages over salary-related (Defined Benefit (DB)) schemes<sup>1</sup>. Claims of mis-selling of personal pensions, and of endowment policies, have also acted to reduce public trust in financial institutions and their products. In addition, the 2000 stock market decline and press coverage of 'pension fund black holes' is likely to have had an adverse impact on public confidence in pensions. These trends and events have generated discussion of a possible large 'savings gap' and a perceived need to encourage saving for retirement. We consider the extent of pension provision, together with other savings and assets in Chapter 3, and explore views about saving and risk in Chapter 6. We also examine levels of trust and confidence in pension providers in Chapter 7.

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<sup>1</sup> Weighing up the relative benefits and disadvantages of different pension schemes is a complex task; considerations also include how portable or flexible a scheme is; known versus variable costs for employers; whether schemes favour particular career trajectories and so on.

There is an increasing realisation that living standards in retirement do not depend solely on pensions and incomes from financial products. Other assets may also play a role. Some people may elect to save in other ways, including the buy-to-let property sector which has rapidly expanded. Others may also consider it likely that an inheritance from home-owning parents, perhaps received when close to retirement, will provide sufficient security for their future incomes. These alternatives to pensions are covered in Chapter 3, where we also consider if they can help make up for any gaps in pension provision.

Whilst discussion and Government policy formulation are always ongoing, a number of steps are being taken to tackle perceived problems (such as through the 2004 Pensions Act, and measures proposed in the Pensions White Paper, 2006a). The new Pension Protection Fund (PPF) is aimed at restoring confidence in firms' salary-related schemes (see Glossary for more details). A new Pensions Regulator (replacing Occupational Pensions Regulatory Authority (OPRA)) introduced wider powers to protect the benefits of work-based pensions<sup>2</sup>. Enhancements to the values of deferring State Pensions have also been made. We explore public awareness of some of these changes in Chapter 4.

Many women have traditionally faced lower incomes in retirement. There are a number of underlying reasons for the existing differences in pension outcomes, but many of these relate to inequalities arising in the labour market. For example, breaks in employment or time out of the labour market to care for children can reduce overall lifetime earnings and affect the ability of women to build up state and private pension provision. Measures have been introduced in the recent past<sup>3</sup> which have led to improvements in women's retirement incomes. In addition, further reform measures are designed to ensure that women have equality of opportunity to build up State Pension provision whether they are working or undertaking caring responsibilities and to save for a private pension.

Looking to the longer term, a number of publications have focused on potential changes to the pension system in GB. In 2005, the DWP published a set of six *Principles for Reform*; the final report of the Pensions Commission (2006) was published in April; and soon afterwards the Government published a White Paper on its response to the UK's long-term pensions challenge: 'Security in retirement towards a new pensions system' (DWP, 2006a). Measures proposed include a system of automatic enrolment into pension schemes and the introduction of personal accounts to encourage saving (DWP, 2006c) and significant reforms to State Pensions. We consider public views on elements of Pension Reform in Chapter 8.

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<sup>2</sup> The Pensions Regulator regulates work-based pension schemes, and began in 2005. It has wider powers than did OPRA to examine schemes and to take action where necessary.

<sup>3</sup> Such as the introduction of Home Responsibilities Protection (HRP) and Pension Credit.

In developments elsewhere in Government, the wide variety of tax regimes affecting pensions changed in April 2006 ('A' day) – shortly before the fieldwork for this survey began. A series of eight sets of rules for different pension types were reduced to a single simplified set, including (notably) a lifetime limit on the size of individuals' retirement funds and higher annual limits on pension contributions. The level of public knowledge and awareness of pensions 'simplification' and 'A' day is considered in Chapter 10.

## 1.3 Methodology

The appendices to this report (Appendix D) and the full Technical Report (Martin *et al.*, 2007) provides details of the survey methodology, including sampling and weighting approaches. In this section we highlight the key details.

### 1.3.1 Sample

The sample for the survey was drawn from the Postcode Address File (PAF). This is a list of all postal addresses in Great Britain and is the sampling frame commonly used in general population surveys. The sample was stratified by Government Office Region (GOR), the percentage of households in owner-occupation and the percentage of the eligible population aged 60-69.

A total of 4,681 postal addresses were selected and issued to interviewers. The aim was to identify, where possible, an adult aged between 18 and 69 years at each address. The interviewer screened the dwelling unit members by age and, where there was more than one member of the dwelling unit who was between 18-69, selected one individual using strict procedures.

### 1.3.2 Questionnaire development

The questions for the survey were a mixture of questions which had been used on previous surveys and new questions designed specifically for this survey. The repeated questions had previously been asked on other surveys such as Pensions 2002 (Mayhew, 2003), the Household Assets Survey and British Social Attitudes surveys. The new questions went through a reiterative process of question design, and were then tested in a small-scale pilot. A full pilot of the questionnaire and the Computer Assisted Personal Interviewing (CAPI) programme took place prior to the main fieldwork. As mentioned earlier, the survey as a whole was designed with repetition in mind.

### 1.3.3 Fieldwork

Briefings took place in May 2006 and the bulk of fieldwork was completed by August 2006.

An advance letter explaining the purpose of the survey was sent to all selected addresses. Once an individual had been selected (where necessary), the respondent was interviewed using CAPI. Interviews took, on average, 50 minutes to complete. Respondents who took part were given a £5 high-street voucher.

Overall, the response rate achieved was 57 per cent<sup>4</sup>. The total achieved sample size was 1,950.

### **1.3.4 Weighting**

The survey dataset has been weighted to ensure that it is representative of adults aged between 18 and 69 years in GB in mid-2006. Three stages of weighting were applied: first, the data were weighted to take account of the fact that not everyone at an address had the same chance of being asked to participate. The next stage was to adjust for non-response, because some groups (such as those living in London) are more likely to refuse to be interviewed. Finally, calibration weighting was applied, meaning that the weighted sample is representative of the population in respect of age, sex and region. Further details of the weighting are given in Appendix D. Chapter 2 discusses the weighting and the effect on subgroup numbers.

### **1.3.5 A note on 'retired' respondents**

Around one-tenth of the sample were retired. At certain points in this report, the attitudes of this group are compared to those of respondents yet to retire, to ascertain how closely assumptions and expectations regarding retirement reflect the actual experiences of retirees. It should be remembered that the retired subgroup is not representative of the retired population in GB as a whole. As only those aged between 18 and 69 years took part in the survey, analysis of retirees' attitudes essentially offers a snapshot of the views and experiences of those in the initial stages of retirement.

There are a variety of ways in which retirement can be defined. The word 'retired' when used to refer to our sample members generally means that the respondent themselves described their current activity as 'retired from paid work'. In a few circumstances a slightly different definition is appropriate, though this only affects a

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<sup>4</sup> This is the response rate for the main sample of 4,681 cases. An additional sample of 279 cases was issued during fieldwork, when it was apparent that the target number of interviews would not be reached. This was due to a higher than expected number of households without any eligible members (aged 18-69), and a lower than predicted response rate.

handful of respondents<sup>5</sup>. Conversely, describing a subgroup of the sample as 'not defined as retired' simply means all those respondents who do not fall into our 'retired' category.

## 1.4 The report

The report is divided into a number of chapters. Following this introduction, Chapter 2 presents an overview of the characteristics of the sample and considers how far the characteristics of the sample in this research reflect those of samples that have taken part in other pension surveys. Particular consideration is given to assumptions regarding life expectancy.

Chapter 3 examines pension provision and other assets for retirement, exploring the types and extent of pension provision among the sample, experience of 'bad' pension events, the planned use of non-pension savings and assets for retirement, and expectations about inheritance and equity release.

Chapter 4 considers the level and breadth of respondents' knowledge of a range of pensions topics. The main focus of the chapter is the analysis of the results of a knowledge test undertaken by respondents as part of the survey.

Chapter 5 focuses on pensions information, reviewing sources of information in the past and preferences regarding the provision of such information in the future. A sub-section on pensions forecasts considers how many people have received a forecast, and presents assessments and outcomes of the forecasts.

Chapter 6 considers general attitudes towards saving including attitudes to risk and financial decision-making.

Chapter 7 focuses on attitudes to pensions. It explores views about saving for retirement, about pensions as a potential method of saving, levels of confidence and trust in different pension providers.

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<sup>5</sup> For example, when asking 'non-retired' respondents about future work intentions it was more appropriate to use a slightly broader definition, adding to this group a handful of people who did not describe themselves as retired, but who were, to all intents and purposes, retired (for example, women over SPA (60) who were not doing any paid work and who described themselves as 'looking after the home and family'). This only affects a handful of people (there is a difference of one percentage point between them across the sample: 11 per cent described themselves as retired from paid work, whereas 12 per cent of the sample were 'retired' according to the second definition). Similarly, in our analysis it has sometimes been appropriate to reduce the 'retired' group slightly, removing a handful of people who described themselves as 'retired from paid work', but who were actually doing some paid work at the time of the interview. Again, the actual differences are tiny – both groups are 11 per cent of our sample.

Chapter 8 considers views about the role of Government and the State Pension. It also looks in some depth at attitudes towards different measures proposed under Pension Reform.

Chapter 9 considers expectations for retirement, a key context in which attitudes to and behaviour regarding pensions must be placed. This analysis includes expected age of retirement and expected retirement income.

Finally, Chapter 10 focuses specifically on a number of current pensions policy issues, of particular current interest to HM Revenue and Customs (HMRC) investigating attitudes to tax treatment (including awareness of tax relief on pensions and other forms of savings or investments), simplification and 'A' day.

#### **1.4.1 Reporting conventions**

Finally, a note explaining the rationale for the analyses presented, and reporting conventions. This is a descriptive report, rather than a sourcebook of all findings from the survey, and the rationale for choosing which analyses to present takes that into account. Our approach – in addition to covering all survey topics at a descriptive level – has been to present subgroup breakdowns (where a question is analysed by a variable such as age group or sex) which are relevant to the particular topic, while varying the analysis variables to avoid too much repetition.

Where we refer to differences on a particular topic by subgroup variables such as age or sex, the relationship between the topic variable and the analysis variable is statistically significant unless we say otherwise. However, the statistical tests used only allow us to state this for the variable as a whole, rather than for specific subgroups. Thus, not all of the descriptive commentary in the report is referring to a significant finding. For example, a passage which describes differences between 18-24 year olds and 25-34 year olds indicates that age is significantly related to the topic in question, but the particular statement about 18-24 year olds and 25-34 year olds has not been tested for significance.



## 2 Characteristics of survey respondents

### 2.1 Introduction

In this chapter we describe the main characteristics of the survey respondents. We do this by providing an overview of their social and economic situation, and their demographic status. As well as 'setting the scene' these characteristics are used throughout this report as a means of understanding the variations in people's attitudes to pensions. We also look at an area that is a proper subject of analysis in its own right – life expectancy.

We begin by describing some of the key social and economic characteristics of the sample, including age, sex, economic activity, tenure and so on (Section 2.2). We then turn to describe different **perceptions** of life expectancy (Section 2.3).

### 2.2 Economic activity and demographic characteristics

#### 2.2.1 Background: a weighted dataset

The dataset is weighted to ensure that the resulting analysis is representative of the population of Great Britain (GB), aged 18-69 years, in mid-2006. The weighting itself is based on techniques widely used in Government and academic surveys. It is used to adjust for unequal selection probabilities, and for non-response, because some groups (such as those living in London) are more likely to refuse to be interviewed. It contains a final adjustment, also used in the main Government surveys, to ensure that the sample mirrors GB in terms of numbers of men and women, the distribution by age, and the numbers living in each region. Therefore, analysis of the sample numbers by age, sex and region will be virtually identical to the

same analyses run using the Family Resources Survey (FRS), General Household Survey and other key Government surveys<sup>6</sup>.

So, for instance, a total of 1,950 people were interviewed, 880 men and 1,070 women. This probably reflects a lower response rate among men. However, the weighting ensures the proportions of men and women in the analysis reflect their distribution in the population.

This survey differs from others as this survey interviewed only one person in each household, rather than all the individuals living there. Attitude surveys, such as British Social Attitudes, generally interview only one person per household, as here, where there is no need to sum answers over a household, which would need to be done when measuring family incomes. However, some information about other household members is included (such as whether or not the respondent has a partner and/or dependent children), to ensure that individual answers may be placed in their proper family and household context.

In Table 2.1 we show the numbers interviewed by particular combinations of age and sex. To give some perspective, an estimate of one half has a margin of error of plus or minus three if the sample size is 1,000; plus or minus six if the sample size is 500; and plus or minus ten if the sample size is 100. So, if we find that among a group of 500 that half have a certain characteristic, we may be 95 per cent confident that the population or true figure lies within 44-56 per cent (i.e. within plus or minus six percentage points). See Table D.5 for further details.

This table implies that percentages based on the youngest age group (18-24) are subject to greater uncertainty than for other age groups, because of the smaller number of interviews conducted. Part of the reason for the smaller numbers is a lower than average response rate among younger people, and in the analysis this is dealt with by having weights that give the right degree of representation to the younger and older age groups.

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<sup>6</sup> All surveys are limited by being based on a sample from the population from which it is drawn. This means that the averages based on the sample may differ, to some extent, to those that would have been obtained from that population. See also the 'Sampling Errors' section in Appendix D.

**Table 2.1 Sample numbers, by age group and sex**

Age group	Men numbers	Women numbers	Total numbers
18-24	63	75	138
25-34	136	192	328
35-44	180	270	451
45-54	176	203	379
55-64	220	227	447
65-69	105	103	208
<i>Base</i>	<i>880</i>	<i>1,070</i>	<i>1,950</i>

Base: All respondents.

### 2.2.2 Economic activity

Access to pensions, and particularly to private<sup>7</sup> pensions, is greatly facilitated by being in paid work. Among survey respondents, 70 per cent of people were in paid work – 76 per cent of men and 64 per cent of women. In addition, 27 per cent were not working but had previously had a paid job, leaving only three per cent with no experience of paid work. Such a total lack of work experience was much more common among women (five per cent) than men (one per cent), but clearly still represented a small minority.

We also show, in Table 2.2, the range of different economic activities of men and women. Around one in ten (11 per cent) described themselves as being retired, whilst five per cent were disabled (or sick) and unable to work. Overall, 14 per cent of women but only one per cent of men were 'looking after home or family'. This is a group for whom various proposed State Pension reforms may be particularly beneficial.

<sup>7</sup> This is the term we use to refer to all non-state pensions (employer, personal and Stakeholder).

**Table 2.2 Work status, by sex**

	Men %	Women %	Total %
<b>Work experience</b>			
Doing any work, or about to start work	76	64	70
Not currently working, but has worked in past	22	31	27
Never worked	1	5	3
<b>Current economic activity</b>			
Doing any work, or about to start work	76	64	70
Looking for work or training/on a Government training scheme/in unpaid work	4	3	3
Sick/disabled	5	5	5
Retired	11	10	11
Other (looking after home, or in education)	4	19	11
Of which, 'looking after home/family'	1	14	8
<i>Base</i>	<i>880</i>	<i>1,070</i>	<i>1,950</i>

Base: All respondents.

### 2.2.3 Housing tenure

Owner-occupation is potentially quite important in framing options for income in retirement. Home-owners may be able to release financial resources by moving to a cheaper home or by using various equity release methods. Such options would not be available to the 17 per cent who were social housing tenants, or the ten per cent who were private tenants – at least not at their current life stage (for younger respondents later tenure changes could be of importance). More detailed results for housing tenure are shown in Table 2.3.

More than two-thirds of respondents (68 per cent) were home-owners. Forty-six per cent were buying with a mortgage, and 22 per cent were outright owners. By way of comparison, the 22 per cent of outright owners in this survey compares with 25 per cent in the 2004-05 FRS for the same age group; whilst the proportion of individuals buying with a mortgage was 46 per cent in this survey and 49 per cent in the FRS. The slightly lower proportion of owner-occupiers in this survey compared to the FRS may be the result of the differing question wording. The FRS asked respondents, 'In which of these ways do you occupy this accommodation?' whilst this survey asked 'Which of these best describes the accommodation you are living in at the moment?'. This suggests something of a shift from the person, to the address, in the style of questioning – although it is difficult to know what kind of effect this might be expected to have.

**Table 2.3 Housing tenure, by sex**

<b>Housing tenure</b>	<b>Men %</b>	<b>Women %</b>	<b>Total %</b>
Owned outright	25	20	22
Being bought, including shared ownership	44	48	46
Social tenant	15	20	17
Private tenant	11	9	10
Others, including rent-free	6	3	4
<i>Base</i>	<i>880</i>	<i>1,070</i>	<i>1,950</i>

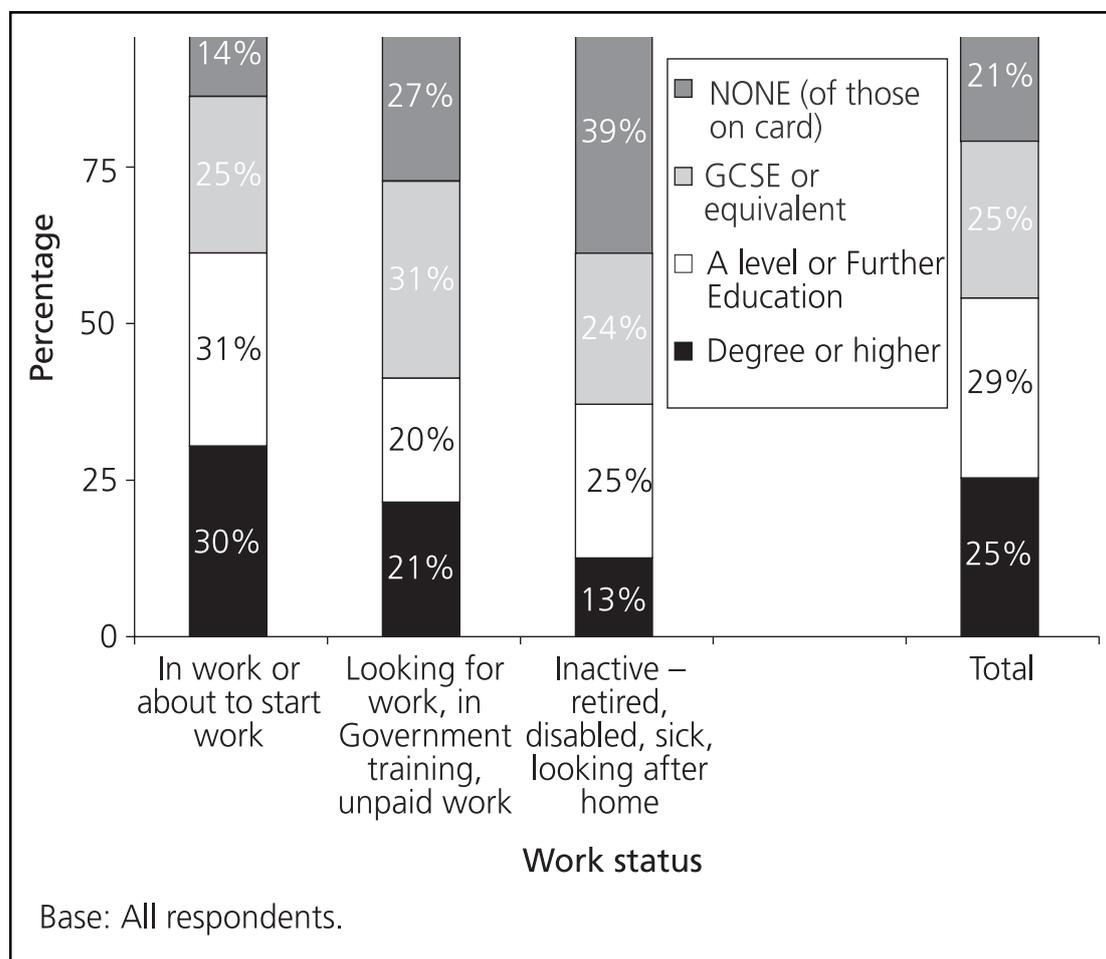
Base: All respondents.

### 2.2.4 Qualifications

Grouping together a range of different vocational and academic qualifications, it is possible to divide the sample into four groups of roughly equal size:

- graduates, with a degree or higher (25 per cent);
- those with 'A' level or further education (29 per cent);
- those with GCSE standard qualifications (25 per cent); and
- those with no qualifications, or only those below GCSE standard (21 per cent).

In looking at results by qualification level, it is important to note the strong correlation between education and economic activity. What might appear to be the result of greater education, could be an effect of economic activity, or the reverse. The strength of the association between economic activity and qualification level is shown in Figure 2.1. Some 30 per cent of those in work had a degree level qualification or higher, compared with 21 per cent of the unemployed and 13 per cent of the economically inactive. Only 14 per cent of workers had no qualifications, compared with 27 per cent of those unemployed and 39 per cent of the inactive.

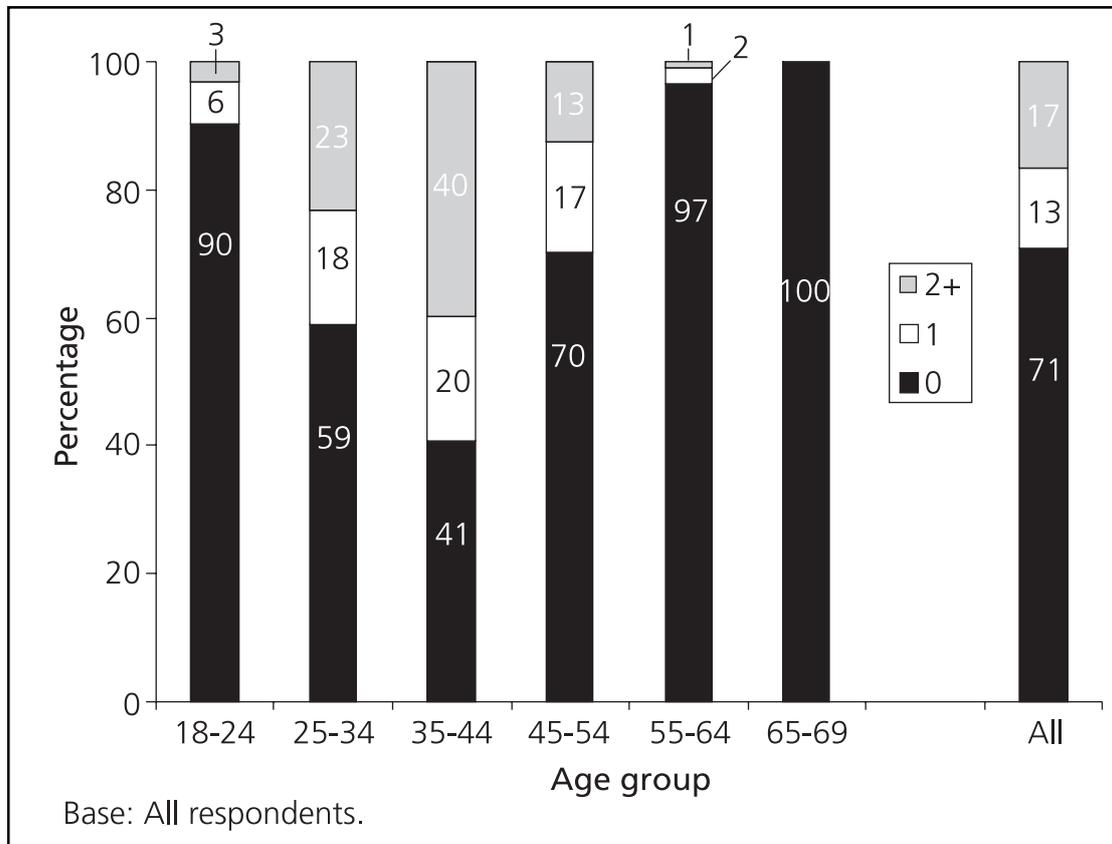
**Figure 2.1 Highest qualification obtained, by work status**

### 2.2.5 Dependent children

Being in full-time paid work, and in a good position to contribute towards a pension, is often more difficult for women with dependent children. However, various provisions within State Pensions – principally Home Responsibilities Protection (HRP)<sup>8</sup> – provide some kinds of assistance. Over seven in ten (71 per cent) respondents had no dependent children, with 13 per cent having one child and the remaining 17 per cent responsible for two or more. There were, of course, marked differences in the proportion of people of different ages who had dependent children (see Figure 2.2). Most of those aged 35-44 had children; and this was also true for substantial proportions of those aged 25-34 and 45-54. It was less common for both younger and older respondents to be responsible for children.

<sup>8</sup> HRP means that years spent receiving Child Benefit (ChB) or Carer's Allowance are deducted from the number of years of National Insurance (NI) contributions needed for a full basic State Pension.

**Figure 2.2** Number of dependent children, if any, by age group



**2.2.6 Ethnicity and religion**

Around one in ten of those interviewed described themselves as being part of an ethnic group that was not white (eight per cent) or as having been born outside of the United Kingdom (UK) (11 per cent). Respondents were quite evenly divided on whether they were Christian or had no religion (46 and 47 per cent respectively). A smaller group (seven per cent) said they were part of some other religion (see Table 2.4).

**Table 2.4 Religious and ethnic grouping, and country of birth<sup>9</sup>**

	Total %	Numbers interviewed Sample <i>N</i>
<b>Religion</b>		
No religion	47	866
Christian	46	988
Other	7	90
<b>Ethnic group</b>		
'White'	92	1,843
All other responses	8	102
<b>Country of birth</b>		
Born in the UK	89	1,776
Born outside of the UK	11	170

Base: All respondents.

## 2.3 Expectation of life

Previous research studies have used two approaches to asking people for their life expectancy (O'Brien *et al.*, 2005). One approach is to ask people how long, or to what age, they expect to live. The other main approach is to ask for the chances that they will live to a particular age.

We took the former approach, though prefaced by a question about life expectations for others. The questions were as follows, asked in the order:

1. On average, what age do you think most (men/women) your age can expect to live to?
2. Taking into account your own personal health and circumstances, what age do you think **you** can expect to live to?<sup>10</sup>

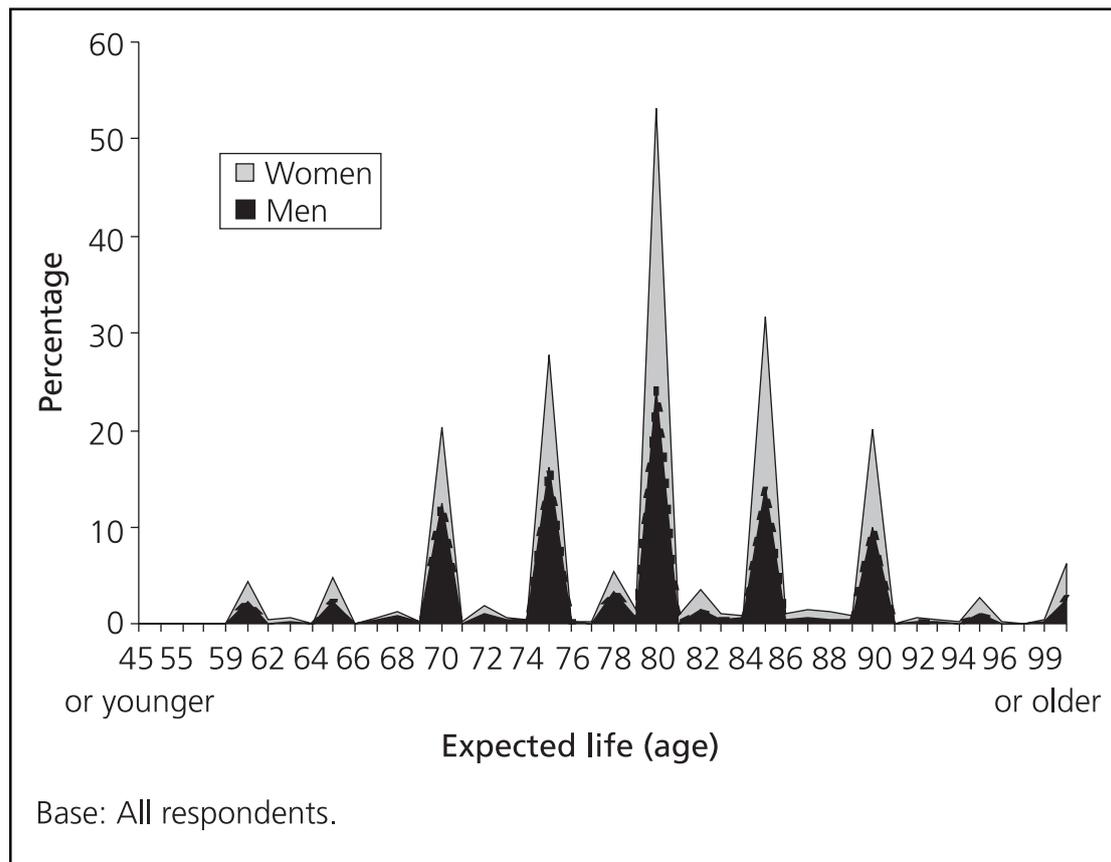
Approaching two-thirds of respondents (64 per cent) expected to live to be 80, though 80 was also the **average** self-perceived life expectancy. Indeed, 27 per cent of respondents gave the precise answer '80' to this question, making it the most frequent single choice of an age at death. One person in ten did not provide an

<sup>9</sup> The table excludes five respondents not giving an ethnic status, six not stating a religion and four not giving a country of birth.

<sup>10</sup> If interviewers were aware of or detected any particular sensitivities to this question, such as cases of terminal illness, the answer would be coded as refused. As with other questions, respondents could also refuse to answer, or say they didn't know the answer, and the interviewer would record this and then move on to the next relevant question.

answer, but with those refusing heavily outnumbered by those who simply didn't know (or wish to guess). Most respondents selected an age at death which was a multiple of five – most typically 75, 80 or 85 (see Figure 2.3). One person in every thirty thought they would make 100; one in fifty thought they would not live past 60.

**Figure 2.3 Self-perceived life expectancy, by sex**



A more detailed analysis of expected lifespans, among different age groups, is shown in Table 2.5. As implied by Figure 2.3, women expect to live longer than men, but not by much. Average predicted female life expectancy, at 80.8 years, was only slightly above that of men, at 79.3 years. Perhaps interestingly, older respondents (those aged 45 or more) were less likely to suggest a particular life expectancy and were more likely to be uncertain. Younger respondents were the least likely to say they 'didn't know'.

These figures are somewhat higher than those from O'Brien *et al.* (2005), which also interviewed a sample of people (using quota methods rather than the kind of random sampling applied here). Compared to that source, there is a considerable perceived increase in the life expectancies of younger men. The Pensions Commission (2004, report 1, Figure 1.15) also seemed to find that people were overly pessimistic in their expectations, and they could generally live longer than they expected.

**Table 2.5 Self-perceived life expectancy by age group, by sex**

	<i>Base</i>	<b>Refusal %</b>	<b>Don't know %</b>	<b>Mean life expectancy (Years)</b>	<b>Expect to live to 80+ (excluding don't knows) %</b>
<b>Men</b>					
18-24	63	0	5	79.0	60
25-34	136	1	7	81.4	68
35-44	180	1	5	78.5	55
45-54	176	4	9	78.4	51
55-64	223	5	9	78.6	51
65-69	105	5	16	80.9	68
<b>All</b>	<b>880</b>	<b>2</b>	<b>8</b>	<b>79.3</b>	<b>58</b>
<b>Women</b>					
18-24	75	0	5	79.6	70
25-34	192	1	4	81.3	70
35-44	270	1	6	80.1	66
45-54	203	4	8	80.5	69
55-64	227	4	11	81.9	73
65-69	102	7	14	83.0	82
<b>All</b>	<b>1,070</b>	<b>2</b>	<b>7</b>	<b>80.8</b>	<b>70</b>

Base: All respondents.

### 2.3.1 How long can people expect to live?

These figures may be contrasted with Government forecasts of life expectancy (see 'period expectation of life at birth and selected age' in Table 2.6). These results suggest that respondents have a fair degree of appreciation of their likely longevity. If anything, men may be a little optimistic, and women a little pessimistic, about their likely lifespan. However, part of this may be an effect of the 'rounding-up' of people's answers, and particularly the high frequency of both men and women stating 80 as their likely age at death.

**Table 2.6 Life expectancy (Government forecast) at particular ages, by sex**

Age group and sex	20	30	50	60
<b>Extra years</b>				
Men	57.0	47.4	28.8	20.2
Women	61.3	51.5	32.4	23.4
<b>Mean life expectancy</b>				
Men	77.0	77.4	78.8	80.2
Women	81.3	81.5	82.4	83.4

Base: All respondents.

Source: *Period* expectation of life (in years) at birth and selected age, Table 5.1, *Population Trends 125* (ONS, 2006).

This result stands somewhat in contrast to some published studies where respondents under-estimate how long they will live. This result is found especially in those studies asking people to estimate their probability of living to be a particular age. A key problem concerns the accuracy of existing figures of life expectancy, in particular whether they are based on current levels of mortality – like those shown above – or whether they incorporate a factor for increased longevity in the future.

If we assume that life expectancy continues to increase over time, then the figures in Table 2.6 could prove to be pessimistic and people might live rather longer than these current projections. Life expectancy figures that project forward such improvements in mortality are generally known as ‘cohort’ figures, whilst in this report we use ‘period’ life expectancy figures (which use current death rates across age groups to construct an overall life expectancy).

### 2.3.2 Do different life expectancies affect pensions behaviour?

People expect to live to different ages. If they behaved in a rational manner, this might well affect their decisions about pensions – those expecting to die younger would be less likely to save, other things being equal. This will be investigated further in later sections of this report. Nevertheless, an early look at potential effects of life expectancy may be helpful. An example appears in Table 2.7.

Those not expecting to reach the age of 75 were among the least likely to have ever contributed to an employer pension (43 per cent, compared to 53 per cent overall), and were somewhat less likely to have ever had a personal pension<sup>11</sup>. They were also much less likely to have become home-owners (57 per cent, against a sample average of 68 per cent). But these were also features of those expecting to live beyond 90. Those expecting not even to reach 75 are also likely to be poorer groups.

<sup>11</sup> There is some overlap with the younger age groups, who are least likely to have ever taken out a personal pension.

These factors suggest that whilst life expectancy may be a powerful and important way of looking at attitudes, the effect may be relatively complex and mediated by current age and levels of knowledge.

**Table 2.7 Self-perceived life expectancy and possible provision for retirement**

	Expectation of life						Ref %	All %
	<75 %	75-9 %	80-4 %	85-9 %	90+ %	DK %		
<b>Pensions and housing tenure</b>								
Has current or past employer pension	43	62	57	56	48	51	42	53
Has current or past personal pension (or stakeholder)	27	37	31	32	27	42	26	31
Is an owner-occupier (with or without a mortgage)	57	79	72	71	61	78	57	68
<b>Age group</b>								
18-34	36	26	35	35	43	24	7	33
35-49	39	35	33	32	29	31	20	33
50-69	25	39	32	33	28	45	73	34
<i>Base</i>	<i>306</i>	<i>315</i>	<i>530</i>	<i>310</i>	<i>270</i>	<i>59</i>	<i>152</i>	<i>1,950</i>

Base: All respondents.

A caveat with the above analysis is that perceived life expectancy will be reflecting a range of demographic factors and levels of knowledge. Different levels of life expectancy will be associated with different ages and incomes (for instance) which are also associated with pensions experience and housing tenure. Hence, in Table 2.7 we show the age distributions for different perceived life expectancies. Younger people were over-represented among both those expecting to die before 75, and those expecting to live past 90.

### 2.3.3 Knowledge of female life expectancy (period basis) at birth

A more general question was asked about the proportion of females born today, who might be expected to live to be 75 or older. The latest life expectancy data from the Office for National Statistics (ONS) had suggested that 75 per cent was (at least approximately) the correct reply. The median reply in the survey was actually 75 (with a mean of 71 per cent). Only two per cent declined to hazard a guess. Half of all respondents gave an answer of between 60 and 80 per cent, quite a reasonable window of responses around the probable 'true' answer.

These answers suggest a general understanding of likely longevity, both when people consider their own life expectancy and when they consider the matter in a more abstract setting. One potential reason for under-saving towards retirement (or possibly over-saving) is a misperception of the lifespan. Those expecting to die earlier have less of an incentive to pay into pension products, or make other kinds of provision. However, we did not find strong general evidence that people were unaware of life expectancy. Even so, there was still considerable variation about the average. In later chapters we consider whether there are any connections between life expectancy and attitudes towards pensions and provision for retirement.



## 3 Pension provision and other assets for retirement

- Just over half (53 per cent) of employees were members of an employer pension scheme. Three-quarters (76 per cent) of these schemes were described as being salary-related (or defined benefit) by their members.
- Overall, 24 per cent of respondents had a current personal pension (or a stakeholder pension). Personal pensions were particularly common among the self-employed, of whom 46 per cent were contributing towards one.
- Around one in six (16 per cent) had no savings. A further 31 per cent had savings worth less than £2,500. This covers nearly half of respondents.
- At the other end of the spectrum, seven per cent had savings and investments exceeding £50,000, part of an overall 36 per cent with at least £5,000 that was readily accessible.
- Out of four possible assets that could help fund retirement (a private pension, a house worth £250,000 or more and willing to use it, expectation of an inheritance of £100,000 or more and at least £50,000 in liquid assets), over one-quarter of respondents (27 per cent) had none of these options, about half (48 per cent) had just one, and around another quarter (26 per cent) had two or more of these.

### 3.1 Introduction

In this section we consider people's willingness and ability to draw on pensions, savings and assets to help fund their retirement. In the first section we look at people's private (non-State) pension provision: first in summary, and then in more detail, taking in turn employer pensions and personal pensions. Section 3.3 considers housing assets, which may be substantial for some, and then liquid assets, which turn out to be of rather lesser value, are considered in Section 3.4. Section 3.5 looks at the prospects for receiving an inheritance, and, where this is likely, asks what kind of size it might be. A final section looks at the degree of overlap between these different kinds of retirement provision.

## 3.2 Private pensions

### 3.2.1 Pension provision status

It was the aim of this research to capture attitudes to pensions, rather than to be an authoritative source on current patterns of pension provision. However, the results may command greater confidence to the extent that results for pension provision are in line with expectations and other sources. So in Table 3.1 we compare the results for this survey for private pensions with analysis of the 2004-05 Family Resources Survey (FRS).

The proportions of respondents with an employer pension were very similar across the two surveys. In each case around one person in three, of those aged 18-59, belonged to an employer pension scheme (Table 3.1). We use an age cut-off of 59 to give comparable figures for men and women, though the question is also asked of those aged 60+ (and up to 65 in the FRS). The results cited apply to all respondents, not just employees – of whom the membership proportion would clearly be higher.

Both surveys confirm that women were almost as likely as men to be members. This is despite the fact that men are more likely than women to be self-employed<sup>12</sup> (and not having access to employer pensions), and among employees women are more likely to work in the public sector where pension coverage is very high. However, men are more likely to be working full-time.

At first sight the figures for personal/stakeholder pensions are rather different, and prompt closer scrutiny. Whilst this survey shows 16 per cent with pensions of this kind, the FRS showed only 11 per cent. Whilst this gap is not vast, it is larger than would be expected on the basis of random differences arising from different samples (i.e. it is statistically significant, all things being equal). A simple possible explanation is that the FRS relates to 2004/05 rather than 2006 as for this study, with growing numbers taking out stakeholder pensions in the meantime. There are also important differences of approach and context between the two surveys, meaning that the figures are not directly comparable.

All things considered, the proportions with a private pension are almost identical across the two surveys, with just over two people in five having either an employer pension, personal pension or stakeholder pension.

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<sup>12</sup> In this survey, 16 per cent of working men were self-employed, compared with nine per cent of working women.

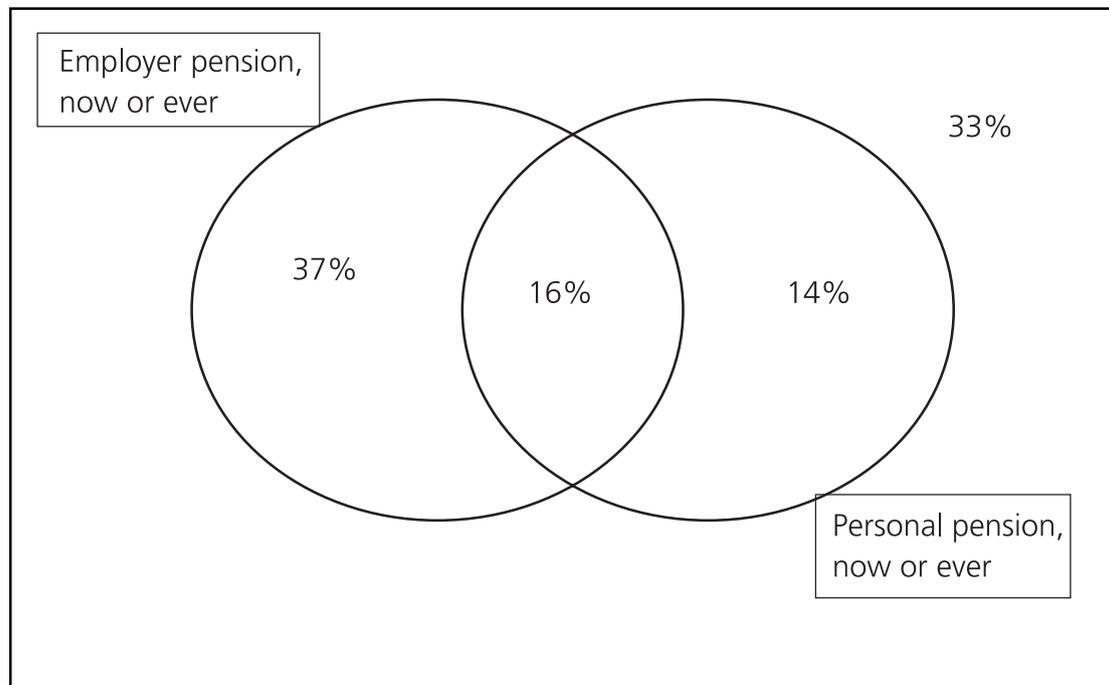
**Table 3.1 Pension status, comparison with Family Resources Survey 2004-05 for Great Britain (all aged 18-59)**

	Men %	Women %	Total %
<b>Currently contribute to employer pension</b>			
FRS 2004-05	33	31	32
Attitudes to pensions 2006	34	31	32
<b>Currently contributing to personal or stakeholder pension</b>			
FRS 2004-05	15	7	11
Attitudes to pensions 2006	21	12	16
<b>Currently contributing to a private pension (all respondents, questions asked of workers)</b>			
FRS 2004-05	46	38	42
Attitudes to pensions 2006	47	38	42
<i>FRS 2004-05 base</i>	<i>15,150</i>	<i>16,725</i>	<i>31,875</i>
<i>Attitudes to pensions 2006 base</i>	<i>682</i>	<i>858</i>	<i>1,540</i>

Base: Respondents aged 18-59.

Respondents were also asked whether they had contributed to employer pensions or to personal pensions in the past. Overall, over half (53 per cent) mentioned that they were either in an employer pension now, or in the past. Conversely, 30 per cent of respondents were either paying into a personal pension or had done so in the past. There was considerable overlap between these two groups (see Venn diagram in Figure 3.1). However, it seems that some respondents may have over-estimated their level of experience with personal pensions. Overall, two in three were currently (or had previously) contributed towards a private pension. The remaining one-third had never contributed to a private pension. This is partly age-related – the median age of those who had never had a pension of either type was 32 years, compared to 42 years among the whole sample. This group lacking any experience of non-state pensions was also more likely than the whole population to be single, never-married (52 per cent) and to be economically inactive (42 per cent).

**Figure 3.1 Past (and current) experience of contribution to private pensions (percentages of whole sample)**



### 3.2.2 Employer pensions

Pensions arranged by employers often have significant benefits. They may provide a level of employer contribution, in addition to what the individual contributes. They may also offer more efficient management arrangements than it would be possible to purchase as an individual. Among those in work as employees as opposed to the self-employed, just over half (53 per cent) were members of an employer pension (see the bold figures in Table 3.2). One employee in five worked for a company offering a pension scheme, and for which they were eligible but had chosen not to join<sup>13</sup>.

For a similar proportion of employees (19 per cent) the employer did not offer a pension scheme for **any** employees. For a few (six per cent) there was an employer scheme but one that the respondent was not eligible for. Overall, just under three-quarters (73 per cent) of those who said that they were eligible to join an employer pension had done so.

Employees working the shortest hours were the least likely to be members of an employer pension, or indeed to be offered the opportunity to join one. Whilst part-timers typically must enjoy the same pension benefits as full-timers within the same company, many part-timers are likely to be working for organisations that do not provide pensions. Only 18 per cent of those working less than 16 hours a week had

<sup>13</sup> It might be more accurate to say a scheme they had 'not chosen to join' since becoming a pension scheme member often required action (an opt-in) rather than happening by default (McKay, 2006).

joined an employer pension. A similar proportion had the chance to join, but had not (16 per cent). More often there was no scheme on offer for any workers in such circumstances – 31 per cent of those working 1-15 hours. It is possible that some part-timers were working on a more temporary or casual basis than full-timers, accounting for some of the differences shown here. It is also possible they were less well-informed about the pension schemes and choices on offer within their organisation, and particularly if they were newer workers.

Pension membership was more common among employees working 16-29 hours, 41 per cent of whom had joined a scheme, or approaching two-thirds (63 per cent) of those eligible to do so. However, it was among those working 30 or more hours a week that pension membership was highest – 58 per cent of those working 30+ hours.

**Table 3.2 Employer pension status, by usual hours of work**

	1-15 hours %	16-29 hours %	30-40 hours %	41+ hours %	Total %
My employer offers a pension scheme and I am currently a member of the scheme	18	41	60	55	53
My employer offers a pension scheme, I am eligible but am not a member of the scheme	16	25	18	21	20
My employer offers a pension scheme but I am not eligible to be in the scheme	23	8	5	3	6
My employer does not offer a pension scheme for any employees	31	24	14	21	19
Don't know or refused	11	2	3	1	3
Ratio of joiners to eligible employees (cell percentages)	53%	63%	77%	73%	73%
<i>Base</i>	<i>79</i>	<i>186</i>	<i>553</i>	<i>269</i>	<i>1,091</i>

Base: All employees.

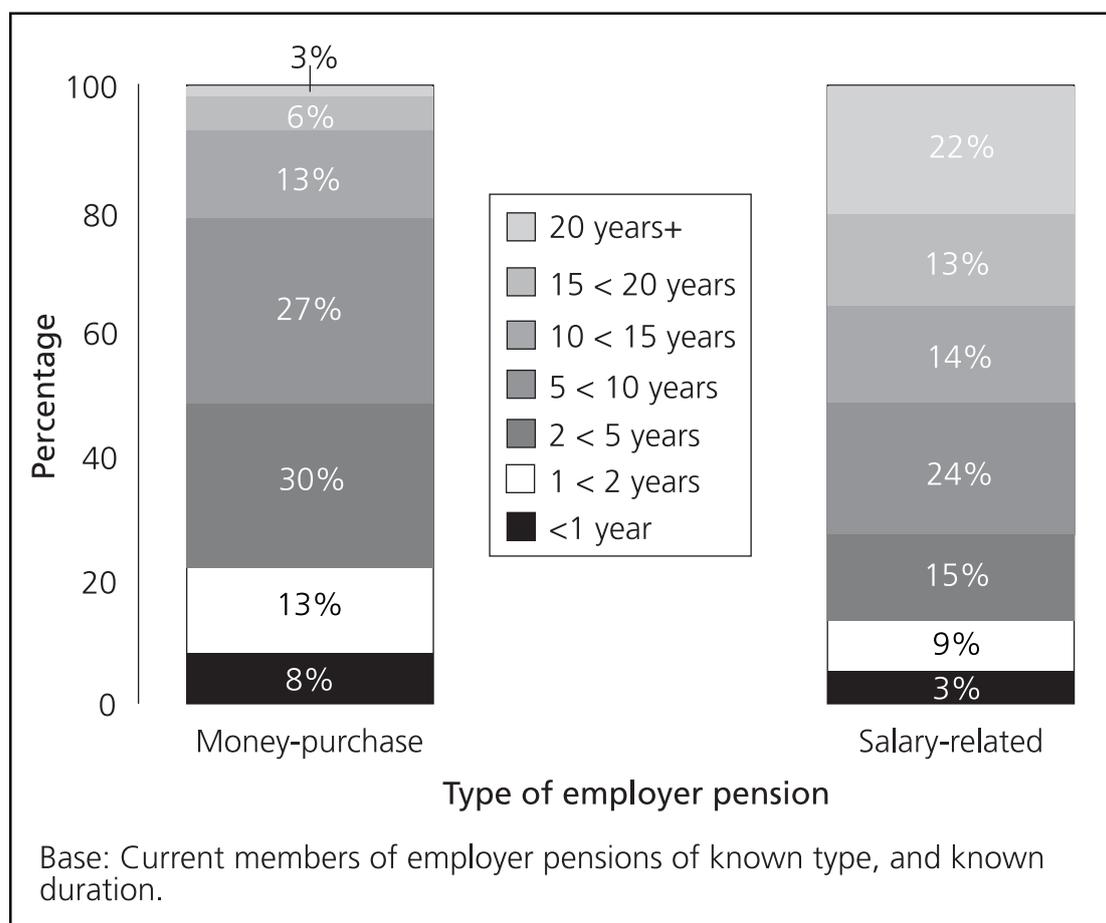
Responses among men and women were very similar. This might seem surprising. Women are clustered into jobs of shorter hours, making up 76 per cent of those working fewer than 16 hours, and 80 per cent of those working 16-29 hours. They also earn less than men, on average. Both characteristics may be associated with lower pension coverage, other things being equal. However, women are also rather more likely to be working in the public sector where employer pensions are close to universal. Some 63 per cent of those employed in the public sector are female, compared to 43 per cent in the rather larger private sector. These different influences generate a rather similar profile of employer pension status by sex.

### 3.2.3 Types of employer scheme

Most employer pensions (76 per cent) were described as being salary-related (or defined benefit (DB)) by their members; 17 per cent were money purchase (defined contribution (DC)); around five per cent of schemes were of uncertain type (the respondent was unsure), and there were a handful of hybrid schemes. Of those with employer pensions, 50 per cent worked for private companies and 46 per cent for the public sector (a few others were in the voluntary sector).

Salary-related employer schemes have been around for much longer than those based on the money purchase approach. About half (48 per cent) the members of salary-related pensions said they had joined at least ten years earlier, compared with 22 per cent of members of money purchase schemes (see Figure 3.2).

**Figure 3.2 Duration of pension membership, by type of scheme**



When asked, most pension members were able to tell us the percentage contribution that they were paying in to the scheme. For just over half (52 per cent) the level of employee contribution was either five per cent or six per cent (respondents were only asked to record figures to the nearest whole percentage point); 17 per cent paid a lower level of contribution; 29 per cent were paying seven per cent or more (including 13 per cent paying at least ten per cent). This excludes non-contributory schemes.

There was considerable uncertainty about the level of any **employer** contribution. Close to 40 per cent were unable to give an answer – 46 per cent of those in DB schemes, and 30 per cent of those in DC schemes. Among those able to provide an answer based on percentage of salary, answers appeared relatively low and often similar to the levels of employee contributions stated. For only 25 per cent of employer pension members was a figure of ten per cent or more mentioned. In some 31 per cent of DC schemes the employer contribution was around three per cent, according to members.

### **3.2.4 Reasons for not joining employer pensions**

People who had not joined an employer scheme for which they were eligible were asked, *why not?* They gave a mix of answers, but the most commonly cited were as follows:

- I don't earn enough (22 per cent);
- I have a personal pension from a private pension provider (18 per cent);
- not interested/not got round to it (17 per cent);
- I don't like/trust my employer's pension scheme (14 per cent);
- I cannot afford to (12 per cent);
- other investments offer a better return (eight per cent).

### **3.2.5 Personal pensions and stakeholder pensions**

Many people may not have been able to benefit from the kinds of pensions described above. Those not in paid employment, including the self-employed, would not be able to participate in an employer pension. Personal pensions may be attractive to some workers who regularly move jobs, and the self-employed (and others) who lack access to employer schemes. We collected relatively little information about such pensions<sup>14</sup>; few respondents were currently contributing towards pensions of this type, and those that were often did not know all the details.

Overall, 24 per cent of respondents said they had a current personal pension (or a stakeholder pension). In Table 3.1 we showed a greater proportion of men were contributing to a personal pension than women. Personal pensions were particularly common among the self-employed, of whom 46 per cent were contributing towards one. This compares with 21 per cent of employees. There was little or no discernible association between working full-time or part-time hours (as a binary split) and having a personal pension.

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<sup>14</sup> A complete questionnaire is included with the technical report. However, questions covered: how long contributing to personal pension; amount of contribution; last contribution and how much paid; why stopped contributing; did employer also contribute.

Looking over a longer time span, 30 per cent of those aged 18-69 were either contributing to such a pension, or had done so in the past.

### 3.2.6 Negative personal experiences of private pensions

The 'pensions industry' has been associated with a number of recent crises. These have included concerns over the mis-selling of personal pensions (which led to an extensive compensation scheme) and the fate of employer pensions for members when a firm ceases trading (which contributed to the policy behind the new Pension Protection Fund (PPF)).

Pensions may also turn out to be worth less than members may have hoped. Whilst regular statements ought to have indicated the likely level of pension, some might have been expecting more, or left work earlier than anticipated.

We aimed to examine bad experiences of this kind with a single question asking whether or not these kind of events had befallen people. Overall, 15 per cent of respondents claimed that at least one of these events had happened to them (including two per cent who said they were the victim of at least two of these events)<sup>15</sup>. These 'bad pension events' had happened to 14 per cent of women, and to 17 per cent of men (see Figure 3.3). The two most commonly cited problems were:

- losing all or most of an employer pension after changing jobs (seven per cent<sup>16</sup>); and
- having been sold a personal pension that was unsuitable (five per cent).

These are people's personal opinions and recollections, and have not been subject to any independent analysis or scrutiny. There are various protections in place for accrued employer pension rights when people move jobs, and it is possible that respondents were not fully aware of this<sup>17</sup>. However, it may be that perceptions such as these influence people's later behaviour, and the kinds of advice they would give others on pensions matters. It is not a good starting point for private pensions that about one person in every seven (aged 18-69) believes themselves the 'victim' of a bad pension event of this kind. In later sections of this report (for example, in

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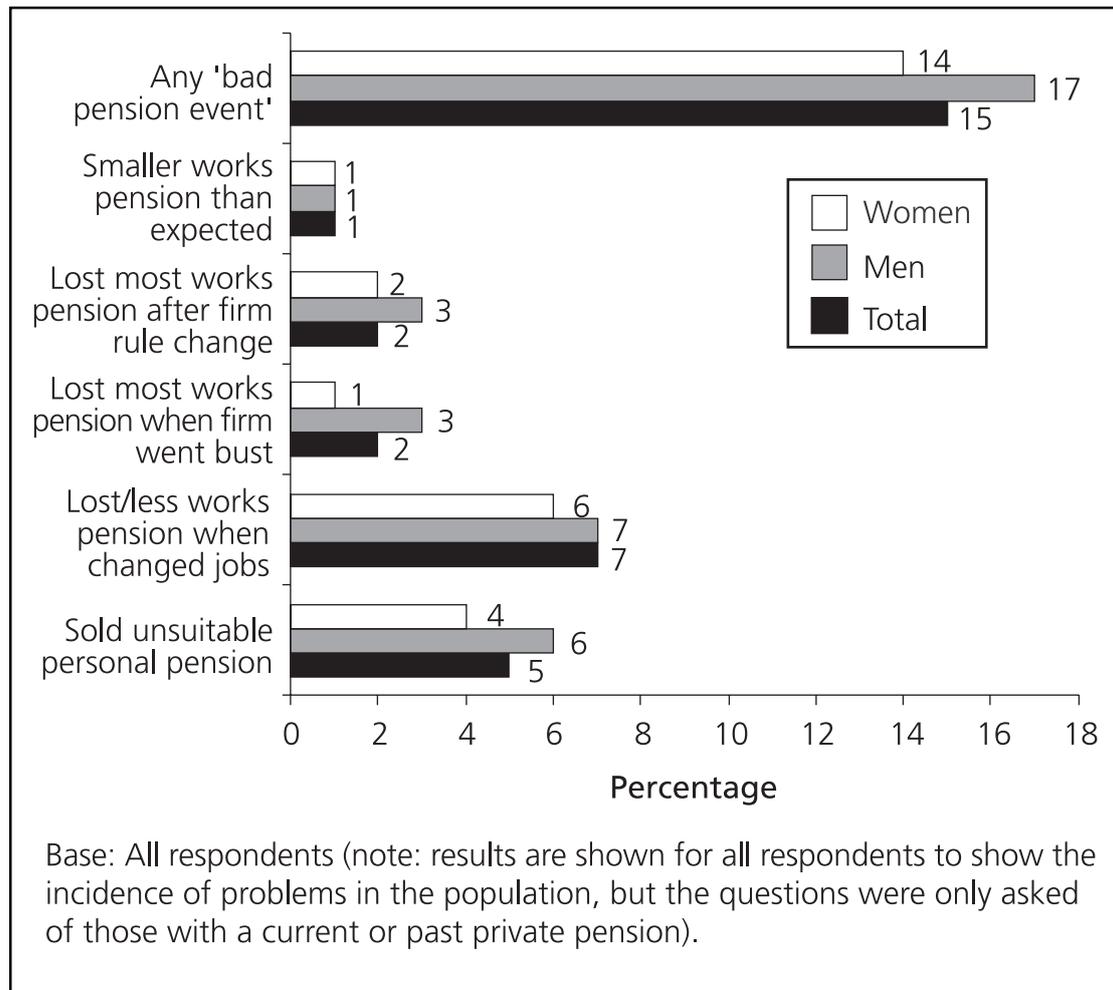
<sup>15</sup> Among those asked the question, 23 per cent of those who had ever had a pension mentioned one of these negative events happening to them.

<sup>16</sup> This group potentially includes a wide range of different experiences, from companies going bust to staff not understanding the effects of a short time in a pension schemes, to a lack of knowledge of what happens to deferred pensions.

<sup>17</sup> Generally, for those with more than two years' membership, the choices are to leave the deferred pension within the original scheme, or to take a transfer value into a personal pension or a new employer's pension scheme.

Chapter 7) we will consider the implications of such events for people's attitudes towards pensions and planning for retirement.

**Figure 3.3 Prevalence of negative pension experiences, by sex**



### 3.3 Housing equity

Most people's most valuable asset is their home. Around two-thirds of respondents were home-owners. Many of the tenants were relatively young, and might aspire to home-ownership before retirement. The existence of a substantial asset in the form of housing provides opportunities to realise a cash sum, which might potentially be used for income in retirement. There are various ways that such money could be accessed, ranging from simply moving to a smaller home or cheaper area, to a formal loan from an equity release company. However, there are drawbacks to all such options. People may not wish to move, and may be distrustful of schemes which involve either selling part of their home, or a loan against its value, even if they permit continued occupancy of the main home.

It is worth noting that house prices vary greatly by region – and to a lesser extent so do rates of home ownership. London has the highest house prices, but a lower than

average proportion are home owners (more people rent). In Inner London, in our sample, only 40 per cent were owner occupiers, compared with 68 per cent overall.

In what follows, we first discuss the range of different ways that housing equity could be used to help fund retirement, and then move on to focus specifically on equity release schemes.

In Table 3.3, we show intentions regarding using homes to provide financial resources in retirement. We did not ask whether people were actually engaged in any kind of equity release scheme at present, and kept the focus on options for the future, particularly around income in retirement. The answers are shown separately for three age groups. Overall, the 68 per cent who were home-owners may be divided into 23 per cent (of all respondents) who wouldn't consider using their home to help fund retirement and 44 per cent who would at least consider doing so. Put another way, two-thirds of home owners were prepared to consider using their home to help acquire additional (more liquid) resources for their retirement.

A seemingly high proportion were apparently prepared to countenance using their home to help provide for retirement. However, it is worth reflecting that the threshold being used here, in terms of those prepared to use their home in this way, is deliberately set rather low. Retirement is some way off for most respondents, and therefore we wanted to identify everyone who might give housing-related options at least cursory examination.

On closer examination, the main option that was open for consideration, and we put it no stronger than this, was moving to a smaller or less expensive home, or cheaper area. This possibility might be considered by 57 per cent of home owners (equivalent to 38 per cent of the sample). The other options we listed (selling to rent and more formal methods of equity release) would only be considered by around four to five per cent in each case. Women were slightly more likely than men to contemplate mechanisms for unlocking home equity (46 per cent would consider it, compared with 40 per cent of men).

**Table 3.3 Views on using housing equity to help fund retirement, by age group**

	18-34 %	35-49 %	50+ %	Total %
<b>Options for using housing to help fund retirement</b>				
Not a home-owner	48	32	19	32
Home-owners who wouldn't consider any of these options [base = all]	16	21	31	23
<i>Any of the following (multiple answers permitted) of which</i>	36	47	50	44
Moving to a smaller or less expensive home or area	31	42	42	38
Selling your home and renting	3	6	4	4
Borrowing against the value of your home	4	6	5	5
Selling a share of your home to an equity release company to provide income	3	4	7	5
<i>Base</i>	466	643	841	1,950

Base: All respondents.

Views about the use of housing equity were not particularly associated with age, as shown in Table 3.3. The main age-based difference was in rates of home-ownership, with older people more likely to own their home outright or be buying it with a mortgage. 'Trading down' was the principal route that people thought was worth considering. There were some clearer differences between owner-occupiers with homes of different values (see Table 3.4). The more the home was worth, the more likely that it would be considered as a means of paying for retirement. Only half of those with homes valued at under £100,000 would consider means of accessing the equity, compared with about two in three with homes worth between £100,000 and £200,000, and about three in four of those with homes worth £200,000 or more. The option of trading down remained by far the most popular suggestion. It seems plausible that those with lower-valued homes would be unlikely to be able to release much equity by doing so, which may explain the greater reluctance to think about such options.

**Table 3.4 Views on using housing equity to help fund retirement, by value of main house if sold (note, value of main home is total, not net of any existing mortgage)**

	Overall value of home						Refused or don't know %
	<£100k %	£100k < £150k %	£150k < £200k %	£200k < £250k %	£250k < £500k %	£500k+ £150k %	
Options for using housing to help fund retirement							
I wouldn't consider any of these options	50	39	34	23	22	[26]	49
<i>Any of the following (multiple answers permitted) of which</i>							
Moving to a smaller or less expensive home or area	41	51	57	67	73	[69]	59
Selling your home and renting	8	8	7	4	6	[6]	9
Borrowing against the value of your home	4	4	10	11	6	[9]	–
Selling a share of your home to an equity release company to provide income	5	8	8	9	5	[–]	4
<i>Base</i>	<i>159</i>	<i>213</i>	<i>271</i>	<i>163</i>	<i>227</i>	<i>40</i>	<i>54</i>

Base: All owner-occupiers.

Numbers in [ ] are percentages based on fewer than 50 cases and may, therefore, be unreliable.

It, therefore, makes sense to look at the proportion of home-owners who were prepared to consider using the home to release capital. Overall, 67 per cent were prepared to do this. There did appear to be some small differences between regions, but they were not statistically significant.

### 3.3.1 Who would consider releasing or withdrawing housing equity

In this section, we consider the types of people most likely to consider various means of accessing their housing capital. A range of different personal characteristics, and their association with views about accessing housing equity, are therefore shown in Table 3.5. First of all, those who were **not** home-owners were typically younger than the average, less likely to be graduates, and less likely to have taken out a private pension (now or in the past).

The group more likely to consider using home equity were relatively similar to those who would not. Their average ages were 47 and 44. They seem to have approximately similar levels of pension knowledge. However, those more prepared to use their homes were rather more likely have an employer pension than average, and slightly more likely to have a personal pension. Or, conversely, those without pensions were less likely to consider the option.

Those prepared to consider unlocking capital were also more likely to be graduates, than those who would not consider such an option. This breakdown reflects the single largest option for housing equity, of being prepared to think about trading down. There was some evidence, on a small sample size, that equity release schemes were more popular with men and those having a reasonably good knowledge of pensions (measured by their score in a knowledge 'test', described in detail in Chapter 4).

**Table 3.5 Views on using housing equity to help fund retirement, by respondent characteristics**

Characteristics	Options for using housing to help fund retirement							Total %
	Not a home-owner %	Wouldn't use equity %	Would use equity (in some way) %	Move to smaller home %	Sell then rent %	Borrow against value %	Sell part to equity release company %	
Female	51	45	52	54	38	41	35	50
Median age (years)	36	47	44	44	45	42	49	42
Mean knowledge score (out of 14)	6.6	8.0	8.3	8.3	8.3	8.3	8.7	7.7
Graduates	20	23	30	33	24	30	21	25
Has a current or past employer pension	35	54	65	66	69	64	67	53
Has a current or past personal pension	17	36	38	38	27	45	43	31
<i>Base</i>	<i>603</i>	<i>479</i>	<i>868</i>	<i>748</i>	<i>83</i>	<i>96</i>	<i>97</i>	<i>1,950</i>

Base: All respondents.

Multiple answers permitted for housing equity options.

### 3.3.2 Equity release schemes

As many as 83 per cent of owner-occupiers had heard about schemes offered by financial companies to help release equity. Over 90 per cent of those aged 55 or older, and who were hence closer to the target age groups for such schemes, were aware of these kind of equity release schemes. Awareness was greater among those with higher levels of pension knowledge. Couples were also somewhat more likely than single people to be aware of such schemes. Men and women had approximately

equal levels of knowledge about equity release (81 per cent and 84 per cent respectively). Only 53 per cent of owner-occupiers born outside the United Kingdom (UK) were aware of such schemes.

Those respondents acquainted with the concept of equity release schemes were asked a further question about whether or not such schemes provided 'poor value for money'. Just over half (51 per cent) agreed this was the case, whilst 11 per cent disagreed (including only 0.5 per cent who disagreed strongly). A particularly large group, 39 per cent overall, were not able to give a decisive opinion. This suggests that they felt a lack of knowledge regarding the details of such schemes.

There were some links between attitudes towards equity release schemes and willingness to use a house to help fund retirement (see Table 3.6). Those believing equity release schemes to be poor value for money tended to be opposed to using their home to fund retirement in any of a number of ways (including moving home) – not just equity release schemes. Those less certain about such schemes were among the most likely to view moving home as something they would consider.

Even among those favourably inclined towards equity release products, still only 22 per cent would actually consider such schemes for themselves. This was much higher than among other groups, but still clearly a minority.

**Table 3.6 Views on using housing equity to help fund retirement, by views about equity release schemes**

Options for using housing to help fund retirement	'Equity release schemes are poor value for money'					Total %
	Agree strongly %	Agree %	Neither agree nor disagree %	Disagree (including strongly) %	Don't know %	
I wouldn't consider any of these options	39	31	31	25	34	32
<i>Any of the following (multiple answers permitted) of which</i>	61	69	69	75	66	68
Moving to a smaller or less expensive home or area	56	62	62	50	56	59
Selling your home and renting	6	7	5	12	4	7
Borrowing against the value of your home	4	6	8	18	5	7
Selling a share of your home to an equity release company to provide income	3	5	8	22	6	8
<i>Base</i>	<i>173</i>	<i>428</i>	<i>343</i>	<i>125</i>	<i>92</i>	<i>1,161</i>

Base: All owner-occupiers who are aware of equity release schemes.

### 3.4 Savings and investments

It is notoriously difficult to adequately capture people's level of savings. They may be reluctant to disclose such information, or unaware of the current value, and may or may not know about the savings of any partner. The savings information we collected, in the context of an attitudinal survey, is best regarded as indicative.

Respondents identified a number of different savings and investments that they had. They were asked:

*'I'd like you to look at this card and tell me whether you (or you and your partner) have any of the types of savings or investments shown?'*

(List of account types and investments)<sup>18</sup>

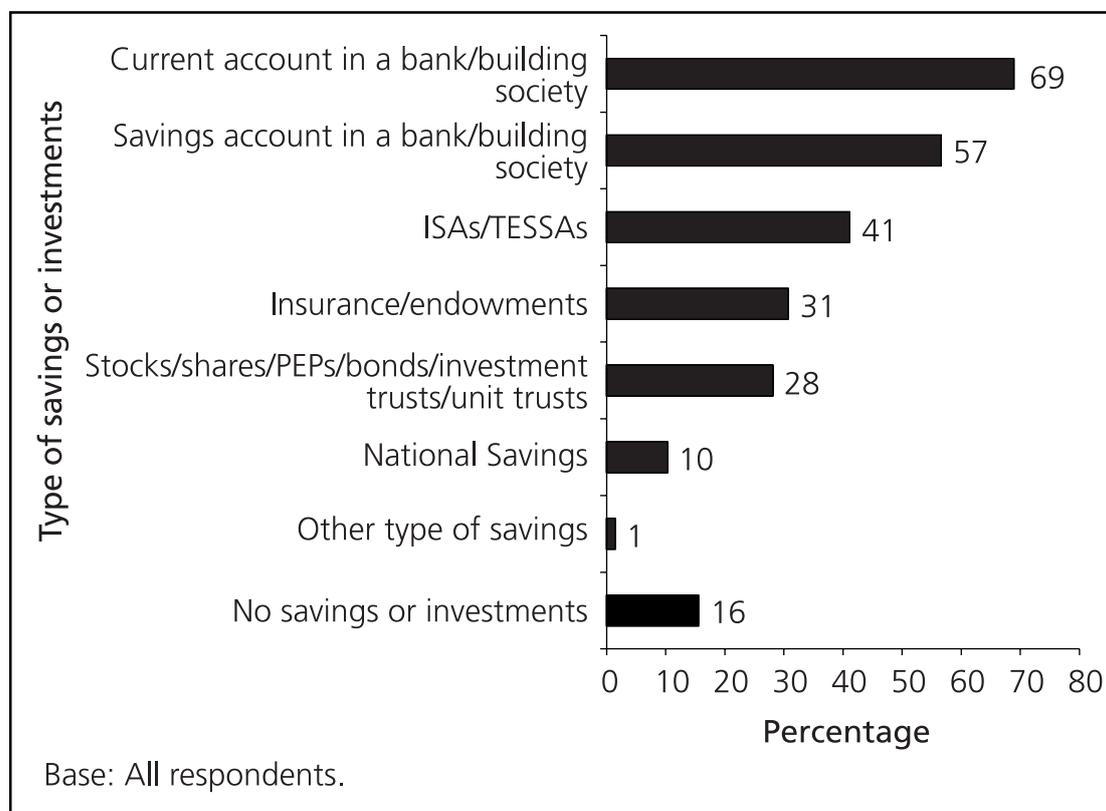
The question was specifically about types of savings (or investments), so it is likely or at least possible that those simply **possessing** an account (perhaps including current accounts with a positive balance) might not have mentioned it. It is, after all, highly probable that almost all respondents (around 95 per cent, using FRS estimates) would have had an account of some kind. Instead, it seems more likely that people are thinking about what they might regard as savings, if they had any, and not simply accounts. The question related to the respondent **and any partner**, so that some figures may look high compared to any data sources based on individuals (perhaps including Individual Savings Account (ISAs), where the proportion looks high).

The range of savings and investments is illustrated in Figure 3.4. The kinds of accounts most often mentioned were current accounts (69 per cent – very clearly an under-estimate of actually **having** such an account but perhaps counting those using it to save), savings accounts (57 per cent), and ISAs (41 per cent, higher than would be expected). Many also had insurance policies such as endowments (31 per cent) or money invested either directly or indirectly in stocks and shares (28 per cent).

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<sup>18</sup> The technical report (Martin *et al.*, 2007) contains fuller details of the questionnaire, showcards and so on.

**Figure 3.4 Types of savings and investments held (multiple answers allowed)**



As shown in Table 3.7, older groups were rather more likely to have savings of any kind, and of each kind shown. Among those aged 50-69, over half (52 per cent) had either an ISA or an older Tax Exempt Special Savings Account (TESSA), compared with 39 per cent of those aged 35-49 and 32 per cent of those aged 18-34. Older groups were also much more likely to have directly (or indirectly) invested in stock market products, such as shares and unit trusts.

**Table 3.7 Types of savings and investments, by age group**

Types of savings held	18-34 %	35-49 %	50-69 %	Total %
No savings or investments	21	14	11	16
Current account in a bank/building society	63	71	73	69
Savings account in a bank/building society	51	58	61	57
ISAs/TESSAs	32	39	52	41
National Savings	6	11	14	10
Stocks/shares/Personal Equity Plans (PEPs)/ bonds/investment trusts/unit trusts	17	29	38	28
Insurance/endowments	15	43	34	31
Other type of savings	1	1	2	1
<i>Base</i>	<i>466</i>	<i>643</i>	<i>841</i>	<i>1,950</i>

Base: All respondents.

As shown in Table 3.8, there was an even stronger link between household income and owning financial products of various kinds. Some 96 per cent of the highest income quarter of respondents had some kind of financial product, compared with 65 per cent of the lowest income quarter. Generally speaking, those on the lowest incomes were much less likely to have particular types of accounts. The second group, with annual incomes between £15,000 and £26,000, had tended to start saving in savings accounts and ISAs. Those on higher incomes, as well as being more likely to have such savings accounts, were also investing in National Savings and stock market products.

**Table 3.8 Types of savings and investments, by annual household income**

Types of savings held	<£15k	£15k < £26k	£26k < £44k	£44k+	Total
	%	%	%	%	%
No savings or investments	35	14	7	4	15
Current account in a bank/building society	51	69	80	81	69
Savings account in a bank/building society	31	53	70	80	57
ISAs/TESSAs	23	41	49	58	41
National Savings	5	7	9	21	10
Stocks/shares/PEPs/bonds/investment trusts/ unit trusts	12	22	34	50	28
Insurance/endowments	11	27	39	53	31
Other type of savings	1	1	2	2	1
<i>Base</i>	<i>548</i>	<i>390</i>	<i>445</i>	<i>341</i>	<i>1,950</i>

Base: All respondents.

Around one in six (15 per cent) had no savings. A further 31 per cent had savings worth less than £2,500. This covers nearly half of respondents. At the other end of the spectrum, seven per cent had savings and investments exceeding £50,000, part of an overall 36 per cent with at least £5,000 that was readily accessible.

In addition, 11 per cent owned property of some kind, other than their main residence. This included land, second homes and other buildings. This is likely to be a sign of being comparatively wealthy, of course, and accounted for 17 per cent of outright owner-occupiers.

As shown in Figure 3.5, tenants – and social tenants in particular – were among the least likely to have any savings, let alone substantial savings. We saw above that younger people were also less likely to have savings products, and this group are among the least likely to be home owners.

Some 42 per cent of social tenants had no savings of any kind, and 25 per cent had amassed less than £500. No doubt £500 would be a useful reserve and source of

funds for short-term emergencies, but it would have little relevance in terms of retirement planning. Owner-occupiers had rather more saved, particularly those who owned their homes outright, who benefit from being older and thus having had longer to save. One outright owner in every five (19 per cent) had accumulated at least £50,000 in savings, and it is possible that many of those declining to reply (14 per cent) would also have had considerable savings.

**Figure 3.5 Level of savings and investments, by housing tenure**



As we show in Table 3.9, those with pensions tend to have higher than average levels of savings and investments. This is on top of any value of the pension rights they may have accrued. They were about half as likely to have zero savings as the general population. Those with personal pensions were twice as likely as the overall population to have over £50,000 in liquid assets or investments. This group disproportionately includes the self-employed.

**Table 3.9 Level of savings and investments, by current pension status**

<b>Level of savings</b>	<b>Contributing to a personal pension %</b>	<b>Member of employer pension %</b>	<b>Total %</b>
No savings of any kind	5	7	15
Up to £500	7	8	13
£500-£2,499	14	18	18
£2,500-£4,999	9	14	10
£5000-£9,999	26	27	19
£10,000-£49,999	14	13	10
£50,000 +	15	8	7
Don't know or refused	10	6	8
<i>Base</i>	<i>505</i>	<i>597</i>	<i>1,950</i>

Base: All respondents.

### 3.4.1 Using savings in retirement

Among the 84 per cent of respondents with savings of any kind, just under half (47 per cent) said they expected to use some or all of their savings or investments to help fund their retirement. Unsurprisingly this was much more commonly said by those with more saved. Only 23 per cent of those with under £2,500 saved expected it to be used in retirement, presumably because it was likely to be used for shorter-term objectives. However, 78 per cent of those with over £50,000 of savings expected that this would form part of their resources to be drawn on once retired.

Men and women tended to give similar answers to this question. The expectation of using savings, once retired, was most common among those aged 55-64 (64 per cent of those with any savings). Younger people with savings were less likely to mention this, as well as being less likely to have savings in the first place.

There was no difference in the intent to use up savings among members of occupational schemes. However, slightly more (57 per cent) of those with personal pensions expected they would use up savings in retirement. As we saw above, a higher than average proportion of this group had substantial liquid assets at the time of the survey.

## 3.5 Expectations of an inheritance

A large inheritance has the potential to transform a person's net worth. A high proportion of people own their own homes, often their most valuable asset, and on death this may be passed on to a typically younger relation. Larger assets are likely to go to children, or less commonly to grandchildren (Rowlingson and McKay, 2005). However, the timing of such a windfall is likely to be uncertain, and as life expectancy

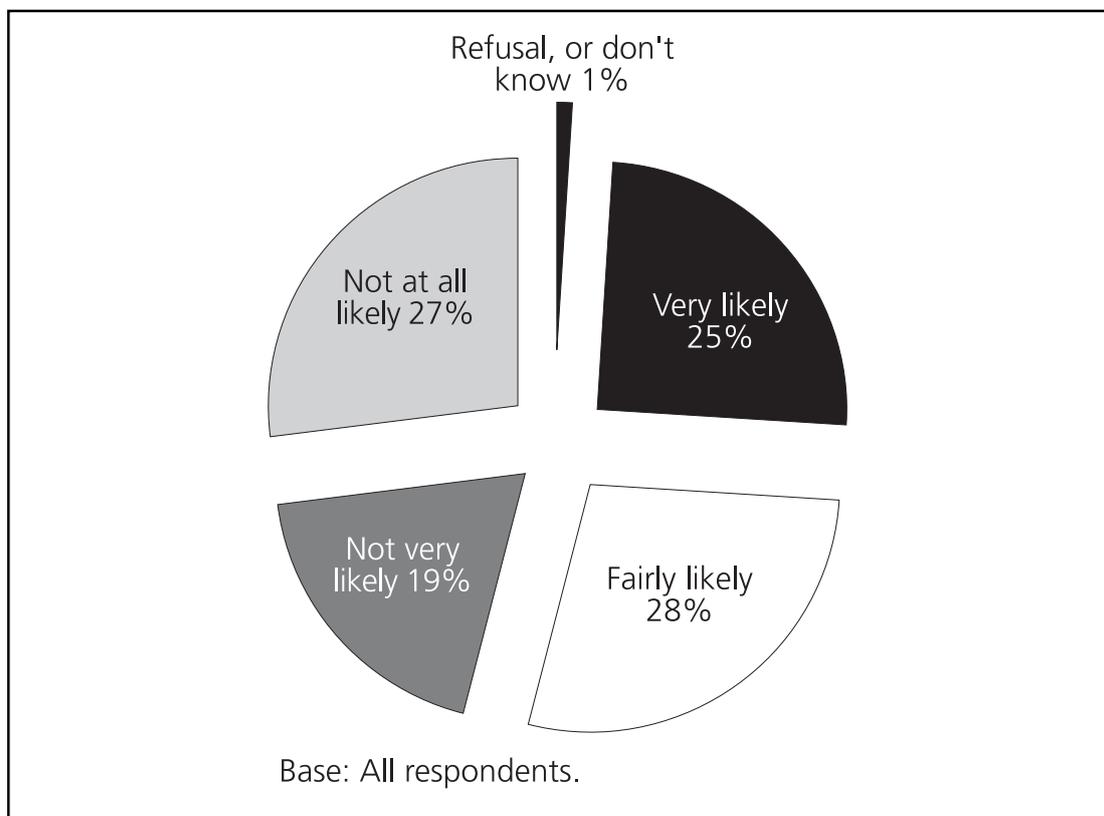
increases it may take some time before such assets flow down the generations. Older relations may also find ways to spend the money themselves, rather than leaving it as a bequest. By the same token, the ability to **use** an inheritance to fund retirement may be constrained by a wish to pass on at least some of its value to the next generation.

Nevertheless, most respondents believed it was important to leave an inheritance. Only eight per cent said this was not at all important, with 40 per cent believing it to be very important, and many others thinking it was at least fairly important (31 per cent). However, those aged 45-69 were more likely than younger respondents to believe that leaving an inheritance wasn't important. This signals, perhaps, that some younger respondents may have somewhat less of a claim on their parents' wealth than they believe.

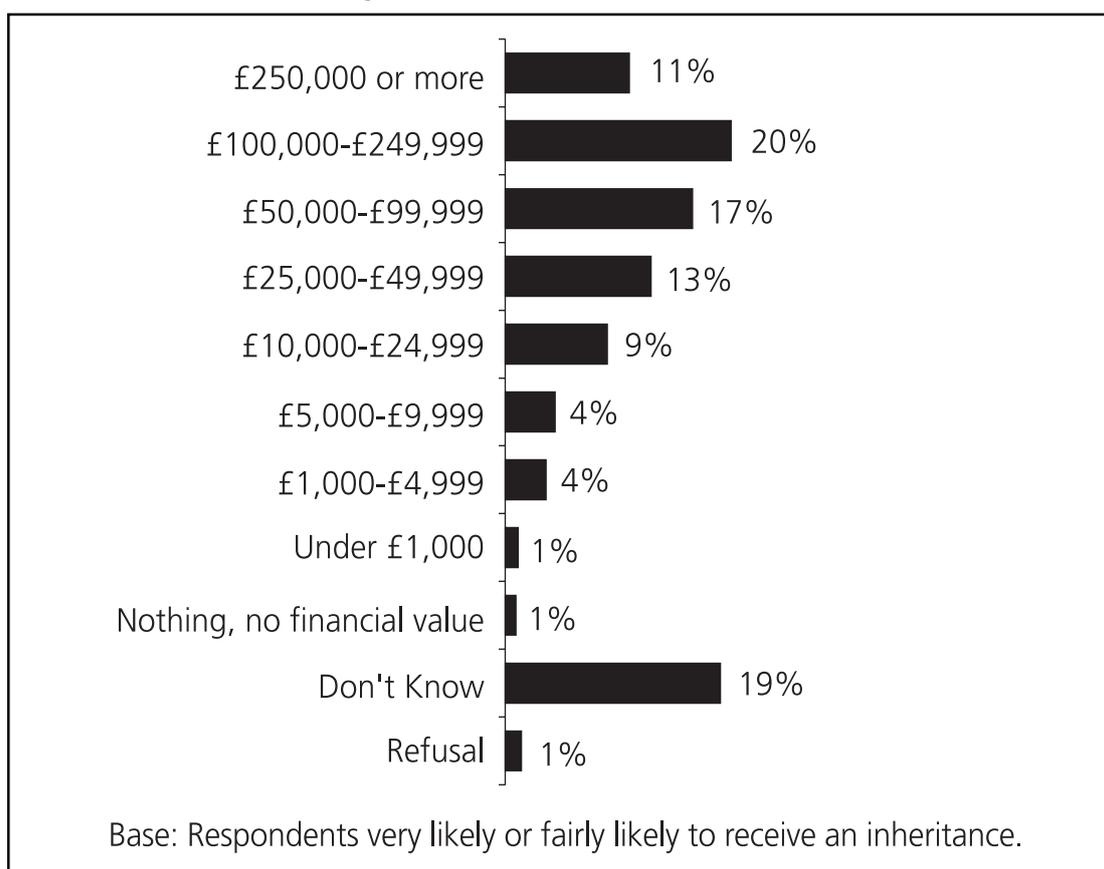
Just over half (52 per cent) said it was either very or fairly likely that they would receive an inheritance (see Figure 3.6). Just over one in four (27 per cent) thought this was not at all likely, with 19 per cent believing it was not very likely. Where somebody thought an inheritance was likely, we asked for the amount they might expect to receive (in today's money, as clearly an inheritance might not be received for some time and might increase in value in the mean time). Figure 3.7 gives the breakdown of responses. Around one-third (31 per cent) of those expecting an inheritance thought it would be worth over £100,000 – or about one in six of **everyone** including those not expecting an inheritance. A further 30 per cent, of those expecting to inherit, thought they might receive a smaller sum but still more than £25,000. These are in addition to the 20 per cent who didn't know how much they might inherit (or wouldn't say), and a similar proportion (19 per cent) expecting an inheritance of less than £25,000.

The chances of receiving **any** inheritance, whatever the value, are shown for different age groups in Figure 3.8. Bars 'above the line' indicate that the person is fairly or very likely to receive an inheritance. Those 'below the line' are pessimistic about their chances – describing an inheritance as either not very likely or not at all likely. There was a strong and clear relationship; more than half of those under 45 thought they had good chances of receiving an inheritance, including 71 per cent of those aged 25-34 and 76 per cent among those aged 18-24. The chances were much reduced among older groups. Even so, 27 per cent of those aged 55-64 were still expecting to inherit. For the older age groups, it is more likely that any key inheritance will have already been received. This may have fed through into the differential levels of savings and home-ownership already described. The older groups are simply less likely to have living parents than the young and middle-aged.

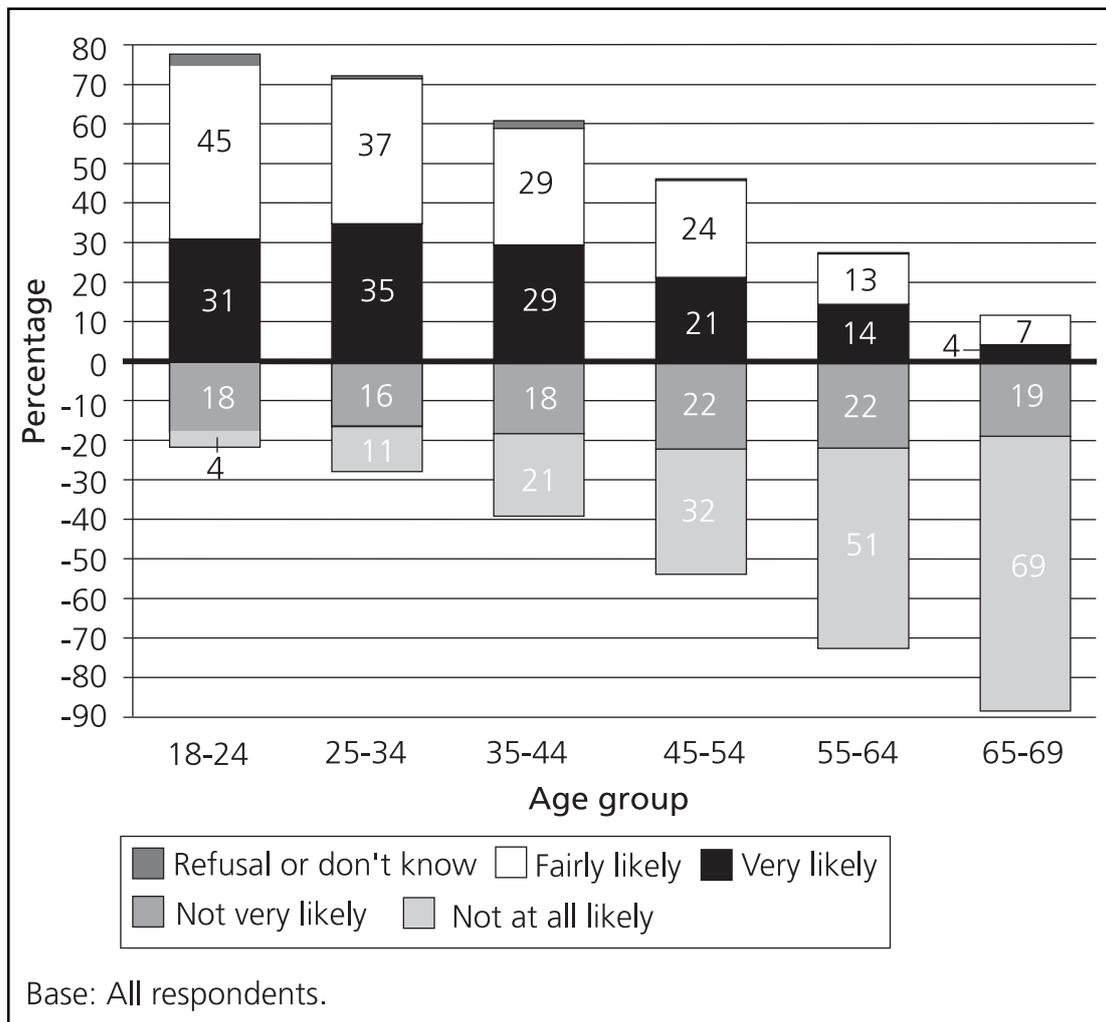
**Figure 3.6 Likelihood of receiving an inheritance**



**Figure 3.7 Likely value of inheritance in today's money (among those likely to inherit)**



**Figure 3.8 Likelihood of receiving an inheritance, by age group**



Social tenants were among the least likely to be expecting an inheritance, particularly one of substantial size (see Table 3.10). Around two-thirds (66 per cent) did not expect to inherit, although five per cent were expecting a six-figure sum. Among those buying a house with a mortgage, 62 per cent were confident of receiving something, and more than one in five (21 per cent) were apparently contemplating an amount exceeding £100,000. Those owning their home outright were relatively unlikely to be expecting some kind of inheritance, but this is likely to be reflecting that this is an older group – typically 15 years older than the average.

**Table 3.10 Inheritance expectations and age, by housing tenure**

<b>Expectations for inheritance</b>	<b>Owned outright %</b>	<b>Owned – mortgage %</b>	<b>tenant Social %</b>	<b>tenant Private %</b>	<b>Other %</b>	<b>Total %</b>
Not expecting to inherit	59	38	66	39	34	48
Expect <£25,000	9	9	12	14	7	10
Expect £25k-£99K	10	21	6	16	21	15
Expect £100k+	14	21	5	18	21	16
Unsure of amount	8	11	11	13	17	11
Median age (years)	57	40	39	32	24	42
<i>Base</i>	<i>519</i>	<i>846</i>	<i>356</i>	<i>176</i>	<i>52</i>	<i>1,950</i>

Base: All respondents.

The above results suggest that those already quite well-established may be more likely to inherit, and to receive higher amounts, than those in disadvantaged positions. Owner-occupiers are generally much better off than social tenants, in terms of income and economic activity. They also seem likely to receive more by way of inheritance. However, this apparent link between higher expectations of inheritance and established affluence is not mirrored when looking at private pensions. Whether or not a person had been in an employer pension scheme was not related to his or her expectations of inheritance (see Table 3.11). About the same proportions expected to inherit, and the amounts quoted were relatively similar – perhaps with higher financial expectations among those with employer pensions, but with a higher level of uncertainty about amounts among those without such pensions.

A lower proportion had a current or previous personal pension. There was little difference in levels of expected inheritance among those with or without such pensions. It is worth noting that respondents with a current or previous personal pension were about eight years older than those without such experience.

There are, however, some reasons to be sceptical about the potential to inherit. The inheritance may never materialise, perhaps being used for long-term care, or funding leisure activities, or being passed directly to others (including direct to grandchildren). Even if the inheritance does pass directly to children, the timing is clearly far from guaranteed. Moreover, an influx of houses to the market from this source **could** eventually stabilise (or even decrease) house prices if the flow of houses was particularly large – a point the Pensions Commission (2004) discussed at some length. A strategy of relying on an inheritance to fund retirement is therefore relatively risky, though for some the amounts involved could eclipse what they may be able to accumulate themselves.

**Table 3.11 Inheritance expectations, by pension provision**

Expectations for inheritance	Ever had an employer pension?		Ever had a personal pension?		Total %
	No %	Yes <sup>1</sup> %	No %	Yes %	
Not expecting to inherit	48	47	46	51	48
Expect <£25,000	12	8	11	8	10
Expect £25k-£99K	12	18	16	15	15
Expect £100k+	15	18	15	18	16
Unsure of amount	13	8	12	8	11
Median age (years)	39	44	39	47	42
<i>Base</i>	<i>885</i>	<i>1,065</i>	<i>1,309</i>	<i>641</i>	<i>1,950</i>

Base: All respondents.

<sup>1</sup> Slightly more of those with a current employer pension expected to inherit (41 per cent thought they wouldn't, compared with 47 per cent among ever-members). The extra proportion was evenly distributed among the different amounts expected.

### 3.6 Putting it all together – likely resources for planning retirement

The preceding sections have looked in turn at various resources that may be used to help fund retirement. They have ranged from private pensions, to housing wealth and other assets, and expectations of inheritance. Each has different advantages and disadvantages. We now attempt to summarise the range of different situations by extracting very simple information from each area, and present some key results in Table 3.12.

Overall, two-thirds had made some contributions to a private pension at some stage. Clearly, only a small level contribution might make for very inadequate provision, but this simple yes/no concept provides at least a starting point for our analysis. Next, 17 per cent had a house worth £250,000 or more, and which the respondent was prepared to consider using to fund retirement. We may add that seven per cent had at least £50,000 saved in savings and investments. Finally, one in six (16 per cent) expected an inheritance worth at least £100,000, clearly more of an expectation than a tangible reality at the time of interview – though in many cases perhaps a fairly secure prospect. Each of these possibilities provides at least some semblance of possible financial resources in retirement.

The question that arises is how far these four categories represent the same people, or if they are different groups. The separate percentages sum to over 100 (107 per cent) so clearly there is **some** overlap, but how much? Can we be confident that each individual is able to rely on at least one of these options? In fact, over one-

quarter of respondents (27 per cent) had none of these options, about half (48 per cent) had just one and around another quarter (26 per cent) had two or more of these. Generally these different ways of funding retirement are clustered together among the same people, rather than counter-balancing each other – at least to some extent<sup>19</sup>.

**Table 3.12 Possible means of helping to finance retirement**

	Total %
<b>Options for funding retirement</b>	
Has a current or past private pension	67
Has house worth £250,000 or more and willing to use to fund retirement	17
Has £50,000 or more in liquid assets	7
Expects to inherit £100,000 or more	16
<b>Number of options in total</b>	
None of these	27
Just one of these	48
Two or more	26
<i>Base</i>	<i>1,950</i>

Base: All respondents.

It should be noted that the definition of each of these four thresholds is somewhat arbitrary. Cash assets may be needed for other things, people may change their minds about how housing equity might be used. Simply having a small private pension may not be of much consequence. However, they provide at least some insight into the numbers lacking even the most basic level of private provision. In this regard, one-quarter (27 per cent) appear to lack even a basic foundation.

Among those aged 18-24, as many as 65 per cent had none of these kinds of resources. But clearly retirement is a long way off. However, 20 per cent of those aged 35-44 and 16 per cent of those aged 45-54 appeared to lack all of these four possible models of support (for additional results by age, see Table 3.13). This somewhat precarious situation was unsurprisingly more frequent among women (30 per cent) than men (23 per cent).

<sup>19</sup> Each of these four possibilities was positively correlated with each of the others, at a statistically significant level.

**Table 3.13 Possible means of helping to finance retirement, by age group**

	18-34	35-49	50-69
<b>Options for funding retirement</b>			
Has a current or past private pension	46	76	80
Has house worth £250,000 or more and willing to use to fund retirement	7	20	23
Has £50,000 or more in liquid assets	3	6	13
Expects to inherit £100,000 or more	22	20	7
<b>Number of options in total</b>			
None of these	44	20	16
Just one of these	40	50	53
Two or more	16	30	31
<i>Base</i>	466	647	841

Base: All respondents.

A key way of looking at this information is to compare those with and without a non-state pension, which is the most common asset. This is shown in Table 3.14. Those with pensions were over four times as likely to have a valuable house, three times as likely to have significant liquid assets, and rather more likely to expect to inherit a substantial sum.

**Table 3.14 Possible means of helping to finance retirement, by whether has private pension provision**

	Has a current or past private pension	No private pension	All
<b>Options for funding retirement</b>			
Has house worth £250,000 or more and willing to use to fund retirement	22	5	17
Has £50,000 or more in liquid assets	10	3	7
Expects to inherit £100,000 or more	18	13	16
<b>Number of options in total</b>			
None of these	–	81	27
Just one of these	62	17	48
Two or more	38	2	25
<i>Base</i>	1,370	580	1,950

Base: All respondents.

## 4 Pensions knowledge

- Just five per cent of respondents felt they had a 'good' knowledge of pension issues.
- Respondents were most knowledgeable about the State Pension age (SPA) – over eight in ten knew the current SPA for men and women.
- Respondents were least knowledgeable about State Pension deferral, Home Responsibilities Protection (HRP), the State Second Pension (S2P) and Pension Credit.
- The number of correct answers to a knowledge test of 14 questions were summed to give a 'score' for each respondent. People scored an average of 7.7 out of 14 (or 55 per cent).
- Older respondents were generally more knowledgeable than younger ones.
- Age was the most consistently significant variable accounting for different measures of pensions knowledge.

### 4.1 Introduction

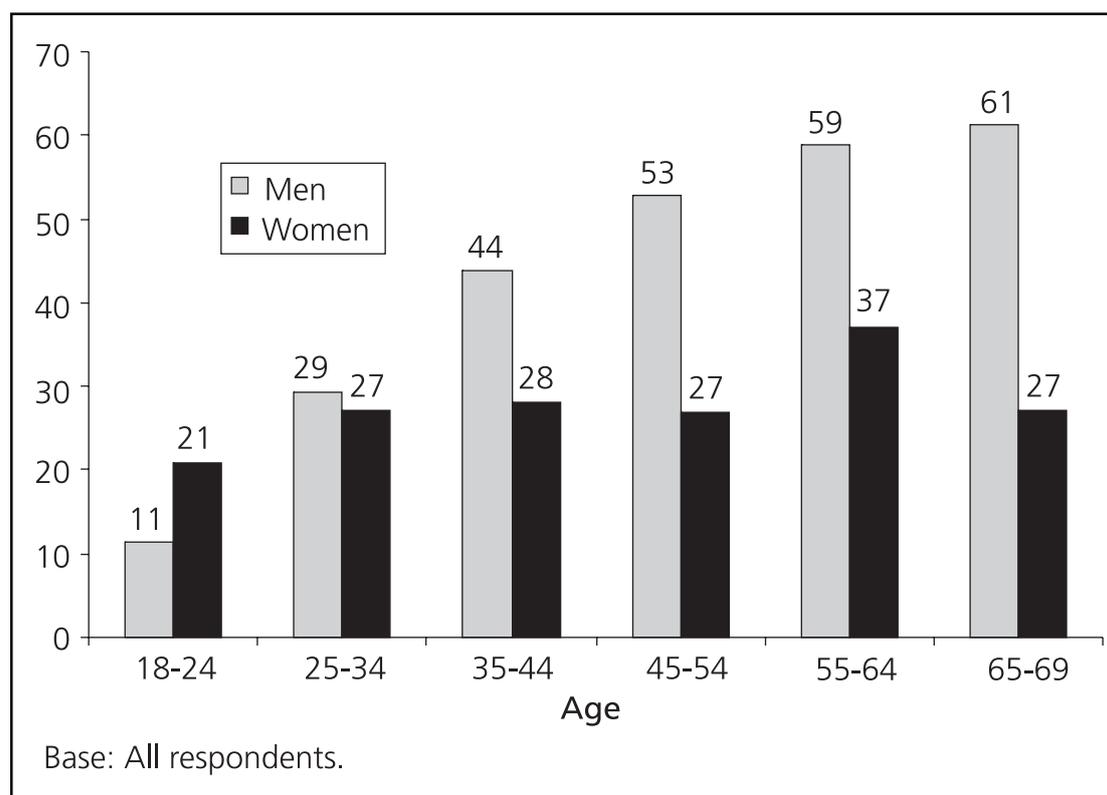
This chapter describes respondents' knowledge about different aspects of the pension system in Britain, their awareness of pension issues and the level of knowledge they have in relation to their own pension arrangements. We draw on a number of different types of data for this analysis. Respondents appraised their own knowledge levels and responded to a 'knowledge test' on pensions for an objective measure of their knowledge. In addition, we are also able to assess knowledge levels in less direct ways: by looking at awareness levels about various pension mechanisms or processes; and by considering the levels of 'don't know' answers to questions about pensions (both attitudinal and behavioural) as respondents were encouraged to use this response where appropriate.

## 4.2 Self-assessed knowledge

When asked to assess their own knowledge of pension issues, most were modest in their responses. A quarter (25 per cent) said they knew little or nothing about pensions issues. A further 40 per cent said their knowledge of pension issues was patchy and they knew what concerned them but no more. Three in ten (30 per cent) described themselves as having reasonable, basic knowledge of pensions, they knew how they work generally, but didn't understand the details. Just five per cent felt they had a good knowledge of pension issues (shown in Table 4.3).

Men were more confident about their knowledge levels than women. Forty-three per cent of men said their knowledge about pensions was 'good' or 'reasonable', compared with 28 per cent of women. Self-assessed knowledge levels increased with age for men, but there was a less straightforward, and relatively more stable, pattern across age groups for women (Figure 4.1).

**Figure 4.1** Proportions saying they had a good or reasonable knowledge of pensions issues, by age and sex



Those who had private pensions tended to have (or at least said they had) a higher level of pensions knowledge. As we show in Table 4.1, 43 per cent of those who had ever joined an employer pension said their knowledge of pensions was either good or reasonable. The same high level of knowledge was claimed by 48 per cent of those who had ever contributed to a personal pension.

**Table 4.1 Self-assessed knowledge level on pension issues, by pension status**

How knowledgeable	Never had employer pension	Has current or past employer pension	Never had personal/SHP pension	Has current or past personal pension or SHP
	%	%	%	%
Good knowledge	4	7	4	9
Reasonable basic	23	36	26	39
Very patchy	36	44	40	41
Know little or nothing	38	13	31	12
<i>Base</i>	<i>885</i>	<i>1,065</i>	<i>1,309</i>	<i>641</i>

Base: All respondents.

It is not clear whether better-informed people chose to take out private pensions, or if joining a private pension served as a means of gaining information about pensions. Both could be true. This kind of research cannot determine which direction of cause and effect is the more important. However, it is reassuring that there is some association between the two.

Further analysis shows that respondents with higher educational qualifications, higher incomes and those that had requested information on pensions were also more likely to say they had a good or reasonable knowledge of pensions. There is also an association with economic activity (even after controlling for age); retired respondents (52 per cent) and respondents in work (38 per cent) were more likely than other groups to say they had good or reasonable pensions knowledge.

Some groups of the population were particularly poorly informed about pensions: 50 per cent of those aged 18-24, the same proportion of social tenants, 39 per cent of those without academic qualifications, and 37 per cent of those born outside the United Kingdom (UK), all said they knew little or nothing about pensions. And as we shall see in the next section, there was a strong correlation between a respondent's self-perceived knowledge and their overall knowledge test score.

### 4.3 Knowledge test overview

Respondents were asked a series of questions relating to various aspects of pensions, both state and private, to evaluate their objective knowledge of pensions as opposed to their self-perceived knowledge. This section starts by summarising the test results, while later sections present each of the individual items within the knowledge test in more detail.

The knowledge test was introduced to respondents as follows:

*'Now a quick quiz about pensions. For each thing I say, please say whether you think it is **true** or **false**. If you don't know, that's fine, just say so and we will skip to the next one.'*

The showcard for each question gave respondents three answer options:

- definitely/probably true;
- definitely/probably false;
- don't know.<sup>20</sup>

We allowed for some flexibility of confidence in people's responses. The use of a 'probably' clause was partly to allow for the concerns of respondents with more detailed knowledge, who might be aware of rare exceptions to rules that invalidated general principles. The third option, of not knowing, was treated as an equally valid reply – for some questions it was the most common response.

Figure 4.2 shows the proportion of respondents who answered each question correctly, incorrectly, or did not know the answer. This shows that knowledge varied greatly across the range of different topics. Respondents were most knowledgeable about the SPA: for each of the statements on this (including the current SPA for men and women, and the fact that the SPA for women was due to increase) knowledge levels were over 80 per cent. Over three-quarters (78 per cent) knew that the amount of State Pension a person receives is calculated based on the number of years of National Insurance (NI) contributions or credits that have been accumulated. High proportions of respondents also knew that State Pension and private pensions were taken into account within income tax calculations.

In contrast, just 33 per cent of respondents were aware of the State Second Pension (S2P). Only a quarter (26 per cent) knew that HRP can mean that mothers who stop working will not necessarily receive a lower State Pension than mothers who carry on working. Twenty per cent of respondents knew that a lump sum payment was available for people deferring the receipt of their State Pension by a year or more. To be fair, such a provision was only introduced in April 2006 and so had only existed for a month or two prior to fieldwork. These last two questions were also the only ones in the knowledge test where the incorrect answer was chosen by more respondents than the correct answer. In both cases, the level of incorrect answers was roughly twice the level of correct answers.

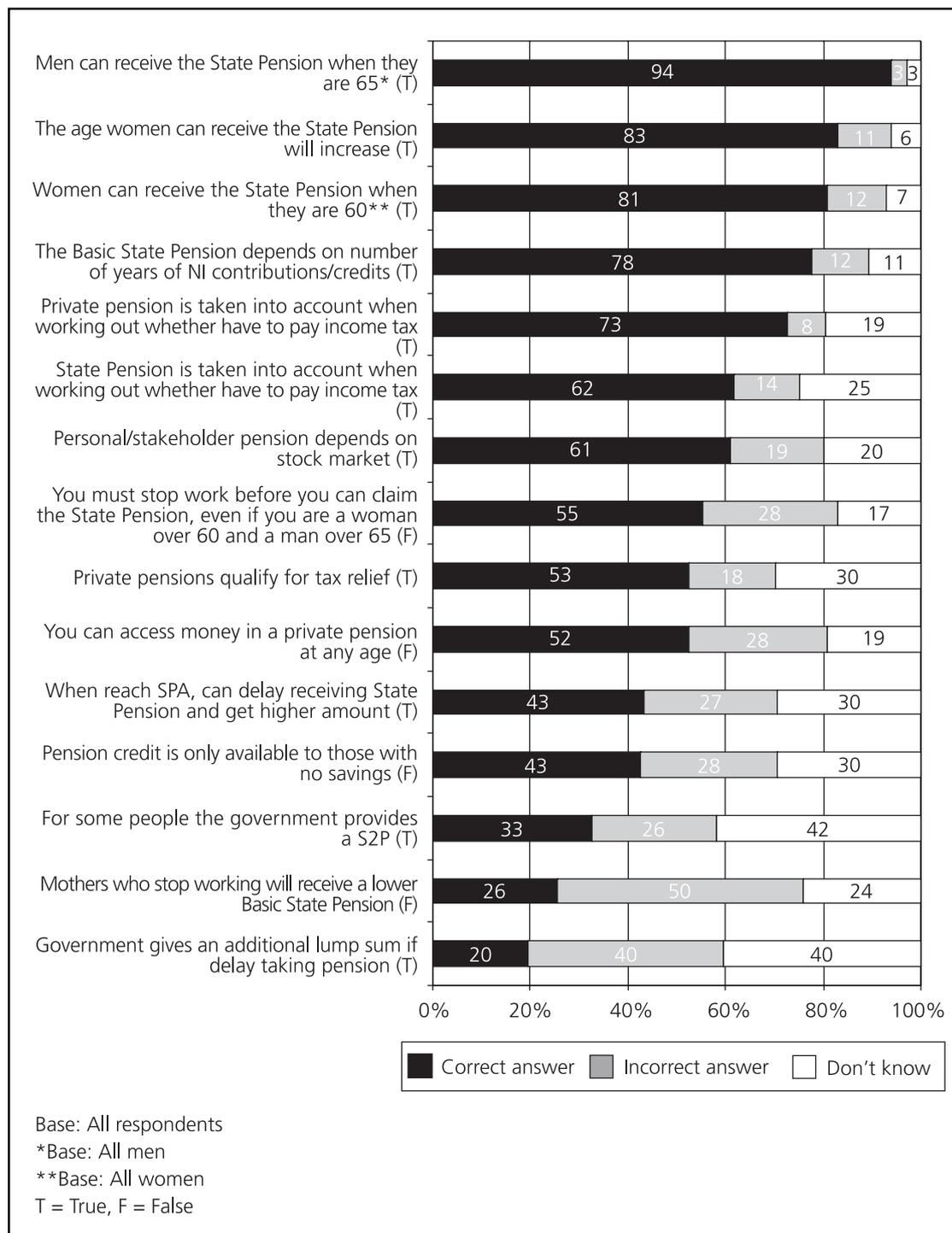
The level of 'don't know' responses sheds even more light on the extent of respondents' knowledge. For many of the questions, the level of 'don't know'

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<sup>20</sup> Correct answers to the knowledge test are described as the respondents 'knowing' the answer when in fact the respondents could have guessed the answer.

responses was higher than the level of incorrect answers (including, notably, the three questions referring to pensions and tax). On just one question, 'don't know' was the most common answer – more than four in ten (42 per cent) said this when asked whether the Government provides a S2P.

**Figure 4.2 Correct, incorrect and 'don't know' responses to knowledge test questions**



### 4.3.1 The knowledge test 'score'

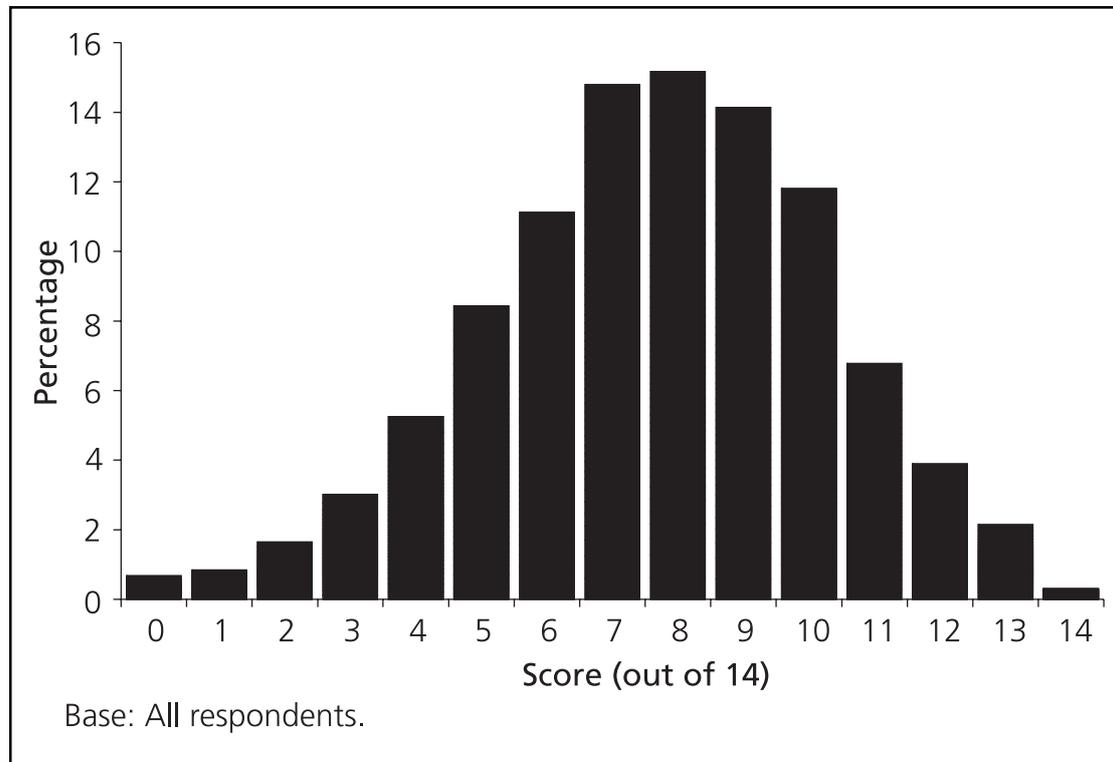
Table 4.2 indicates how well giving a particular right answer correlated with doing well on the set of the other 13 questions. By and large, being right on any given question was associated with doing well on the others – with the exception of the HRP question where the link was very slight. The adjacent column is a test of reliability. If the alpha rises following deletion, as it would with the HRP question, then that question is not adding to the **reliability** of the set of questions.

**Table 4.2 Knowledge test score reliability analysis**

Knowledge test (listed in questionnaire order)	Correlation with the sum of the rest of the questions %	Cronbach's alpha if question deleted [overall alpha = 0.61]
SPA is 60/65	.18	.61
Women's SPA to rise	.22	.60
Retirement test for State Pension	.32	.58
Basic State Pension (BSP) is contributory	.16	.61
HRP	.05	.63
Government provides a S2P	.27	.59
State pension is taxable	.40	.57
Private pensions are taxable	.40	.57
Deferral leading to higher rate	.24	.60
Deferral leading to lump sum	.19	.61
Pension credit and savings	.22	.60
Personal pensions use stock market	.30	.59
Private pensions get tax relief	.34	.58
Private pensions receivable at any age	.16	.61
<i>Base</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

The number of correct answers to the knowledge test questions were summed to give a 'score' for each respondent. People scored an average of 7.7 out of 14 (or 55 per cent). As shown in Figure 4.3, respondents exhibited a full range of pensions knowledge, as measured by this test: seven knowledgeable (or lucky) respondents correctly answered all 14 questions, whilst 12 people failed to get any right.

**Figure 4.3 Overall knowledge test score**

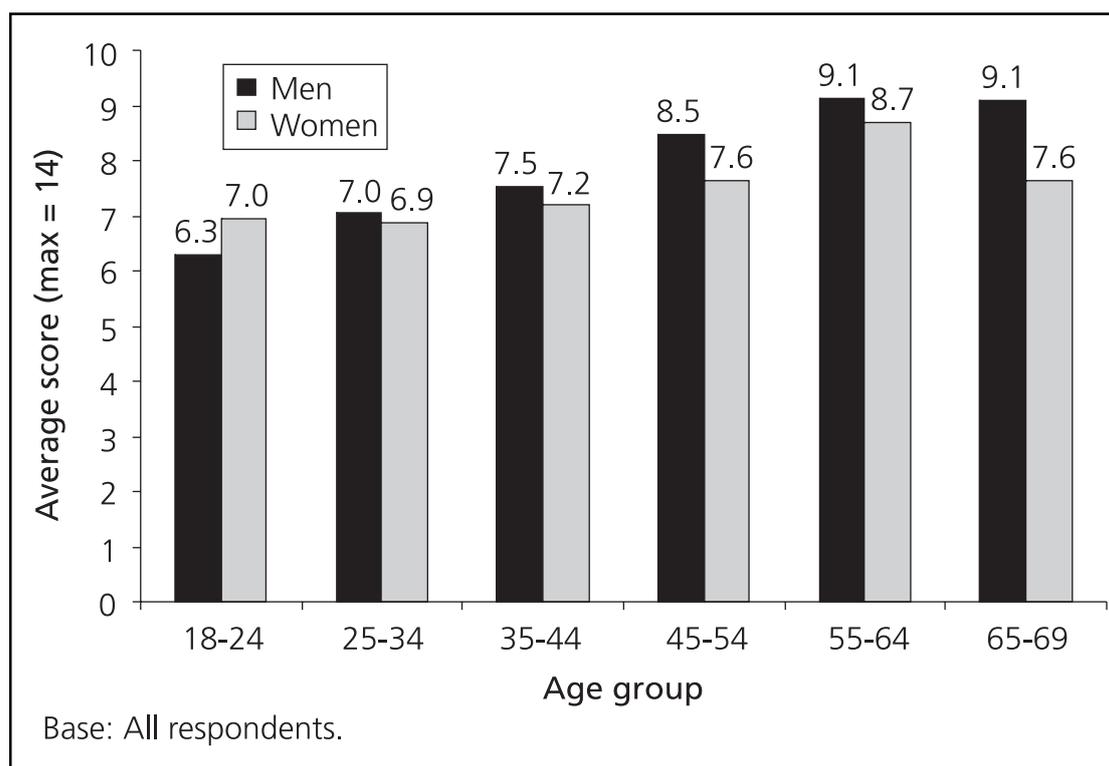
The knowledge test score was strongly associated with people's self-perceived level of pensions knowledge (Table 4.3). This suggests that the overall test score is a **valid** measure of pensions knowledge. Even so, the association is far from perfect, with an average of only four correct answers separating those who said they had a good level of knowledge and those saying they knew little or nothing. Only five per cent said they had 'a good knowledge of pensions issues', but on average this group scored 9.9 out of 14 or 71 per cent. The best quarter of this group scored 12 or more, suggesting the kind of good level of knowledge being claimed. Some 30 per cent of respondents said they had a reasonable basic knowledge of pensions, 40 per cent that their knowledge was 'very patchy', and as many as one in four that they knew 'little or nothing' about pensions issues. Generally speaking, the higher the level of pensions knowledge being claimed, the better the performance on the knowledge test element.

**Table 4.3 Range of test score responses, by self-assessed knowledge (validity of the test score)**

Pensions knowledge	Percentage in sample %	Average test score [out of 14] Mean	Worst quarter scored Score	Best quarter scored Score
I have a good knowledge of pension issues	5	9.9	8	12
I have a reasonable, basic knowledge of pensions – I know how they work generally but do not understand the details	30	8.8	7	10
My knowledge of pensions issues is very patchy – I know a bit about what concerns me but no more	40	7.6	6	9
I know little or nothing about pensions issues	25	6.0	4	8
All	100	7.7	6	9
<i>Base</i>	<i>1,950</i>	<i>1,950</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

Pensions knowledge tended to increase with age (Figure 4.4), with those aged 55-64 seemingly the most knowledgeable. The young, both aged 18-24 and 25-34, had knowledge levels clearly below that of older groups.

**Figure 4.4 Pensions knowledge test score, by age and sex**

Men seemed to have a slightly higher level of pensions knowledge than women, except among those aged 18-24 where sample sizes are small. The difference was relatively small of course (men averaged 7.9 and women 7.4 – that's still large enough to be statistically significant), and we show later that this apparent gender difference is really accounted for by other differences – in level of qualifications and experience of pensions. In the next section we attempt to 'model' levels of pensions knowledge with a statistical model that controls for a range of different background factors.

### 4.3.2 Multivariate analysis of pensions knowledge

The level of pensions knowledge was modelled to attempt to determine the key factors associated with a higher or lower level of pensions knowledge. The results of a 'linear regression' are shown in Appendix A. The main numbers have a simple interpretation. They represent the effect on the average score for each group.

Compared to those with a GCSE Grade C ('O' level) standard of education attainment, those with A levels tended to score about 0.6 higher, and those with degrees around 0.68 higher. Those with qualifications of less than O level tended to score 0.65 **less**.

Age was confirmed to be an important predictor of levels of pensions knowledge. Those aged 55-64 scored about 1.4 more than those aged 35-44. In fact, being of a younger age (anywhere from 18-34) was not particularly crucial, and the graphs must be reflecting the effect of pensions experience on outcomes. Those with past (or current) experience of employer and personal pensions scored 0.35 and around 0.5 higher respectively than those without any direct pension experience.

Owner-occupiers reliably scored about 1.0 higher than social tenants, even after controlling for differences in economic activity, age and levels of qualification. This may be an important result, suggestive of other links between housing tenure, attitudes to pensions and pension provision.

There was some limited evidence that those who were single and without children had lower levels of pensions knowledge, at least compared to couples with children. This is not a simple effect of age, since age already forms part of the model. It is possible that the single, childless group has had less reason to consider some of the life events that might lead people to think more closely about their provision for retirement.

The model indicated no significant differences in levels of knowledge between men and women, once these other factors had been controlled for. Nor was there any systematic link between current economic activity and pensions knowledge.

## 4.4 Knowledge test questions

The following sections describe each knowledge test question in more detail, starting each time by giving the full wording of each statement. We focus, in particular, on the responses of different groups of respondents. We already know that overall, scores on the knowledge test are related to education levels, age, pension experience, tenure and (to some degree) family type. However, sex and economic activity were shown to be less associated with pensions knowledge. In what follows we illustrate some of these key relationships, and point out any different patterns for particular test questions.

### 4.4.1 State Pension age

Knowledge test statements:

*'At the moment, women can receive the State Pension when they are 60.'*

*'At the moment, men can receive the State Pension when they are 65.'*

*'The age that women can receive the State Pension is going to increase in the future.'*

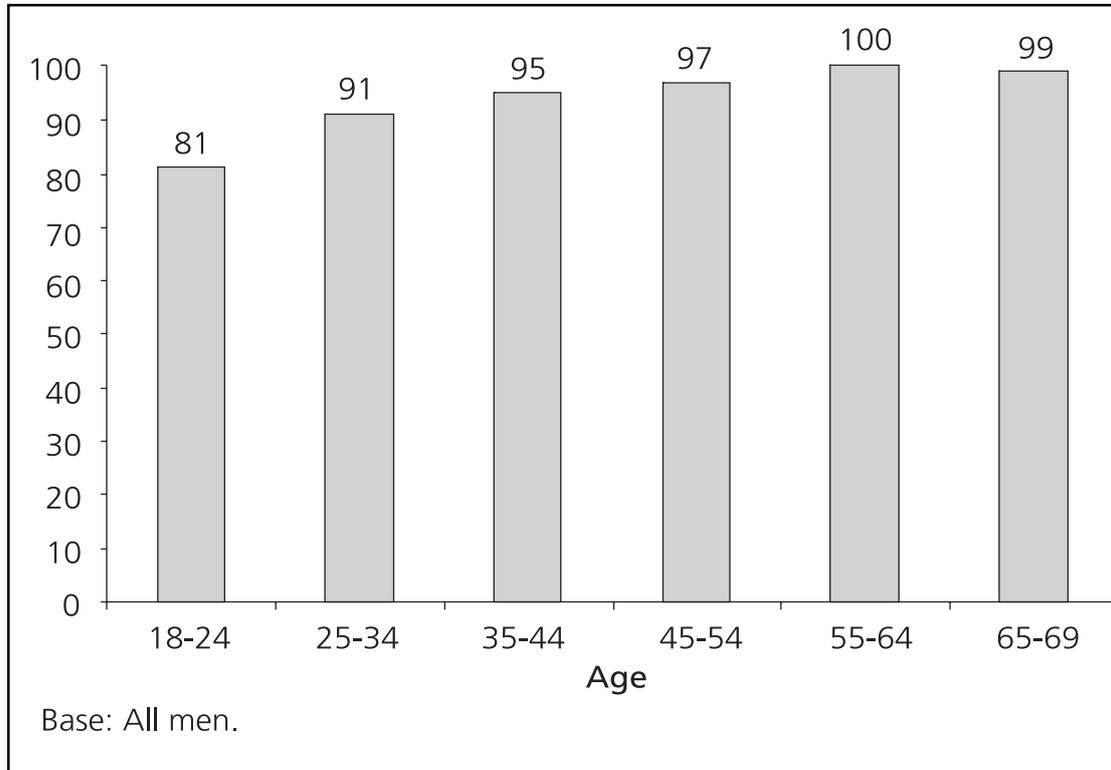
The majority of men and women knew the current SPA for their respective sex. Men exhibited higher knowledge levels than women; 94 per cent of men knew that the current SPA for men is 65, whereas 81 per cent of women were aware that that the current SPA for women is 60. This lower certainty about women's SPA is no doubt partly due to the fact that the SPA for women is due to increase in the future (something that 83 per cent of all respondents were aware of).

Figure 4.5 shows that for men, knowledge of current SPA increases with age, with those closer to retirement age being more aware of the current SPA. Virtually all men aged 55-69 knew the correct current SPA, compared with just 81 per cent of those aged 18-24.

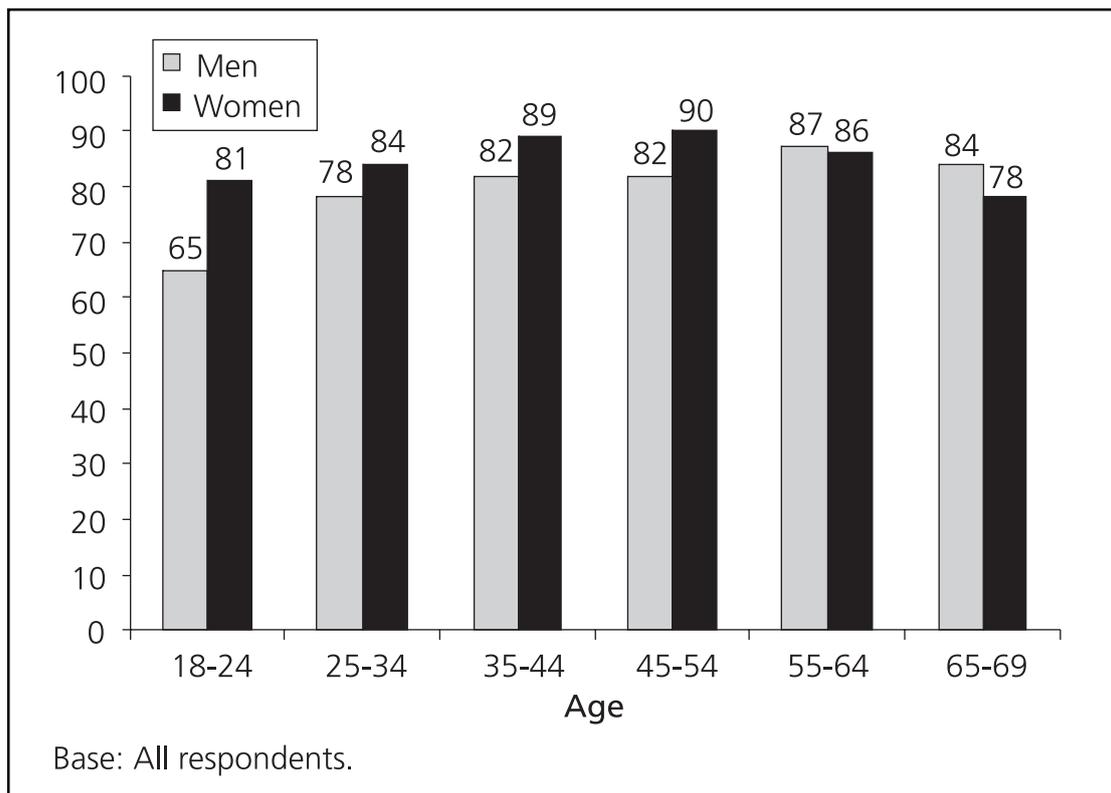
A similar pattern, albeit at slightly lower levels, was found for women. A lower proportion of those aged 18-24 (74 per cent) knew the correct SPA for women than those aged 65-69 (91 per cent).

Women were generally more aware than men that the age at which women can receive their State Pension will increase in the future. This is particularly true within the youngest age group (18-24) (see Figure 4.6). Interestingly, for the oldest age group (65-69) men were more likely to know that SPA for women is due to increase. For women, the lowest awareness was found in the oldest age group, suggesting that awareness here is related to relevance to the respondent's own position. Many of these respondents were already retired, and those who are not yet retired will still have an SPA of 60. The SPA for women is also less relevant to men, which may explain why men overall were less aware of this issue than women. While sex remained important after further analysis controlled for a range of factors, age did not.

**Figure 4.5** Percentage of men knowing that the State Pension age for men is currently 65, by age



**Figure 4.6** Percentage knowing that the age women can receive the State Pension will increase in the future, by age and sex



Knowledge about women's SPA increasing in future<sup>21</sup> was also related to:

- having a private pension (this group were more likely to answer correctly than those without a private pension);
- requesting information on pensions (these respondents were more likely to answer correctly).

#### 4.4.2 Retirement test for State Pension

Knowledge test statement:

*'You must stop working before you can claim your State Pension, even if you are a man over 65 or a woman over 60.'*

Just over half (55 per cent) of all respondents gave the correct answer to this quiz question (that a person can claim the State Pension and continue working once they have reached SPA). Seventeen per cent were unsure and 28 per cent thought that claiming the State Pension was dependent on stopping work.

Older respondents were much more likely than their younger counterparts to give the correct answer to this question. Sixty-seven per cent of those aged 50-69 knew that you could continue working and claim the State Pension, compared with 58 per cent of respondents aged 35-49 and 41 per cent of respondents aged 18-34.

Table 4.4 shows that retired respondents and respondents in work were more likely than other groups to know that a person doesn't need to stop working to be able to claim his/her State Pension. Two-thirds (67 per cent) of retired respondents and six in ten (59 per cent) of those in work knew this was true, compared to around one-third (37 per cent) of those who were looking after the home, in education, or looking for work (30 per cent).

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<sup>21</sup> It should be noted that an awareness of SPA increasing for women in the future generally does not mean that women affected by the changes will be aware of the implications for them personally.

**Table 4.4 Whether you must stop working before you can claim the State Pension, by economic activity**

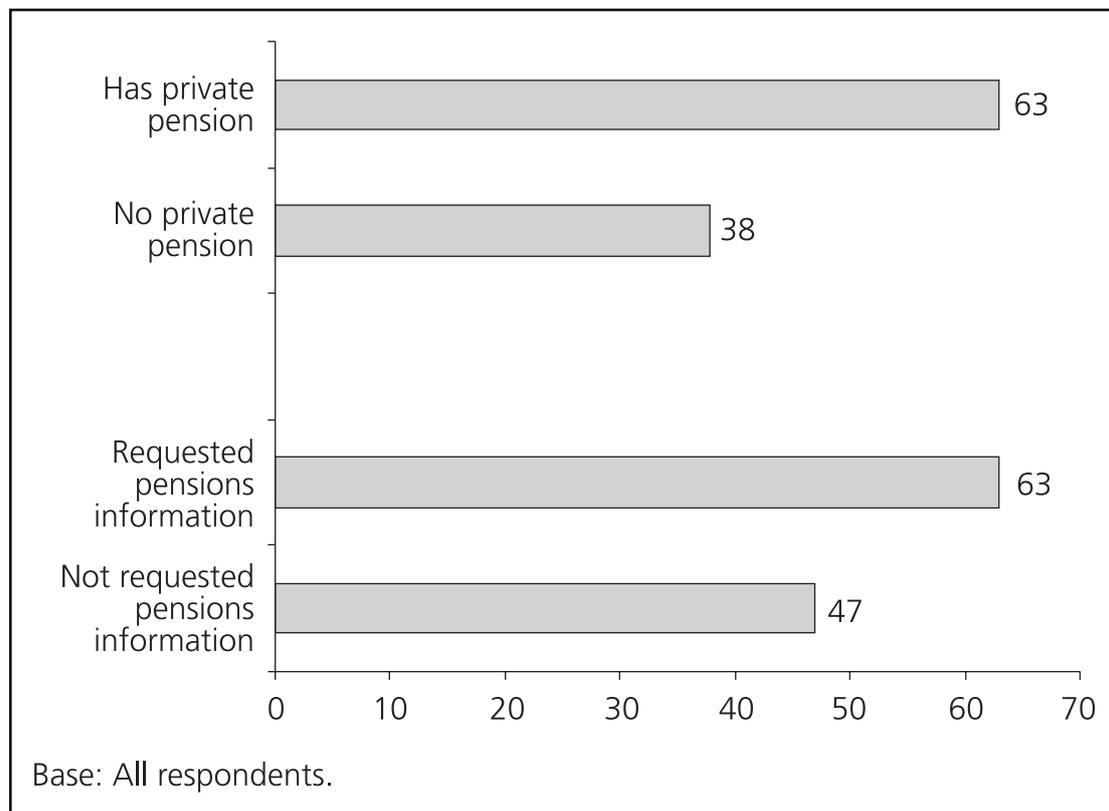
<b>Must stop working before claiming State Pension</b>	<b>In work<sup>+</sup></b> %	<b>Looking for work/ training/ Government scheme/ unpaid work</b> %	<b>Sick/ disabled</b> %	<b>Retired</b> %	<b>Looking after the home</b> %	<b>Other including education</b> %	<b>Total</b> %
True	25	52	28	25	34	40	28
False	<b>59</b>	<b>30</b>	<b>49</b>	<b>67</b>	<b>37</b>	<b>37</b>	<b>55</b>
Don't know	16	18	23	8	30	23	17
<i>Base</i>	<i>1,201</i>	<i>65</i>	<i>120</i>	<i>322</i>	<i>171</i>	<i>71</i>	<i>1,950</i>

Base: All respondents.

+ Respondents who described themselves as currently working or waiting to take up paid work. The correct answer is shown in bold.

Private pension provision and requesting pensions information were most strongly linked to knowing whether a person needs to stop working to claim his/her State Pension. These differences are shown in Figure 4.7. There was a 25 percentage-point difference in the proportion giving the correct answer for those with a private pension and those without (63 per cent of those with a private pension answered this correctly, compared to 38 per cent of those without). A similar gap is found in relation to requesting pensions information.

**Figure 4.7 Percentage knowing that you can continue working and claim the State Pension once you reach State Pension age, by pension provision and whether requested information on pensions**



#### 4.4.3 Basic State Pension and contributions

Knowledge test statement:

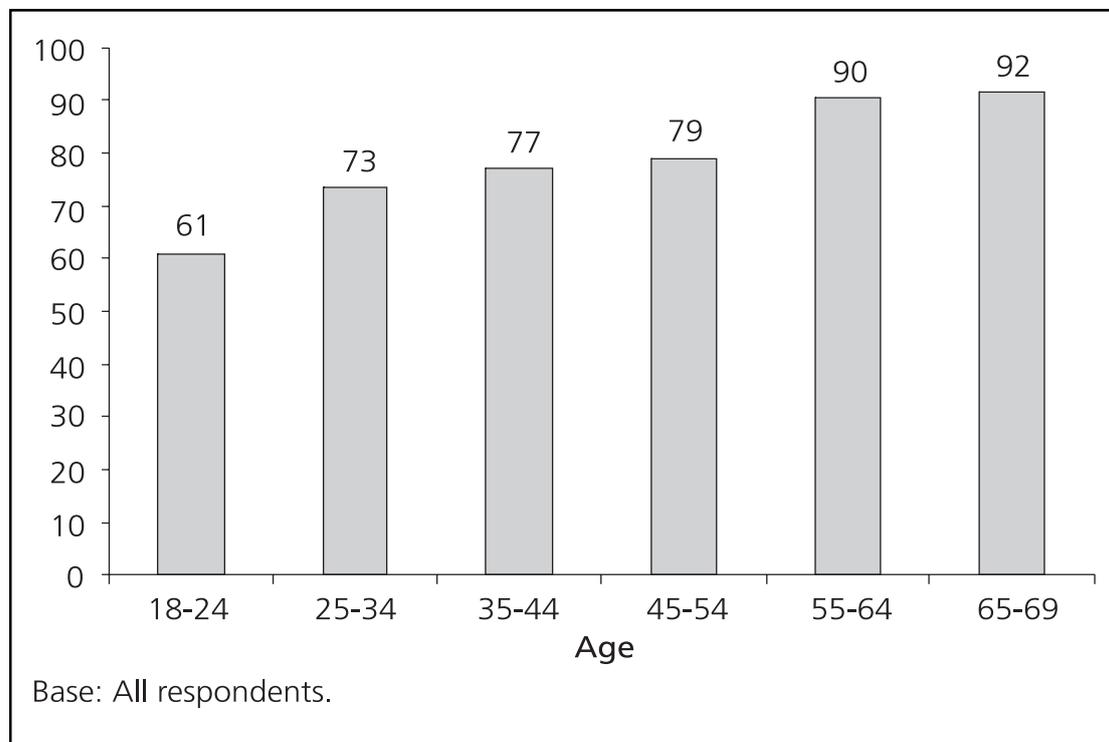
*'The Basic State Pension you get depends on how many years of National Insurance contributions or credits you have built up.'*

A large proportion of respondents knew that their State Pension would be calculated according to the number of qualifying years they had accumulated. Seventy-eight per cent said this statement was true, while 12 per cent thought it was false and 11 per cent didn't know.

There was considerable variation in levels of knowledge with regard to age. As shown in Figure 4.8, the closer to retirement a respondent was, the more likely they were to know the correct answer. Just 61 per cent in the youngest age group (18-24) were aware that the State Pension is based on the number of qualifying years that a person has, compared with 92 per cent of those in the oldest age group (65-69).

Slightly more women than men answered correctly (80 per cent of women compared with 75 per cent of men). Further analysis confirms that sex and age are both related to knowledge on this issue.

**Figure 4.8** Proportions knowing that the State Pension is calculated based on National Insurance contributions and credits, by age



It might be thought that respondents who are out of work might be more aware of qualifying years because their State Pension will be calculated in terms of credits rather than NI contributions (and they may have been informed of this). However, the proportion of those in paid work who answered correctly (77 per cent) was similar to that for two groups of respondents not in work: those on a Government training scheme, looking for paid work or a training scheme or doing unpaid work; and those looking after the home or family (74 per cent for both groups). Indeed, economic activity status was not significantly related to knowledge on this issue after controlling for other factors.

#### 4.4.4 Home Responsibilities Protection

Knowledge test statement:

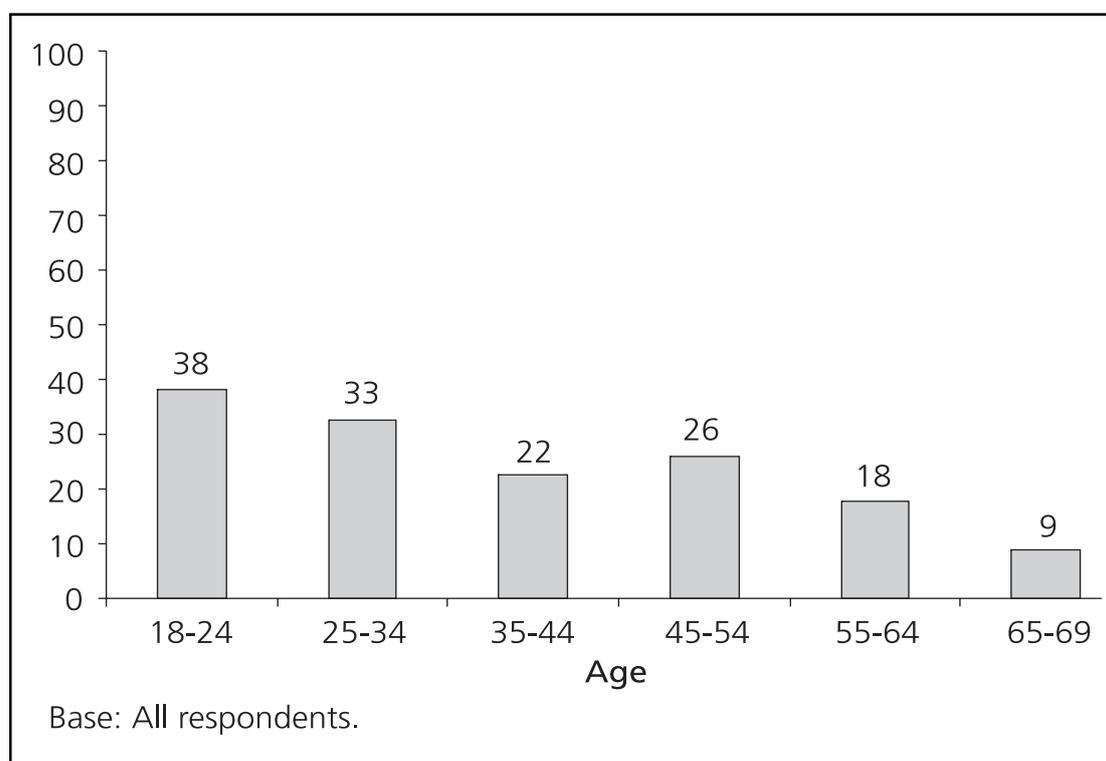
*'Mothers who stop working for a few years will receive a lower basic State Pension than mothers who carry on working.'*

The purpose of the question was to assess knowledge of HRP; either actual knowledge of the scheme or a general awareness that mothers and other carers can be protected from receiving a lower State Pension. Just over a quarter (26 per cent) of respondents correctly answered that this statement was false. Half (50 per cent) thought it was true, i.e. that mothers who stopped working would receive a lower State Pension; and just below a quarter (24 per cent) didn't know. This question attracted the highest proportion of incorrect answers out of all the questions in the

knowledge test. As discussed in Section 4.3.1, the responses to this question leads to some concern over its reliability in assessing respondents' knowledge.

Age, again, was related to respondents' knowledge on this issue. However, in contrast to the relationship between age and the respondents' overall knowledge test score, it is **younger** respondents that appear to be most knowledgeable on this question. Figure 4.9 shows that four in ten (38 per cent) of those in the youngest age group (18-24) answered correctly compared with just one in ten (nine per cent) of the oldest age group (65-69).

**Figure 4.9** Proportions knowing that mothers who stop working will not necessarily receive a lower State Pension, by age



Similar proportions of men and women thought that it was false that mothers would receive a lower State Pension (27 per cent of men and 24 per cent of women thought it was false). This is perhaps surprising, considering that this is an issue that is more directly relevant to women (although HRP protects any carer and not necessarily mothers). In fact, respondents who were 'looking after the home or family' were no more likely to be aware of HRP than other groups (21 per cent answered this correctly). Of course, the group of respondents whose main activity is looking after the home or family will not all be mothers, so we would not necessarily expect them to know the answer to this question.

Table 4.5 shows the relationship between household income and knowledge about HRP. HRP protects carers who do not work or those with low incomes. However, it was those respondents with a higher income who were more likely to be aware of

HRP and respondents with a lower income who were more likely to say 'don't know' than any of the other income groups.

**Table 4.5 Whether mothers who stop working for a few years will receive a lower Basic State Pension than mothers who carry on working, by household income**

<b>Mothers who stop working receive lower State Pension</b>	<b>&lt;£15,000</b>	<b>£15,000-£25,999</b>	<b>£26,000-£43,999</b>	<b>£44,000 or more</b>	<b>Refusal</b>	<b>Don't know</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
True	53	52	47	51	55	42	50
False	17	22	32	30	27	26	25
Don't know	30	26	21	19	18	32	24
<i>Base</i>	<i>548</i>	<i>390</i>	<i>445</i>	<i>341</i>	<i>108</i>	<i>118</i>	<i>1,950</i>

Base: All respondents.

The correct answer is shown in bold.

#### 4.4.5 State Second Pension

Knowledge test statement:

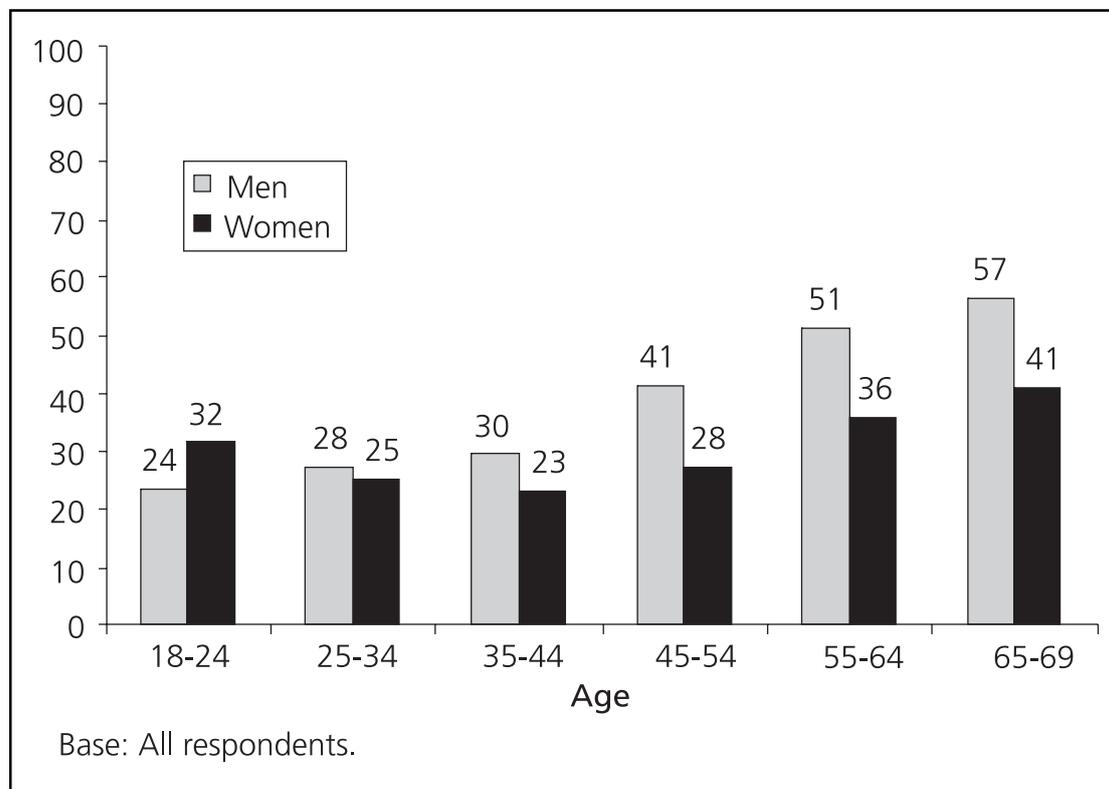
*'As well as the Basic State Pension, for some people the Government provides a S2P related to their previous earnings.'*

The existence or not of a S2P attracted the highest level of uncertainty of all the questions in the test. Indeed, 'don't know' was actually the most common response to this statement (at 42 per cent). Only a third (33 per cent) of respondents were aware of the S2P, while 26 per cent thought this statement was false (an incorrect answer).

Figure 4.10 shows a strong relationship between awareness of the S2P and age and sex. Men and older respondents were more likely to have answered this question correctly. The exception to this is young women (aged 18-24), who were more likely to be aware of S2P than men of the same age **and** women of other age groups up to age 55<sup>22</sup>. Overall, almost equal proportions of men and women gave an incorrect answer and didn't think there was a S2P (25 per cent of men and 26 per cent of women).

<sup>22</sup> Given that it is generally the older respondents that are more knowledgeable on pension related issues these findings are quite unexpected.

**Figure 4.10 Proportions aware of the State Second Pension, by age and sex**



The more educated the respondent, the more likely they were to be aware of the S2P. Thirty-seven per cent of respondents with a degree or higher knew of the S2P compared with 28 per cent of those with no qualifications.

#### 4.4.6 Tax and pensions

Knowledge test statements:

*'The income a person receives from the State Pension is taken into account when working out whether they have to pay income tax.'*

*'The income a person receives from a personal or employer pension is taken into account when working out whether they have to pay income tax.'*

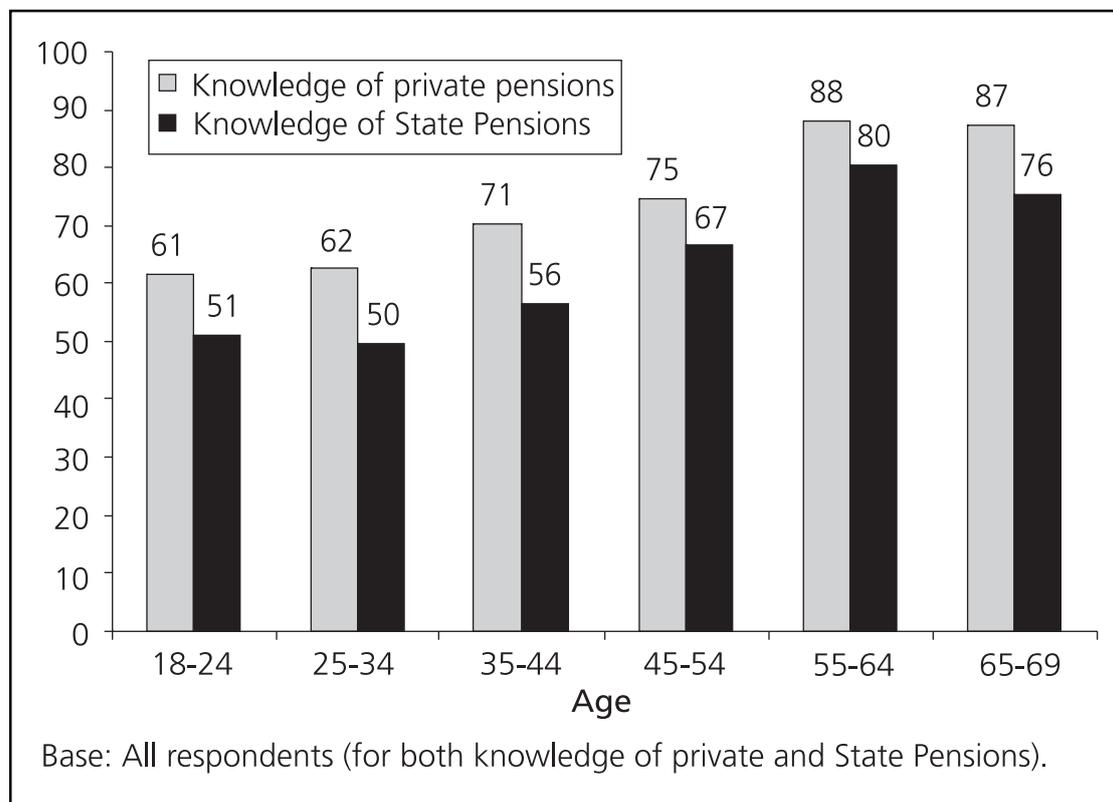
*'Money paid into private pensions qualifies for tax relief.'*

Knowledge levels about pensions and tax were notably lower than many other topics in the quiz. Income from a pension, both State and private, is taken into account when working out whether a person should pay income tax. Most respondents knew this but more thought that this was the case with private pensions. Just under three-quarters (73 per cent) of respondents thought that a private pension was taken into account when working out income tax, eight per cent thought it wasn't and 19 per cent didn't know. Sixty-two per cent thought that income from the State Pension was considered when calculating income tax, 14 per cent didn't think it was and 25 per cent didn't know. As the State Pension is

universal, it is perhaps surprising that we found lower levels of knowledge about this than about private pensions. A possible source of confusion could be that the income from a private pension is more likely to be above the threshold at which tax is payable than income from the State Pension alone.

Figure 4.11 illustrates the relationship between age and knowledge about pensions and tax. Older respondents were more likely to answer these questions correctly, although the highest levels of knowledge, for both state and private pensions, was found among 55 -64 year olds rather than among the oldest age group (65-69).

**Figure 4.11 Proportions knowing private pension and State Pension income is taken into account when calculating income tax, by age**



A person's own pensions experience was also related to knowledge on this issue. Those with a private pension were more likely to know that income from a private pension was subject to income tax than those without a pension (78 per cent and 61 per cent respectively). Similarly, 66 per cent of those with a pension thought a State Pension was subject to income tax compared with 51 per cent of those without. However, these relationships were not statistically significant once other factors, such as age, had been taken into account.

Respondents were also tested on their knowledge of tax relief and private pensions. Just over half (53 per cent) knew that private pensions qualify for tax relief. Eighteen per cent didn't think they did and 30 per cent didn't know. As with the statements

about income tax and pensions, the level of 'don't know' responses for this question is particularly high compared to the knowledge test as a whole.

Overall, 53 per cent answered correctly. Groups **more** likely to know that private pensions qualify for tax relief include:

- respondents with a household income over £44,000 a year (see Table 4.6);
- men (59 per cent of men knew this compared with 46 per cent of women);
- those in the 'middle' age groups (65 per cent of those aged 45 to 54 compared to 32 per cent of 18-24 year olds);
- respondents educated to degree level or higher (62 per cent were aware of this, compared to 40 per cent of those with no qualifications);
- those with a private pension (59 per cent compared with 38 per cent of those without a private pension);
- respondents who had requested information on pensions and planning for retirement (62 per cent of this group answered correctly compared with 43 per cent that hadn't requested information).

**Table 4.6 Whether aware private pensions qualify for tax relief, by household income**

Private pensions qualify for tax relief	<£15,000 %	£15,000- £25,999 %	£26,000- £43,999 %	£44,000 or more %	Total %
True	39	50	59	<b>67</b>	53
False	21	19	15	13	18
Don't know	40	31	26	20	30
<i>Base</i>	548	390	445	341	1,950

Base: All respondents.

The correct answer is shown in bold.

#### 4.4.7 State Pension deferral

Knowledge test statements:

*'When you reach State Pension Age, you can choose to delay receiving your State Pension and get a higher amount when you do start to take it.'*

*'If you delay taking your State Pension for a year or more the Government gives you an additional lump sum.'*

Recent changes<sup>23</sup> to the State Pension system in Britain mean that upon retirement a person deferring taking their State Pension can get a higher amount when they do start taking it or receive a lump sum. Respondents were assessed on their knowledge of both these topics.

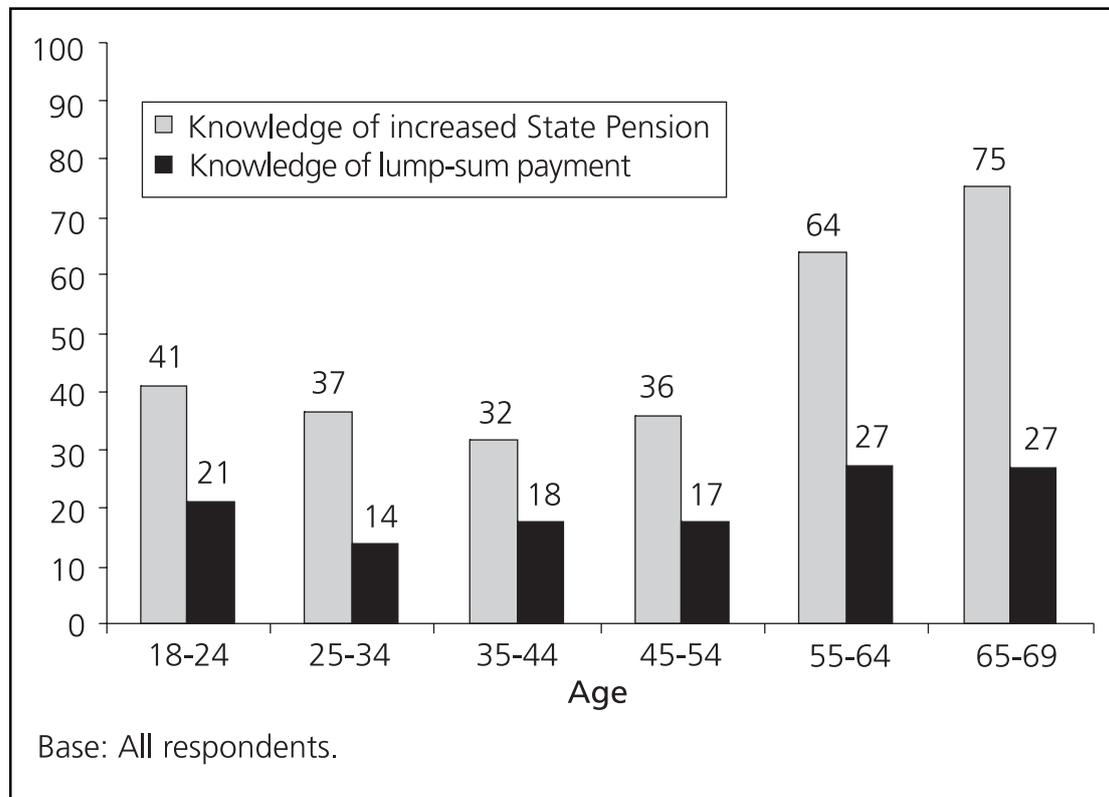
Forty-three per cent of respondents were aware that by delaying the State Pension one can receive a greater amount. Fewer people were aware that the Government would provide a lump sum payment for people delaying their State Pension (only 20 per cent thought the Government would do this). For both questions, similar (and large) proportions of respondents opted for the false and don't know options. Twenty-seven per cent thought the Government would not provide a higher amount of State Pension if it was delayed and 30 per cent didn't know. Forty per cent were unaware of the additional lump sum payment for delaying the State Pension and 40 per cent didn't know if it was available or not.

Figure 4.12 shows how responses differed by age. For many of the questions in the knowledge test there is an almost linear relationship between age and answering correctly, with older respondents being more likely to choose the correct response. This trend differs considerably with responses to these questions, with a 'dip' in the middle years. Respondents younger than age 55 were much more likely to answer incorrectly than those aged over 55, but at the same time respondents aged 18-24 were more likely to know the correct answer than the other age groups up to age 55. Given that this finding is in a different direction to the other knowledge test statements (where younger respondents are generally less knowledgeable), this finding should be treated with some caution.

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<sup>23</sup> Changes were introduced in The Pensions Act 2004 and came into effect from April 2005. The changes mean that the five year upper limit for deferral was removed.

**Figure 4.12 Proportions aware of deferral leading to increased State Pension and lump sum payment, by age**



#### 4.4.8 Pension Credit and means testing

Knowledge test statement:

*'Pension Credit, a benefit for older people, is only available to those with no savings.'*

In addition to assessing knowledge about the State Pension, we also asked respondents about Pension Credit. Less than half (43 per cent) of the respondents answered correctly (and therefore, knew that the statement was false). A sizeable minority of 28 per cent thought that the statement was true (that Pension Credit was only available to older people with no savings). A further 30 per cent didn't know. Taken together, a majority of respondents got this question wrong or were unsure. As we discuss in Section 8.2.2, there is relatively low take up of Pension Credit, so this lack of knowledge is of particular interest.

The differences that have been found between different groups of respondents for each of the other knowledge test questions were not as apparent with regard to knowledge of Pension Credit. Similar proportions of men and women, those with and without a private pension and those who had and hadn't requested information on pensions answered this question correctly.

There was no straightforward relationship between age and knowledge about Pension Credit. Respondents aged 35-44 were least likely to know the correct

answer (just 32 per cent knew that Pension Credit was available to those with savings). This compares with 54 per cent of respondents aged 55 to 64 who gave the correct response. Perhaps most notably, even those above SPA had a poor level of knowledge about this and they were the group most likely to benefit from it. While 46 per cent of those aged 65 to 69 gave the correct answer, a substantial proportion compared with the other age groups (38 per cent) responded incorrectly.

#### 4.4.9 The stock market and pensions

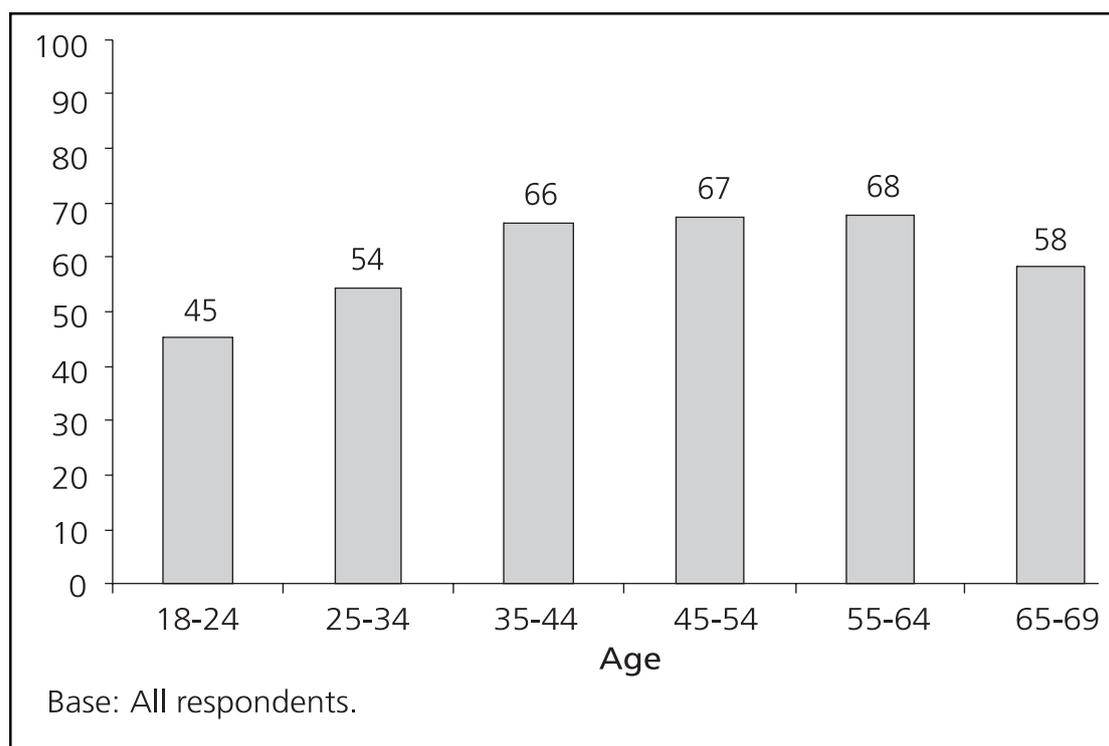
Knowledge test statement:

*'If you are contributing to a personal pension or stakeholder pension, its final value will depend on how well the stock market performs.'*

Six in ten (61 per cent) knew that the final value of a personal or stakeholder pension was dependent on the performance of the stock market. Nineteen per cent were not aware of this and 20 per cent didn't know.

Men were more likely than women to answer this question correctly (66 per cent of men knew this compared with 56 per cent of women). Figure 4.13 illustrates the relationship between age and knowledge about this issue. Younger respondents (aged 18-24) were the least likely to be aware that the stock market determines the value of personal and stakeholder pensions. In fact, the middle age groups (aged between 35 and 64) were most likely to have answered this question correctly.

**Figure 4.13 Proportions aware final value of personal and stakeholder pensions is dependent on stock market, by age**



Several other factors were related to a person's knowledge of the link between the stock market and personal and stakeholder pensions. As might be expected, those with a private pension (which includes employer pensions as well as personal and stakeholder pensions) were much more likely to answer this correctly (69 per cent did so, compared with 42 per cent without a private pension).

Respondents who had requested information on pensions, and those with higher household incomes and higher educational qualifications were most likely to get the answer to this question right. However, none of these three factors remained significant after controlling for a range of demographic and other variables.

#### 4.4.10 Private Pensions and age can access pension

Knowledge test statement:

*'You can access money you pay into a private pension at any age.'*

In a later chapter, we note that some people view the fact that pension savings are inaccessible until a certain age as a drawback of saving in this way (though others see it as a strength) (in section 7.7.3). In terms of their **knowledge** on this topic, half of all respondents (52 per cent) knew this statement was false. Around half as many (28 per cent) thought it was true and 19 per cent didn't know.

Just 40 per cent of the oldest age group (age 65-69) knew that this statement was false. This is lower than the overall response, despite the fact that the precise mechanisms around accessing pensions are more relevant to these groups.

Table 4.7 shows that respondents with a private pension were more likely to answer this question correctly (and think the statement was false) than those without. It also shows, however, that the same proportions of respondents with and without a private pension answered this question incorrectly, while respondents without a private pension were more likely to respond by saying don't know.

**Table 4.7 Whether aware that money paid into a private pension cannot be accessed at any age, by whether has private pension**

Money paid into a private pension can be accessed at any age	Has private pension %	No private pension %	Total %
True	28	29	28
<b>False</b>	<b>56</b>	<b>45</b>	<b>52</b>
Don't know	16	26	19
<i>Base</i>	<i>1,390</i>	<i>534</i>	<i>1,950</i>

Base: All respondents.

The correct response is shown in bold.

#### 4.4.11 Overall conclusion to findings from the knowledge test

In summary, age was the most consistently relevant factor in relation to the knowledge test overall. With a few exceptions, the older the respondent the more likely they were to know the correct answer. Age in turn has a strong association with a range of other related factors: whether the respondent has a private pension; whether the respondent requested information about pensions and retirement; household income levels; and economic activity status.

Although sex was not a significant factor in the overall knowledge test score, it was related to a number of individual statements, including knowledge of the SPA, awareness of the S2P, knowledge of private pensions and tax relief and the link between private pensions and the stock market.

### 4.5 Knowledge of own pension provision

The final three sections of this chapter take a different approach to assessing a respondent's knowledge of pensions by examining levels of 'don't knows' elsewhere in the interview.

Firstly, we do this by checking how much respondents knew about their own pension arrangements. The highest proportions of 'don't knows' were given as responses to questions asking how much the respondents, and their employers, contributed to their pensions. This is shown in Table 4.8.

**Table 4.8 Proportion saying 'don't know' to how much they or their employer contributes to their pension**

	% saying 'don't know'
Respondent contribution to employer pension	13
<i>Base*</i>	588
Employer contribution to employer pension	39
<i>Base**</i>	618
Respondent contribution to personal or stakeholder pension	11
<i>Base***</i>	180

\*Base: Respondents with an employer pension that they make contributions to.

\*\*Base: Respondents with an employer pension that their employer contributes to.

\*\*\*Base: Respondents with a personal/stakeholder pension that they make contributions to.

Sex and knowledge levels more generally were strongly associated with levels of knowledge about pension contributions. Women were more likely not to know how much they contributed to their employer pension (17 per cent compared with ten per cent of men). Respondents who had lower overall scores on the knowledge test were less likely to know how much they contributed to their employer pension: 18 per cent of those with a low score (less than seven correct answers), 14 per cent of those with a middle score, and seven per cent of those with a high score (ten or more correct answers).

Findings were similar for knowledge of how much the respondent's employer contributed to their employer pension. Forty-six per cent of women, compared with 32 per cent of men, didn't know this. Respondents performing well on the knowledge test were again less likely to say they didn't know. In contrast to the consistent relationship with age that we saw on the knowledge test, levels of 'don't know' on these questions did not differ greatly by age.

Female respondents (16 per cent) were twice as likely as male respondents (eight per cent) to be unsure about how much their own contributions to a personal or stakeholder pension were<sup>24</sup>.

## 4.6 Awareness of specific pension issues

Another way of considering how knowledgeable respondents are about certain aspects of pensions is their awareness of different pension issues, including buying an annuity to provide a regular income in retirement, the Pension Protection Fund (PPF), and awareness of the tax changes to pensions that were implemented in April 2006 (on A-day). The full set of responses to these questions can be found in sections 7.7.4, 8.4.6 and Chapter 10 respectively. The proportions **not** aware of these are shown in Table 4.9.

**Table 4.9 Proportion *not* aware of pension related issues**

	% saying they were not aware
Pension related issue	
Annuities	77
PPF	76
A-day tax changes	64
<i>Base:</i>	<i>1,950</i>

Base: All respondents.

A large number of factors were related to awareness (or lack of it) on these pensions issues:

- **Sex:** women were less likely to have heard of all these pension-related issues than men. Eighty-one per cent of women were unaware of the need to annuitise, compared with 73 per cent of men. They were also less likely to have heard of the PPF (80 per cent compared with 71 per cent of men). The difference between men and women and their knowledge of the A-day changes was smaller (67 per cent of women did not know about A-day compared with 62 per cent of men).

<sup>24</sup> Too few respondents contributed to a personal/stakeholder pension to allow any other subgroup analysis.

- **Age:** the younger the respondent, the less aware they were of each of these pension related issues. Eighty-three per cent of respondents aged 18 to 34 had not heard of annuities, compared with 79 per cent aged 35-49 and 71 per cent aged 50-69. Eighty-seven per cent in the youngest age group had not heard of the PPF, compared with 76 per cent in the middle age group and 64 per cent in the oldest age group. With regard to the tax changes to pensions in April 2006, 69 per cent in the youngest age group were not aware of them, 65 per cent in the middle age group were not aware and 58 per cent in the oldest age group were not aware.
- **Pension provision:** 72 per cent of respondents with a private pension did not know about buying annuities compared with 90 per cent without a private pension who didn't know. Seventy per cent with a private pension did not know about the PPF compared with 89 per cent without a private pension. The changes that occurred on A-day were not known by 57 per cent with a private pension and 79 per cent without a private pension.
- **Education:** 89 per cent of respondents with no qualifications had not heard of annuities, 85 per cent had not heard of the PPF and 81 per cent did not know about A-day. This compares with 65 per cent with a degree or higher having not heard of annuities, 65 per cent not aware of the PPF and 50 per cent who didn't know about A-day.
- **A respondent's overall knowledge test score:** 89 per cent of respondents with a low score (under seven correct) were not aware of annuities and 59 per cent with a high score (ten or more correct) were not aware of annuities. Eighty-eight per cent with a low score had not heard of the PPF compared with 59 per cent with a high score. Seventy-nine per cent with a low score were not aware of A-day compared with 46 per cent with a high score.



## 5 Pensions information

- Half (51 per cent) of respondents had contacted a source for information and advice on planning for retirement and 69 per cent had received this, regardless of whether they had made contact.
- Employers most frequently provided information. However, financial advisers were the most popular first choice source for providing information and advice in the future.
- Sixty per cent of respondents would prefer to receive advice in person, either on their own or with a partner, friend or relative.
- Thirty-two per cent recalled receiving a State Pension Forecast (SPF). Women and older age groups (the most likely to have been sent a SPF at the time of the survey) were the most likely to recall receiving one.
- Two-thirds (66 per cent) of respondents who recalled receiving a SPF understood all or most of it and 76 per cent found this information useful.
- Just 16 per cent had undertaken any action as a result of receiving their SPF.

### 5.1 Introduction

The previous chapter examined people's knowledge about pensions, and in Chapter 9 we explore how much respondents expect to have to live on in retirement. In this chapter, we focus on the ways in which people can become better-informed about pensions and planning for retirement. The first section examines sources of information and advice, distinguishing between those that have been contacted by respondents and those that have provided information regardless of whether respondents approached them or not. The second part of the chapter focuses on information about future retirement income, specifically pension forecasts, and in particular the SPF.

## 5.2 Sources of information

This section considers the sources that respondents have contacted for pensions information and advice, and the sources from which respondents have received information and advice without necessarily making contact. This distinction is helpful because contacting sources for pensions information is a particularly pro-active behaviour – and respondents who have done this are therefore likely to be more engaged with pensions than other respondents.

However, a number of factors need to be borne in mind when comparing the extent of these two types of information provision. Measuring levels of information requested and received relies upon respondents' accurate recall. Respondents might more frequently recall requesting information, as this was actively sought, than receiving unsolicited information. Respondents would be more likely to recall information that had been requested or received recently, rather than at some time in the more distant past. In addition, the receipt of unsolicited information could have prompted respondents to become more pro-active and request additional information subsequently.

### 5.2.1 Information received and information requested

There are a number of different sources for information and advice on pensions, ranging from the Government to financial institutions such as banks. Respondents were asked which of a range of sources they had contacted for information and advice on planning for retirement, and which had been a source of information or advice regardless of whether they had contacted them or not.

Many respondents had had some contact with at least one source for information and advice on planning for retirement. Just over half (51 per cent) had proactively made contact with a source and 69 per cent had received information or advice from a source regardless of whether they had contacted them or not (Table 5.1).

Respondents used a range of sources as a reference for information and advice on planning for retirement. Employers were the most frequently cited source (by around 25 per cent), both in terms of respondents choosing to contact them, and as information sources regardless of whether the respondent had initiated contact with them themselves. Other common sources of information and advice were financial advisers and pension providers.

**Table 5.1 Sources for information and advice on planning for retirement**

	Proportion contacting source for information	Proportion receiving information from source (without necessarily making contact)
	%	%
At least one source	51	69
No source	49	30
<b>Source of information</b>	<b>%</b>	<b>%</b>
Employer	21	26
Financial adviser	19	16
Pension provider	13	15
Bank/Building society	9	12
Friends/family/colleagues	9	13
Department for Work and Pensions (DWP)/Department for Social Security (DSS)/The Pensions Service	9	13
The media (newspapers, TV, radio)	5	16
Accountant	4	3
Insurance company	4	5
Internet generally	3	5
Sources cited by less than five per cent of respondents <sup>1</sup>	6	12
Other source – spontaneously identified	*	1
Don't know	0	*
<i>Base</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

Respondents could mention more than one source.

Note: \* means less than 0.5 per cent but more than zero.

<sup>1</sup> These were HM Revenues and Customs (HMRC)/Inland Revenue, Trade Union, the Government generally – no specific department, Citizens Advice Bureau and Help the Aged, Age Concern or a similar organisation.

Views on the best source for information and advice on planning for retirement were mixed and were undoubtedly closely associated with a person's own experiences of pensions and exposure to different services. Given the choice, just under a quarter (23 per cent) of respondents said they would most like to receive information from a financial adviser. Employers and pension providers were also relatively popular choices for information and advice, with 14 and 11 per cent respectively choosing these sources as their first choice for information in the future. Around one in ten (nine per cent) said the DWP would be their first choice. As well as financial and pension advisers, employers and pension providers, a more informal source emerged

as a source for information on planning for retirement with a tenth saying their first choice would be friends, families or colleagues (see Table 5.2).

The sources contacted by respondents for information and advice on retirement planning did not always reflect those which they identified as being their first choice sources. The most popular choice as a source for future information and advice was a financial adviser; while in practice, employers were most likely to have been contacted for this purpose. This might be because respondents required specific information that their employer was best placed to provide, for example information relating to their own employer pension.

**Table 5.2 First choice source for information and advice on planning for retirement**

Source of information	First choice source for information %
Financial adviser	23
Employer	14
Pension provider	11
Friends/family/colleagues	10
DWP/DSS/The Pensions Service	9
Bank/Building society	7
Internet generally	5
Sources cited by less than five per cent of respondents <sup>1</sup>	11
Other	0
None of these	6
Don't know	3
<i>Base</i>	<i>1,613</i>

Base: All respondents not defined as retired.

<sup>1</sup> Respondents were presented with a number of other answer options. These have been summed where less than five per cent of respondents cited these sources. The other answer options were Citizens Advice Bureau, an accountant, the media, an insurance company, HMRC/ Inland Revenue, a trade union, the Government generally – no specific department and Help the Aged, Age Concern or a similar organisation.

Respondents were more likely to want to visit their preferred source for information in person either on their own or with a partner, friend or relative. The least favoured methods for receiving information about planning for retirement were email or the internet and by telephone (nine and six per cent respectively would choose to receive information in this way). These preferences are shown in Table 5.3.

**Table 5.3 Preferred mode for receiving information and advice**

Mode for receiving information	Preferred mode for receiving information %
In person: on own/with partner, friend or relative	60
In a letter or leaflet	31
By email or online (through the internet)	9
In person: with a group of people (for example with colleagues at workplace)	8
By telephone	6
A mixture of these ways	11
<i>Base</i>	<i>1,268</i>

Base: All respondents not defined as retired with a first choice source for information.

Respondents could mention more than one mode.

### 5.2.2 Subgroup differences in information and advice on planning for retirement

More men than women recalled receiving information on pensions and planning for retirement either through requesting it or receiving it without necessarily requesting it. There was a significant difference between the proportion of men and women who had requested information: 54 per cent of men and 47 per cent of women had done so. Men were more likely to have contacted a financial adviser or employer for information than women (23 per cent of men compared with 16 per cent of women had contacted a financial adviser and 23 per cent of men compared with 18 per cent of women had contacted their employer). This can, to an extent, be accounted for by there being a higher proportion of men than women in employment overall. When looking at just those in work, 56 per cent of both men and women had requested information and 26 per cent of men and women had approached their employer for information. Employed men were more likely to contact a financial adviser (24 per cent compared with 20 per cent of employed women).

There was little difference in the proportions of men and women contacting each of the other sources. Men were more likely than women to want to receive information in person (on their own or with a partner, friend or relative than women) as shown in Table 5.4.

In Section 5.3.1, we discuss a particular form of pensions information – SPFs – and point out that at the time of the survey, more women than men had been sent SPFs. This may partially explain the smaller difference between the proportions of men and women who recalled receiving information that they had not necessarily requested, compared to the difference in those who had requested information.

**Table 5.4 Information on pensions and planning for retirement, by sex**

	Men %	Women %
Contacted at least one source for information	54	47
Received information from at least one source (without necessary making contact)	71	68
<i>Base</i>	<i>880</i>	<i>1,070</i>
<b>Preferred mode for receiving information</b>	<b>%</b>	<b>%</b>
In person: on own/with partner, friend or relative	64	57
In a letter or leaflet	28	34
By email or online (through the internet)	8	10
In person: with a group of people (for example with colleagues at workplace)	7	9
By telephone	7	5
A mixture of these ways	12	10
<i>Base*</i>	<i>576</i>	<i>692</i>

Base: All respondents.

+Base: Respondents not defined as retired with a first choice source for information.

Respondents could mention more than one source and more than one mode.

As might be expected, older respondents were more likely to have contacted a source for information on pensions and planning for retirement (shown in Table 5.5): while 39 per cent of 18-34 year olds had done so, the figure for 50-69 year olds was 20 percentage points higher. This trend is particularly evident with contact made with the DWP. Just one per cent in the youngest age group (18-34) had requested information from DWP, compared with six per cent in the middle age group (35-49) and 19 per cent in the oldest age group (50-69).

The 41 per cent aged between 50-69 who had not contacted any sources for information and advice broadly reflect the characteristics of those within the sample who had not done so. For instance, this was the case for more women and more of those with a lesser knowledge of pensions aged between 50-69.

Younger respondents were more likely to identify friends and family as their first choice source of information and advice on planning for retirement compared to their older counterparts; nearly one-fifth of those aged between 18-34 indicated this (18 per cent) compared to less than one in twenty (four per cent) of those aged between 35-69.

**Table 5.5 Information on pensions and planning for retirement, by age**

	18-34 %	35-49 %	50-69 %
Contacted at least one source for information	39	53	59
Received information from at least one source (without necessary making contact)	64	69	74
<i>Base</i>	466	643	841

Base: All respondents.

Respondents could mention more than one source.

As shown in Table 5.6, respondents with private pension provision were far more likely to have contacted one of the sources for information than those without a private pension (either current or past). The difference, although still significant, between those with and without a private pension for whether they had received information without necessarily making contact with any one of the sources is less striking than the difference between those with and without a private pension who had made contact. This suggests that information is still getting through to some people without private pensions but that these people are more likely to have been contacted rather than them making contact with the available sources for information themselves.

**Table 5.6 Information on pensions and planning for retirement, by whether has private pension provision**

	Past or current private pension provision %	No private pension provision %
Contacted at least one source for information	65	19
Received information from at least one source (without necessary making contact)	79	48
<i>Base</i>	1,390	534

Base: All respondents.

Respondents could mention more than one source.

The knowledge test score (described in Chapter 4) was significantly related to whether a respondent had contacted a source for information and whether they had received information without necessarily making contact. In both cases (as shown in Table 5.7), the higher scoring respondents were more likely to have received information on pensions and planning for retirement.

**Table 5.7 Information on pensions and planning for retirement, by knowledge test score**

	Low pensions knowledge: (<7 out of 14 on quiz) %	Medium pensions knowledge: (7-9 on quiz) %	Higher pensions knowledge: (10+ on quiz) %
Contacted at least one source for information	35	52	67
Received information from at least one source (without necessarily making contact)	58	72	80
<i>Base</i>	586	841	523

Base: All respondents.

Respondents could mention more than one source.

### 5.3 Pensions forecasts

This section examines access to four different types of pension forecasts, and goes on to consider how they have been assessed by their recipients and any outcomes following receipt of the forecasts. The four pension forecast types, described in greater detail when results relating to them are presented, are:

- the SPF<sup>25</sup>;
- the Combined Pension Forecast (CPF);
- employer pension forecasts; and
- personal pension forecasts.

#### 5.3.1 State Pension Forecasts

State Pension Forecasts give an estimate of the State Pension entitlement individuals are likely to receive when they reach State Pension Age (SPA). During the period of the survey, DWP had provided three different types of SPF.

First, Individual Pension Forecasts (IPFs), which are the most comprehensive, detailed and personalised type of SPF and are issued in response to an individual's request. Individuals need to supply further detailed information to DWP to enable information on how future changes to an individual's circumstances will impact on their future

<sup>25</sup> Particular attention has been given to the SPF because it has a standard format and layout, and so it seems reasonable to analyse it in terms of its usefulness and impact, and because sufficient numbers of respondents had received an SPF to allow subgroup analysis.

State Pension provision. DWP has provided a central IPF service since 1988. The second type of forecast is Real Time Pension Forecasts (RTPFs), which are essentially an on-line version of an IPF. This web-based service was introduced in October 2004. Finally, DWP also provided an 'unprompted' pension forecasting service called Automatic Pension Forecasts (APFs). APFs were introduced in May 2003 and were sent to people of working age who had not received one of the other types of SPF (or a CPF, issued through employers and pension providers – see Section 5.3.3) in the previous 12 months. Like the other types of SPF, these are based on an individual's National Insurance (NI) record but are less detailed than IPFs and are more assumption based.

The self-employed were the first segment of the working age population to be targeted with APFs. But from December 2004 the service was rolled-out to the rest of the working age population, taking different groups in turn.

These unprompted type of SPFs were issued to each of the following four segments of the working age population – women aged 50-59; men aged 50-64; women aged 20-49; and men aged 20-49. The full cycle was completed in November 2006.

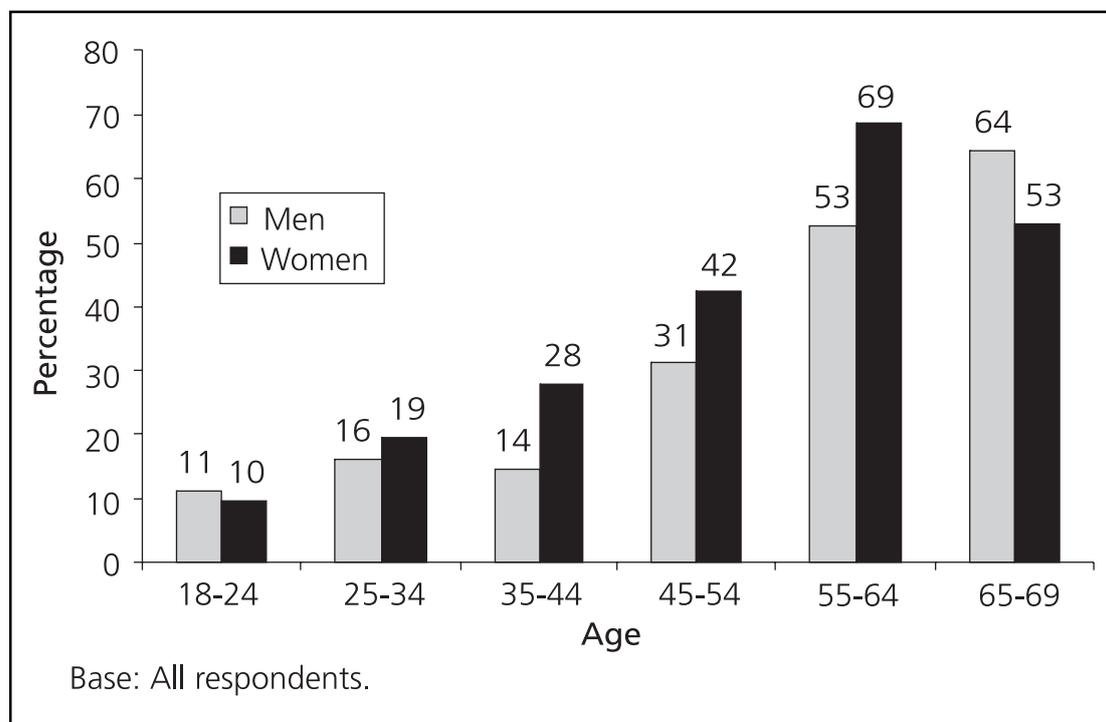
APFs are the type of SPF that were issued in the largest numbers at the time of the survey – around eight million a year. An average of just under one million IPFs have been issued each year over the last five years. RTPFs are issued in much smaller numbers, approximating 80,000 -100,000 annually.

At the time of this survey, many men under 50 had not have yet received a SPF, unless they had requested an IPF. Therefore, this should be borne in mind when considering levels of recall of receipt of SPFs.

The survey found that about a third (32 per cent) of all respondents recalled receiving a SPF. This figure comes from respondents' own recollections, and has not been independently verified. It should be borne in mind that accurate recall is likely to decline over time and some respondents might have been sent a SPF some years previously. However, respondents were shown an example SPF during the interview to remind them of the format of the SPF and the information it provides.

Older women were most likely to recall receiving an SPF. As shown in Figure 5.1, a greater proportion of women than men remembered receiving a SPF and the proportion of both men and women receiving an SPF increased as age increases. The main exception to this is the eldest age group (65-69) where the age trend has reversed and more men than women remembered receiving a SPF. These findings are to be expected; as detailed above, older age groups were sent their SPFs first, with men aged 20-49 being the only group yet to be covered at the time of the survey.

**Figure 5.1 Recall of receipt of the State Pension Forecast, by sex and age**



Assessments of the SPF were broadly positive. Two-thirds (66 per cent) of those who had recalled receiving a SPF reported that they understood all, almost all or most of it and 76 per cent had found it very or fairly useful.

However, outcomes<sup>26</sup> following receipt of the SPF suggest that the effectiveness of the SPF with regard to prompting a change in people's behaviour (in relation to their retirement planning and pension arrangements) was far more limited. Most of those who recalled receiving a SPF took no action in response to receiving one (84 per cent did nothing). A small proportion (seven per cent) requested or searched for further information on pensions or retirement planning. Even fewer of those who recalled receiving a SPF made any concrete change to their pension arrangements in response to receiving one. Four per cent increased or started saving for retirement through any form of saving other than a pension and three per cent purchased additional years of entitlement to the State Pension (see Table 5.8).

<sup>26</sup> The 'outcomes' offered to the respondents made no assumptions about whether the respondents would need to save more or less for their retirement i.e. a respondent could indicate either an increase or decrease in contributions to an existing pension. In answering the question, respondents were asked to think about any action they took specifically as a result of receiving their SPF.

**Table 5.8 Action taken after receiving the State Pension Forecast**

Type of action	Action taken %
Didn't do anything	84
Requested or searched for further information on pensions or retirement planning	7
Increased/started saving for retirement through any other forms of saving	4
Purchased additional years of entitlement to the State Pension	3
Increased contributions to an existing pension scheme	2
Made different provision arrangements for partner and/or dependants	1
Changed working arrangements (changed hours, type of work)	1
Joined another personal or employer pension scheme	*
Left/stopped contributing to a personal or employer pension scheme	*
Decreased/stopped saving for retirement through any other forms of saving	*
Informed the Government of reasons for not working	*
Decreased contributions to an existing pension scheme	0
Other	1
<i>Base</i>	695

Base: Respondents recalling receipt of an SPF.

Respondents could mention more than one action.

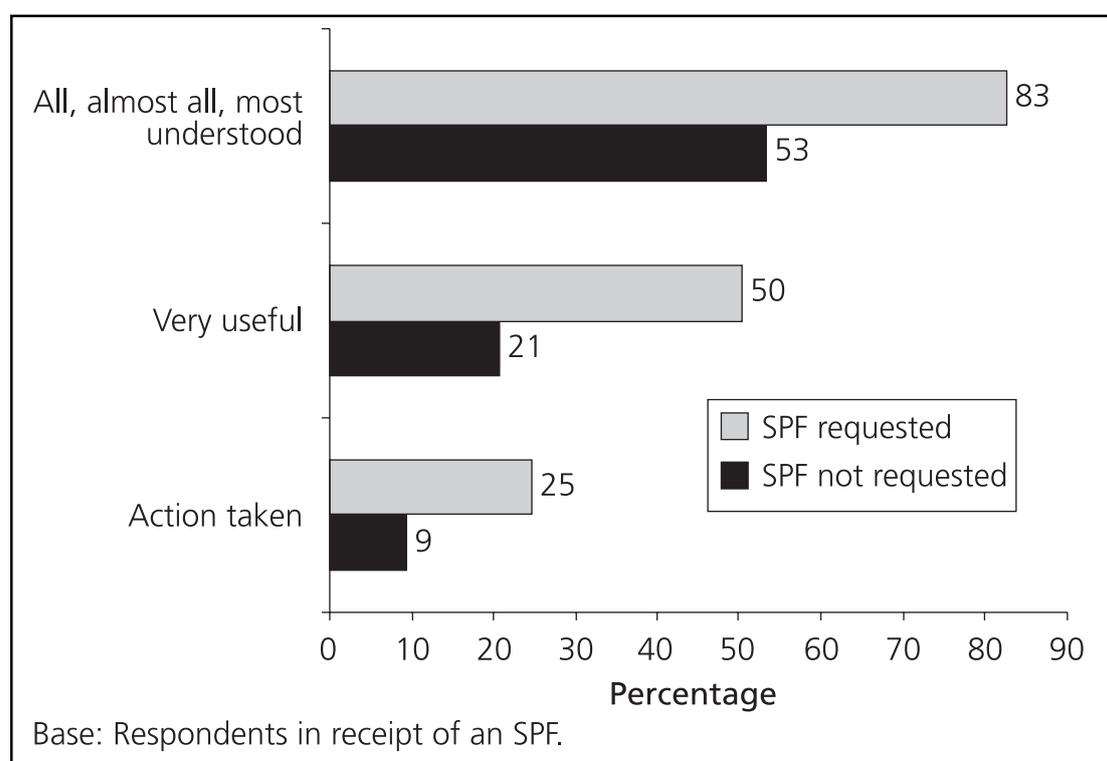
Note: \* means less than 0.5 per cent but more than zero.

As well as looking at whether respondents took any action following receipt of their SPF, its impact could also be measured by whether the respondents were able to estimate what they thought their State Pension income would be in retirement. To do this, respondents were asked how much they thought they will get from the State Pension when they retire. For respondents who gave an estimate it is difficult to measure the accuracy of their response because the amount they will actually receive will vary so considerably and the information they provided was not validated as part of the survey. Therefore, this can only provide a very rough indication of people's knowledge of their State Pension income. The survey found that three-quarters of those who had received an SPF were able to give an estimate of how much they would receive, compared to 58 per cent of those who had not received a SPF. It is also worth noting that 18 per cent of those who couldn't give an estimate had received an SPF.

Assessments of and outcomes from the SPF differed greatly between those who **requested** their SPF and those who had received their SPF without requesting it. Overall, 42 per cent of those who had received a SPF had requested it. It should be borne in mind that respondents may be more likely to remember receiving information that they have requested, so this proportion may be higher than expected. Understanding was far greater among this group: 83 per cent of those who had requested their SPF understood all, almost all or most of their SPF compared with 53 per cent of those who hadn't requested it (Figure 5.2).

Assessments of usefulness also differed: 50 per cent of those who requested their SPF found it very useful compared with 21 per cent of those who did not request their SPF. Requesting a SPF was more likely to lead to some action being taken (25 per cent of those who requested their SPF made a change to their pension arrangements or took some action to plan for retirement compared with nine per cent of those who didn't request their SPF). It may be that those who requested their SPF had some action in mind and wanted information in order to confirm this.

**Figure 5.2 Assessments and outcomes of the State Pension Forecast, by whether it was requested**

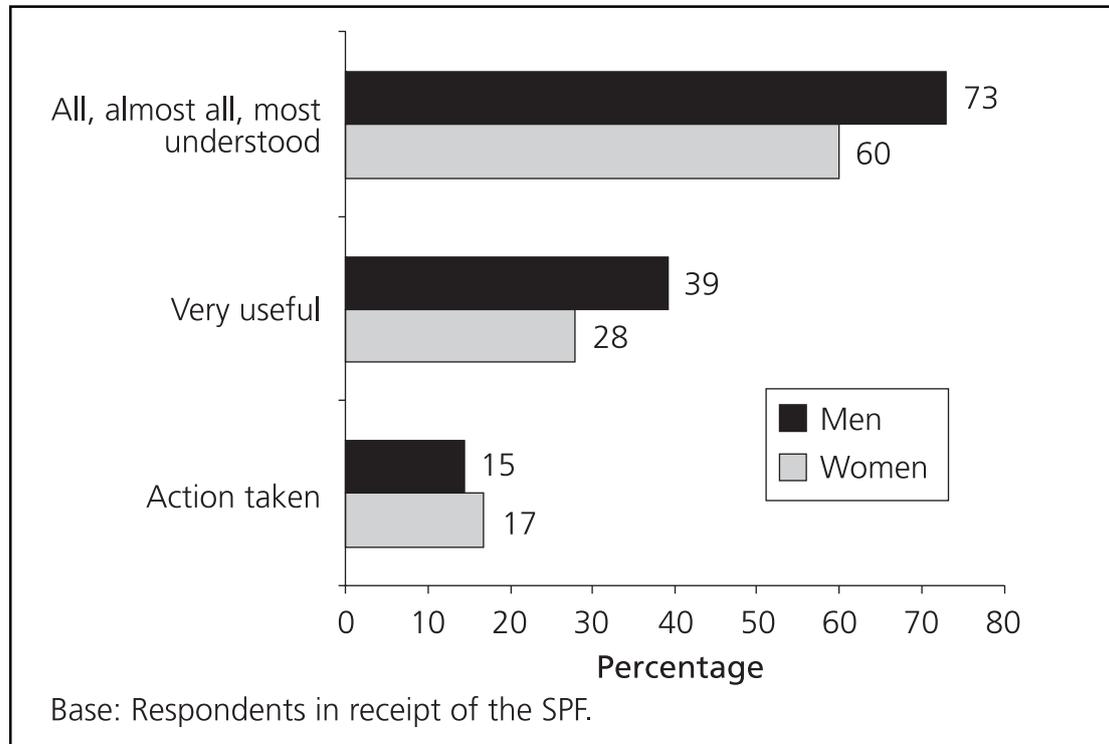


### 5.3.2 Subgroup differences in receipt of and response to State Pension Forecasts

More men than women requested their SPF (of those who recalled receiving an SPF, 46 per cent of men had requested theirs, compared to 38 per cent of women). This may be partially explained by the fact that, at the time of the survey, more women than men had been sent an unprompted SPF without this being requested.

More men than women reported having a good understanding of their SPF and finding their SPF useful. However, there was minimal difference in the proportions of men and women taking action following receipt of their SPF, with around a sixth of both groups taking some action (Figure 5.3).

**Figure 5.3 Assessments and outcomes of the State Pension Forecast, by sex**

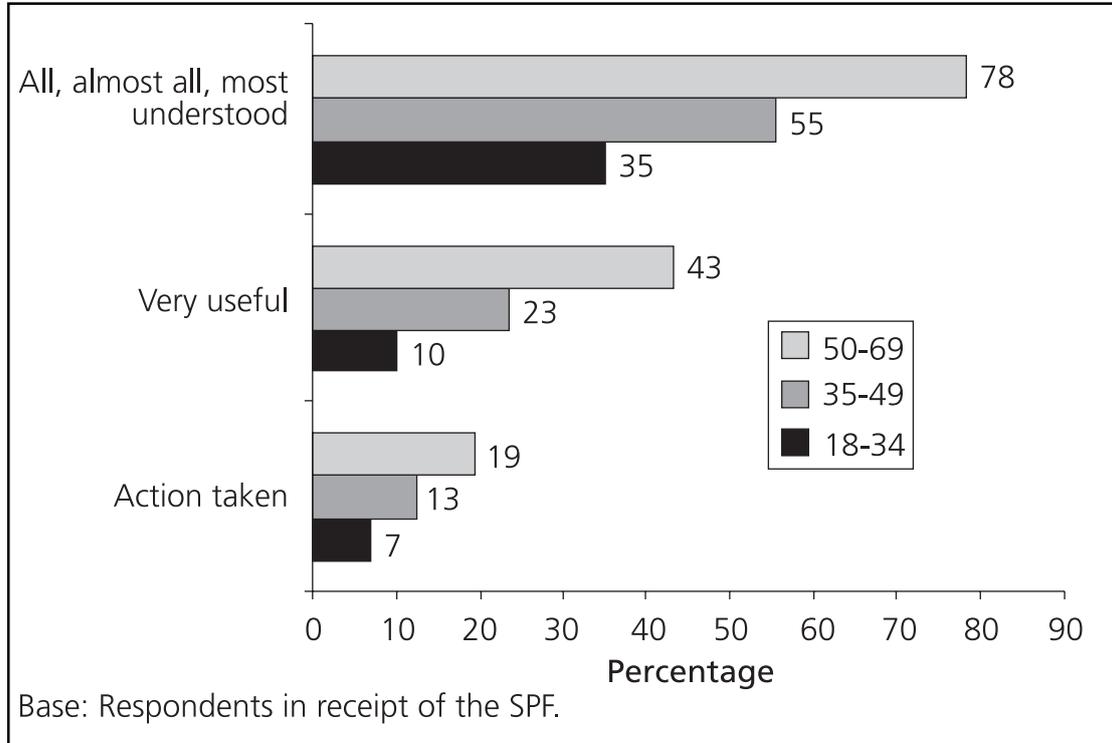


There were significant differences related to age with regard to the understanding and assessments of usefulness of the SPF. This is shown in Figure 5.4. Older respondents (age 50-69) were much more likely to say they had understood all, almost all or most of their SPF and that they had found it very useful. There were also significant differences in terms of any action taken following receipt of their SPF. Seven per cent of the youngest age group (age 18-34) took some action compared with 19 per cent of the oldest age group (age 50-69).

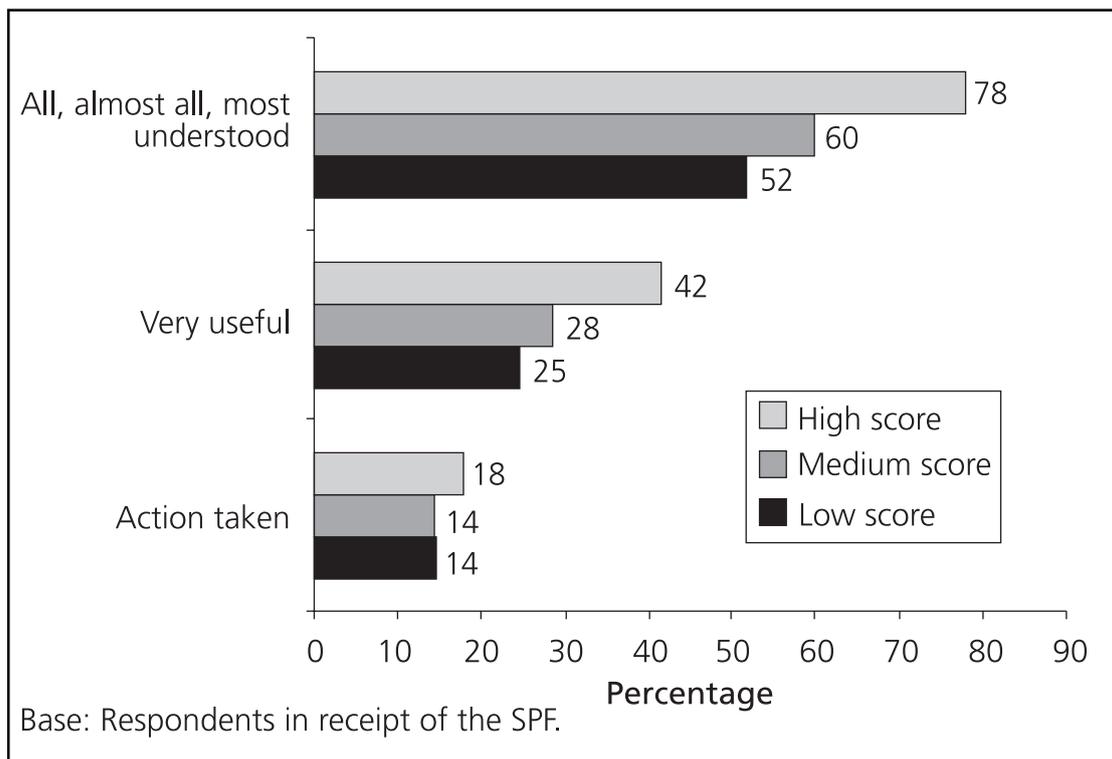
A similar analysis demonstrates a relationship when it comes to looking at pensions knowledge and different attitudes towards pensions. Figure 5.5 shows that the respondents with higher scores in the knowledge test (as described in Chapter 4) had a better understanding of their SPF and found it more useful.

Attitudes to pensions were also related: when asked to agree or disagree with the statement 'I find pensions boring': half (52 per cent) of those who found pensions boring understood their SPF, compared to eight in ten (78 per cent) of those who disagreed with this view. No significant differences were found between the groups with regard to whether any action had been taken after receiving the SPF as so few respondents overall had actively done something as a result of receiving their SPF.

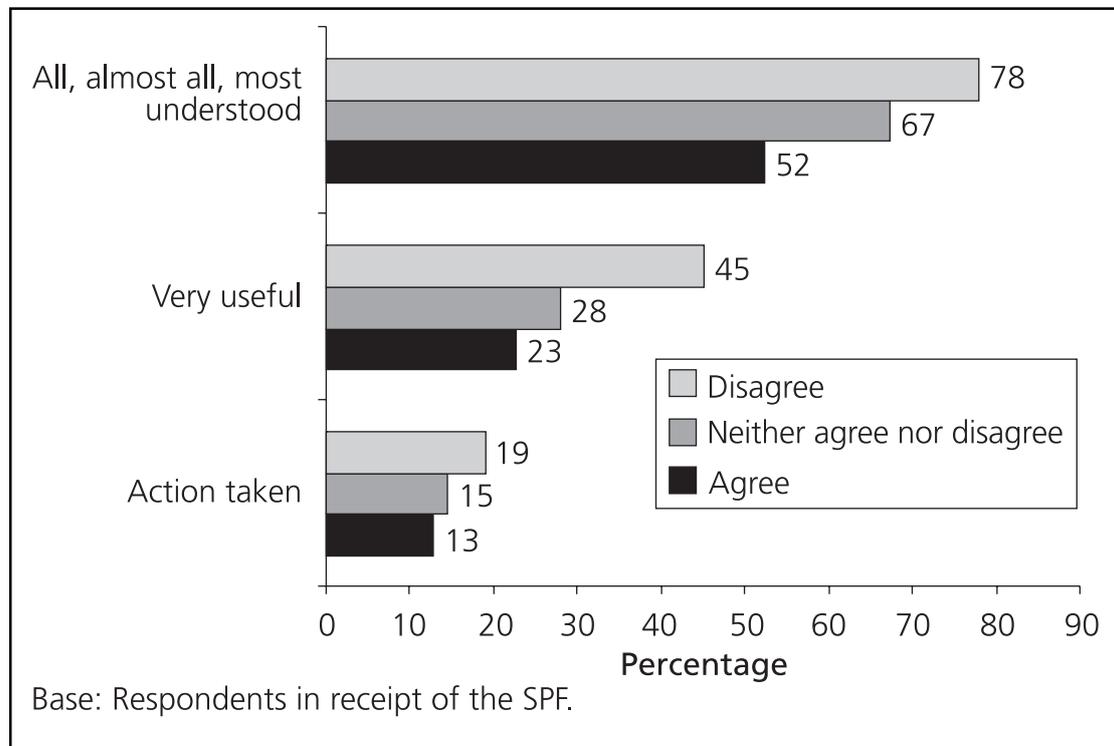
**Figure 5.4 Assessments and outcomes of the State Pension Forecast, by age**



**Figure 5.5 Assessments and outcomes of the State Pension Forecast, by knowledge test score**



**Figure 5.6 Assessments and outcomes of the State Pension Forecast, by whether 'pensions are boring'**



Just under a third (29 per cent) of working respondents recalled receiving an SPF, around half as many as we found for retired respondents (66 per cent). Fewer respondents in each of the other economic activity groups had recalled receiving an SPF: 22 per cent of those looking for work, in training or doing unpaid work, 20 per cent in education, looking after the home or other and 19 per cent who were sick or disabled.

Respondents with private pension provision (either current or past) were more likely to have recalled receiving a SPF than those without any private pension provision (38 per cent with a private pension had received an SPF and 18 per cent without a private pension had received a SPF). However, we need to bear in mind that private pension provision is associated with age (older respondents are more likely to belong to a private pension scheme), and we also know that older respondents are more likely to have received an SPF.

### 5.3.3 Combined Pension Forecasts

The Government works with employers and other private pension providers on a voluntary basis to provide CPFs. These give forecasts of an individual's likely State Pension, alongside the annual personal/occupational statement the employer/provider already issues. This helps build a more complete picture of the individual's likely financial situation in retirement. By the end of January 2007, around ten million CPFs had been issued.

In the survey, nine per cent of those belonging to private pension schemes said they had received a CPF<sup>27</sup>.

Assessments of the CPF were very similar to assessments of the SPF. Sixty-six per cent of those who recalled receiving one said they understood all, almost all or most of their CPF and 70 per cent found it very useful.

The receipt of a CPF did not result in many of the respondents making changes to their pension arrangements or even requesting further information on pensions. Eighty-three per cent took no action upon receipt of their CPF. Six per cent requested or searched for further information on pensions or planning for retirement and six per cent increased contributions to an existing pension scheme.

### 5.3.4 Other pension forecasts

Private pension providers frequently provide forecasts of retirement income not combined with the SPF. Defined Contribution (DC) pension schemes are legally required to provide their scheme members with a Statutory Money Purchase Illustration (SMPI) of their projected pension benefits every year, which provides information on a standard basis. Equivalent estimates of future entitlement are also standard practice for most of the large Defined Benefit (DB) schemes, despite there being no legal requirement for them to provide such information – existing legislation only requires DB schemes to provide annual benefit information on request<sup>28</sup>.

Just over half (55 per cent) of those with an employer pension remembered receiving a forecast of the income that they might expect to receive from that pension in retirement. Just under half (48 per cent) belonging to a personal pension scheme recalled receiving a personal pension forecast.

Private forecasts are varied in their layout and, to some extent, the information they provide but approximately two-thirds of those in receipt of an employer and a personal pension forecast (64 and 66 per cent respectively) had a good comprehension of the information in the forecasts (they understood all, almost all or most of it). A third (33 per cent) found their employer forecast very useful and 29 per cent found their personal pension forecast very useful.

As with SPFs and CPFs, private pension forecasts inspired very little change in the behaviour of respondents with regard to planning for retirement. Around eight in

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<sup>27</sup> The numbers in receipt of the CPF are too small to allow subgroup analysis.

<sup>28</sup> It is more straightforward to calculate future pension entitlement for a member of a DB scheme as this is usually based on salary/years of service. For a SMPI, the information attempts to forecast what income might be derived from the pension 'pot' at the normal pension age of the scheme. As such, the illustration is based on standardised actuarial assumptions on investment growth and annuity rates and not the pension income to be expected.

ten did nothing after receiving their forecast (this applied to 82 per cent of those receiving an employer pension forecast and 78 per cent of those receiving a personal pension forecast). The majority of those that did do something requested or searched for further information.

Fifty-eight per cent of men compared with 51 per cent of women had received an employer pension forecast. Similar proportions of men and women had received a personal pension forecast (49 per cent of men and 45 per cent of women).

As shown in Table 5.9, men were more likely than women to report having a greater understanding of their private pension forecast, more likely to have found them useful and more likely to have done something after receiving their private pension forecasts.

**Table 5.9 Assessments and outcomes of employer and personal pension forecasts, by sex**

	Men %	Women %
<b>Assessments of and outcomes to employer forecasts</b>		
All, almost all, most understood	72	54
Very useful	40	25
Action taken	21	14
<i>Base</i>	<i>306</i>	<i>277</i>
<b>Assessments of and outcomes to personal forecasts</b>		
All, almost all, most understood	71	57
Very useful	33	23
Action taken	25	17
<i>Base<sup>+</sup></i>	<i>187</i>	<i>138</i>

Base: All respondents in receipt of an employer pension forecast.

+Base: All respondents in receipt of an personal pension forecast.

Recollection of receipt of employer pension forecasts and personal pension forecasts did not differ greatly by age. Forty-five per cent of respondents aged 18-34 had received an employer pension forecast, compared with 58 per cent of those aged 35-49 and 57 per cent of those aged 50-69 (the equivalent figures for personal pension forecasts were 45, 49 and 47 per cent). However, assessments of these forecasts did differ by age as shown in the following table (Table 5.10). Older respondents were more likely to understand and find their private pension forecasts useful and more likely to take action after receiving their forecast.

**Table 5.10 Assessments and outcomes of employer and personal pension forecasts, by age**

	18-34 %	35-49 %	50-69 %
<b>Assessments of and outcomes to employer forecasts</b>			
All, almost all, most understood	54	56	77
Very useful	15	27	49
Action taken	14	16	21
<i>Base</i>	92	229	262
<b>Assessments of and outcomes to personal forecasts</b>			
All, almost all, most understood	[45]	59	79
Very useful	[16]	21	40
Action taken	[9]	21	27
<i>Base*</i>	39	123	163

Base: All respondents in receipt of an employer pension forecast.

+Base: All respondents in receipt of an personal pension forecast.

Note numbers in [ ] are percentages based on fewer than 50 actual cases, and which may be unreliable.

## 6 General attitudes towards saving for retirement

- Most respondents were positively inclined towards saving and recognised the importance of setting money aside for retirement.
- A substantial minority felt themselves to be less able to save. Thirty-seven per cent sometimes bought things that they could not afford and 29 per cent prioritised a good standard of living today over saving for retirement.
- Younger respondents, those with low incomes and those with perceived lower life expectancies were more likely to prioritise their current standard of living over saving for retirement.
- Seventy-one per cent agreed that it was better to play safe than to take risks with their savings.
- More than two-thirds (69 per cent) would prefer a medium-risk pension fund, compared to one with a low or high risk.
- Sixty-four per cent believed that a pension fund linked to the stock market was too much of a risk.
- Around a third (34 per cent) felt they had a clear idea what to do when making important financial decisions. Men and older respondents were more likely to state this.

### 6.1 Introduction

In this chapter, we look at people's general attitudes towards saving for retirement in order to set a broader context in which attitudes to pensions can be understood. This covers a range of topics, from views about saving versus spending, to confidence in purchasing financial products. In Section 6.2 we look at people's general orientation towards saving. In Section 6.3 we analyse people's attitudes towards risk, and Section 6.4 outlines people's confidence in making financial decisions, particularly around savings and retirement.

## 6.2 General attitudes towards saving

Most respondents were positively inclined towards saving and saw the importance of saving towards retirement. There was a recognition that saving was important, and that this might mean sacrifices in terms of today's living standard. The majority did not believe in buying things they felt they could not really afford. Even so, a substantial minority held opposing views (see results in Table 6.1). Overall:

- 70 per cent agreed that they made sure they had savings for 'a rainy day', whilst 20 per cent did not<sup>29</sup>;
- 43 per cent disagreed that they preferred a good standard of living today instead of saving for retirement, but 29 per cent were oriented mostly towards the present time (i.e. current living standards);
- 70 per cent agreed they were encouraged to save when young, whilst 24 per cent were not encouraged to do so<sup>30</sup>;
- 57 per cent did not buy things they could not afford, though 37 per cent said they sometimes did this.

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<sup>29</sup> Overall, 91 per cent of those who agreed they were rainy day savers actually had some savings, compared with 64 per cent of those who disagreed. It is, however, possible that people were saving in more informal ways (such as storing cash in their home).

<sup>30</sup> Those who had not been encouraged to save were just as likely as those who had to be in paid work, and were working similar hours, with similar proportions having joined occupational pensions. However, those not encouraged to save as children were less well-qualified, slightly older and with lower incomes.

**Table 6.1** General attitudes towards saving

	<b>I make sure I have money saved for a rainy day</b> %	<b>I would rather have a good standard of living today, than save for retirement<sup>1</sup></b> %	<b>When I was growing up I was always encouraged to save money</b> %	<b>I sometimes buy things even though I can't always afford them</b> %
Agree strongly	15	3	14	4
Agree	55	26	56	34
Neither agree nor disagree	10	28	6	4
Disagree	18	41	22	44
Disagree strongly	2	2	2	13
<i>Base</i>	<i>1,950</i>	<i>1,613<sup>+</sup></i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

+Base: All not defined as retired.

<sup>1</sup> By comparison, in the 'Pensions 2002' report (Mayhew 2003), some 49 per cent agreed with the statement and 48 disagreed. However, this earlier study did not permit people to be undecided – neither agree nor disagree – and this may be part of the explanation for the lower proportion agreeing that we found.

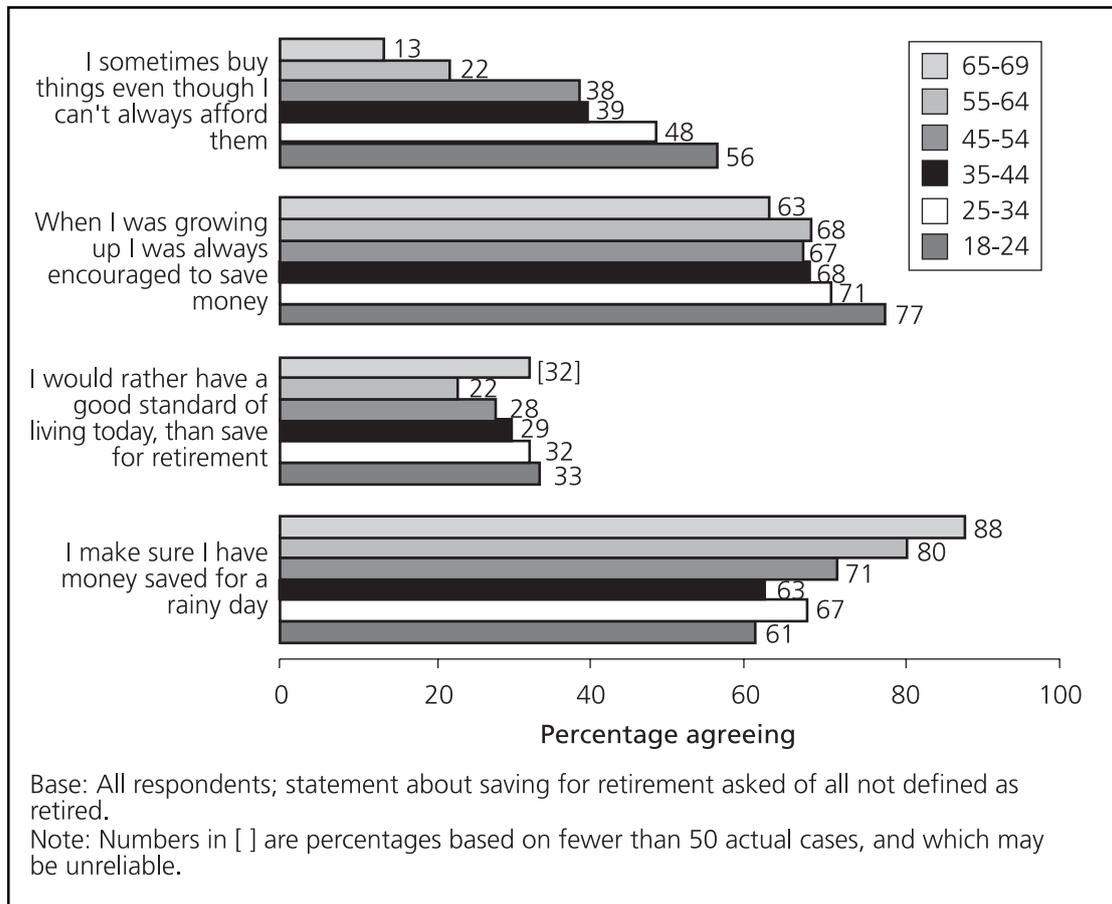
This set of four questions is shown separately for different age groups in Figure 6.1. The horizontal bars show the proportion who agree (whether strongly or not) with each of the statements about attitudes towards saving.

Taking the first statement in the chart, about buying things even though they cannot afford them, the young were the most likely to agree with this statement. More than half (56 per cent) of those aged 18-24 said they sometimes bought things they could not always afford. This was rather lower (48 per cent) among those aged 25-34, and the proportions agreeing fell somewhat steadily among older age groups.

Despite this, most (77 per cent) of those aged 18-24 had nonetheless been encouraged to save as a child. This was less common among older groups, perhaps surprisingly, and may reflect times of austerity for those raised longer ago. This group also faces the greatest problems in recalling events from childhood, which are now rather longer ago than for younger respondents. There was some tendency for younger people to prefer a good standard of living today, rather than saving for retirement, but the differences by age were not particularly large<sup>31</sup>.

<sup>31</sup> The apparent 'blip' among those aged 65-69 is partly because only those not retired were asked this question. So the group is not all 65-69 year-olds, but a small subgroup (n=20).

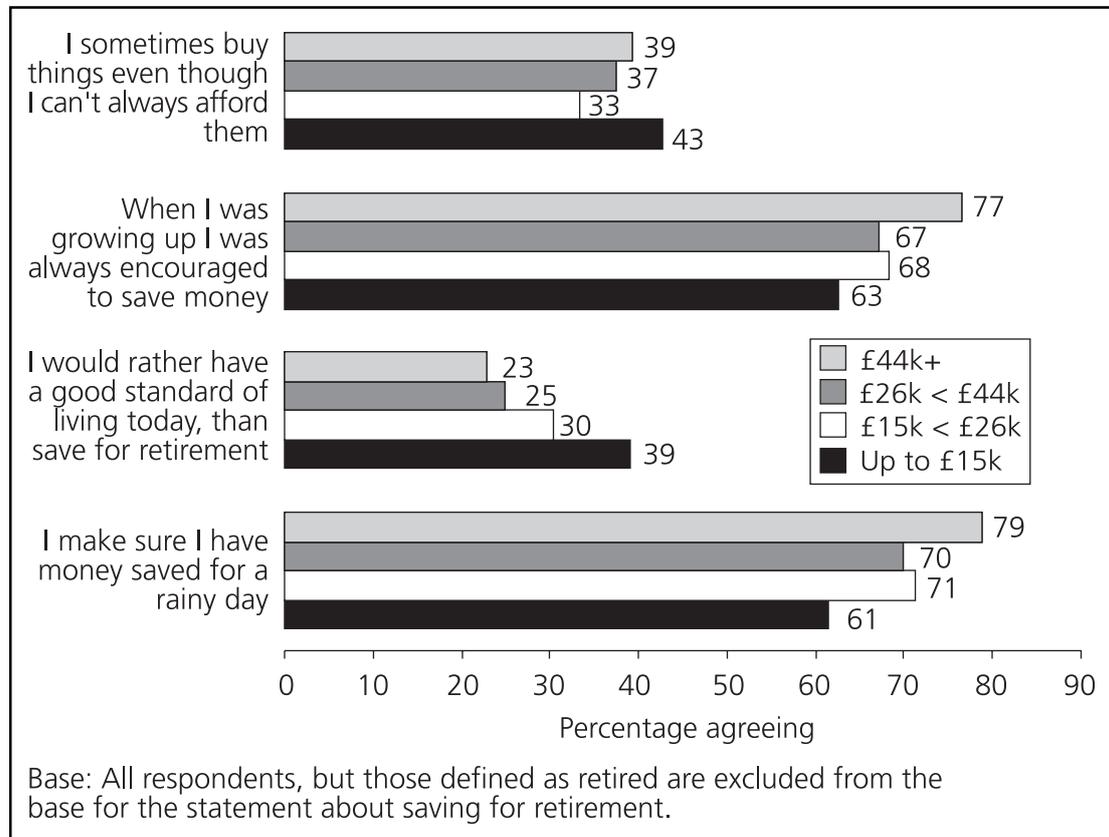
**Figure 6.1** General attitudes to saving (per cent agreeing), by age group



Older groups were rather more likely than younger people to say that they made sure they had money saved 'for a rainy day' – though in fact most people in all age groups agreed. This ranged from 61 per cent of those aged 18-24 to as high as 88 per cent among those aged 65-69. It is possible that these differences reflect disposable income as much as age, of course. We explore the links between income and attitudes towards saving in Figure 6.2. As expected, those on higher incomes were the most likely to have money saved for a rainy day – 79 per cent of the top quarter of incomes, compared with 61 per cent among the bottom quarter.

Looking at the other relatively general attitude statements, lower incomes were associated with a preference for a good standard of living today rather than saving for retirement. This may be an acknowledgement that their incomes are unlikely to stretch much beyond current consumption priorities. They were also more likely to buy things they could not always afford, although the differences by income were much smaller than the differences we found between different age groups. Those on higher household incomes were the most likely to say that they had been encouraged to save whilst growing up.

**Figure 6.2** General attitudes to saving (per cent agreeing), by annual household income



In Table 6.2, we show how attitudes towards saving for retirement (versus a good standard of living today) are affected by perceptions of life expectancy. In principle, we might assume that people expecting a very long life would give priority to future consumption. Alternatively, it is possible that views about consumption are more immediate, and judgements about life expectancy made more rarely and with little direct influence on day-to-day decision-making. Those with a well-worked out idea that they may have a longer life expectancy may be the groups with the most to gain from current saving, including saving in the form of pensions.

There is some evidence that those anticipating the shortest lifespans – dying before 75 – tended to prioritise today's living standard over saving for retirement. Some 40 per cent of this group preferred a higher living standard today, compared with 29 per cent overall. However there were few if any differences among the vast majority of respondents who expected to live to 75 and well beyond.

**Table 6.2 Preference for good standard of living now versus saving for retirement, by self-perceived life expectancy (years)**

	Up to 74 %	75-79 %	80-84 %	85-89 %	90+ %	Refused %	Don't know %
'I would rather have a good standard of living today, than save for retirement'							
Agree strongly	5	4	2	3	2	2	1
Agree	35	23	24	25	24	21	26
Neither agree nor disagree	22	26	29	27	30	44	34
Disagree	35	43	44	42	42	26	35
Disagree strongly	1	3	1	3	1	6	1
<i>Base</i>	<i>306</i>	<i>315</i>	<i>530</i>	<i>318</i>	<i>270</i>	<i>59</i>	<i>152</i>

Base: All respondents.

### 6.3 Attitudes towards risk

We saw earlier that people thought saving was important. In this section, we consider some of their attitudes towards taking risks with their savings. To gain a higher return on savings, particularly over the kinds of long time horizons of retirement planning, a level of risk may well be a good thing. However, 'risk' is also something that prompts anxiety.

Most people agreed that it was better to play safe with their savings, rather than use higher risk investments in the hope of a higher return (Table 6.3). Around one person in six (17 per cent) disagreed with this view, though only a handful registered a strong disagreement. This cautious view was consistently held, and those with greater levels of pensions knowledge were about as risk-averse as those with lower levels of knowledge.

**Table 6.3 Views on 'playing safe' versus taking risks with savings, by level of pensions knowledge**

	Low pensions knowledge: (<7 out of 14 on quiz)	Medium pensions knowledge: (7-9 on quiz)	Higher pensions knowledge: (10+ on quiz)	Total
It is better to play safe with your savings, even if investing in higher risk investments could make you more money				
Agree strongly	7	9	7	8
Agree	64	64	61	63
Neither agree nor disagree	12	11	14	12
Disagree	15	15	17	16
Disagree strongly	0	1	1	1
Don't know	2	0	0	1

*Base*

Base: All respondents.

People do, though, take out savings products, such as equity Individual Savings Accounts (ISAs), which carry a level of risk. It might be useful to consider whether people are regarding the word 'savings' as having a special meaning in this context. We did not provide any particular meaning for the term, and so respondents were free to interpret it in different ways. Some may have thought in terms of the total of their accumulated liquid capital; others may have thought their savings was instead a subset of this overall total (perhaps excluding any money needed for emergencies). Still, others might have distinguished between shorter-term savings, and longer-term investments. It is not possible to be certain how different people were interpreting the meaning of 'savings', without a specific further inquiry. Even so, as we saw in Chapter 3, relatively few are in the privileged position of having enough assets to be able to think in such ways.

This is perhaps confirmed by a subsequent question we asked about pension funds associated with different levels of risk and return. Respondents were offered the choice of funds with low, medium and high levels of risk, with the prospects of generating low, medium and higher levels of income in retirement. The most common answer was the medium level of risk, with a response of 69 per cent. Only seven per cent preferred a high risk fund, a group outnumbered by those unable to give a definite reply. The remaining 15 per cent preferred the low risk approach. It was difficult to find groups where a sizeable proportion were prepared to take a high risk approach, even in this hypothetical setting. There were some groups with a higher than average proportion preferring a low risk approach – including 25 per cent of those born outside the United Kingdom (UK) (as shown in Table 6.4).

**Table 6.4 Preferred risk level for pension fund investment, by country of birth**

Which pension fund do you think you would choose?	Born in the UK %	Born outside the UK %	Total %
A low risk fund that offers a low level of income in retirement	14	25	15
A medium risk fund that offers a moderate income in retirement	70	59	69
A high risk fund that offers a high level of income in retirement	7	7	7
Refused	0	0	0
Don't know	9	9	9
<i>Base</i>	<i>1,776</i>	<i>170</i>	<i>1,950</i>

Base: All respondents.

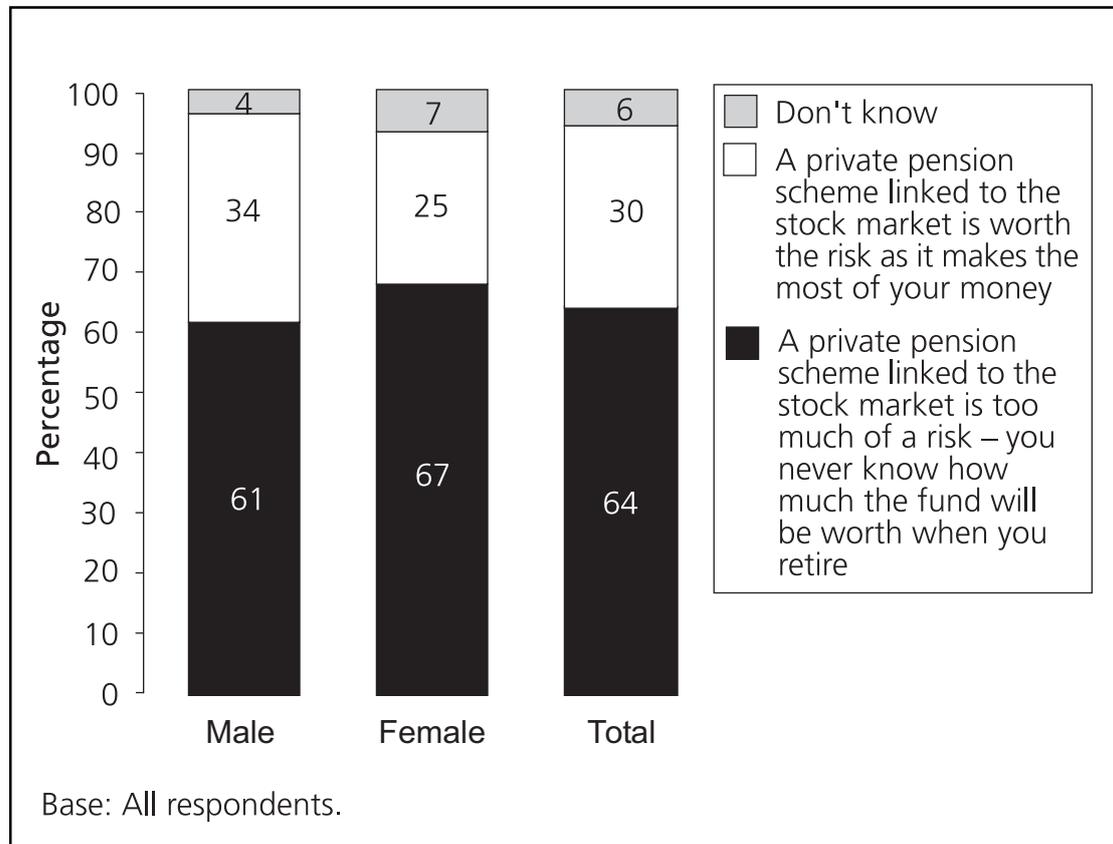
We now turn to people's views about private pensions linked to the stock market. The funds paid into private pensions may be invested in a variety of assets, seeking to combine longer term growth with aspects of security. In a defined benefit (DB) scheme, the money is still invested in a similar way, but with the scheme having to calculate appropriate levels of contribution and return, against how long employees will live and their likely earnings. In personal pensions, and money purchase employer pensions, there is no guarantee of the final value of the pension. The pension paid out will depend on investment returns, and how much of an annuity the final pension fund is able to afford. For DB schemes, whilst the stock market is a typical arena for investing, it is the company that carries the risk of ensuring that pension funds are adequate to pay pensions. For defined contribution (DC) schemes, the individual bears the risk of the returns each investment portfolio may generate.

Just below two-thirds (64 per cent) believed that pensions linked to the stock market were too much of a risk, as the value of the fund at retirement would not be known (see Figure 6.3). This view was held by slightly more women (67 per cent) than men (61 per cent), and more women were also unsure of whether they thought it was too much of a risk.

Views about the risks associated with a money purchase pension among those with experience of employer and personal pensions are shown in Table 6.5 (and the text following the table separately considers DB and DC schemes).

Having previously joined an employer pension made no difference to views about private pensions linked to the stock market. The views of those with and without an employer pension were very similar to the overall average. Current and former members also tended to have similar views.

**Figure 6.3 View on risk of private pension linked to stock market, by gender**



However, those who had a personal or stakeholder pension (or had contributed to one in the past) were among the most likely to believe that it was worth the risk – some 38 per cent thought so. Those with a current pension of this kind were even more positive about the potential upside, with 41 per cent believing any risks to be worthwhile. Whilst this is higher than among most groups, it still represents a minority. Most (54 per cent) of those paying into a personal pension appear to believe that private pensions linked to the stock market are too much of a risk. The fact that they have an investment of this kind suggests either that they are unaware of the risk, or that they still regard this level of risk as better than any alternatives open to them.

Table 6.5 View on risk of private pension linked to stock market, by pension status

Closest to view	Never had employer pension %		Has current or past employer pension %		Never has personal pension/SHP %		Has current or past personal pension/SHP %		Total %
A private pension scheme linked to the stock market is too much of a risk	63	65	65	67	58	54	64		
A private pension scheme linked to the stock market is worth the risk	29	31	30	26	38	41	30		
Don't know	8	4	5	7	4	4	6		
Base	885	1,065	597	1,309	641	505	1,950		

Base: All respondents.

We analysed the views of those with employer pensions in a bit more detail. Most of those with 'money purchase' (DC) pensions (65 per cent) thought that private pensions in the stock market were too much of a risk, whilst 34 per cent thought the risk was worth it. This suggests some potential lack of understanding, of the kind found among those with personal pensions. Views of those with a 'salary related' (DB) scheme were only slightly more cautious with 71 per cent thinking them too much of a risk.

It is possible that those with other assets, of a secure nature, might be more willing to carry the risk of an element of stock market investment. There was some truth in this view. Whilst overall 30 per cent believed it was worth the risk, with those whose 'liquid assets'<sup>32</sup> were greater than £50,000 this figure rose to 45 per cent – considerably higher, but still a minority. Those with higher assets, but less than £50,000, did tend to be more prepared to accept such risks than those with lower assets, but the differences were relatively small. In a similar way, there was little difference in attitudes to stock market risk by household income – except that among the top quarter of incomes 39 per cent thought the risks to be worthwhile.

Attitudes concerning the perceived risky nature of pensions linked to the stock market varied little by age.

## 6.4 Views about making important financial decisions

We also asked about people's ability to make more general, but important, financial decisions, described in the survey as 'such as taking out a mortgage, loan or pension'. Results for men and women are shown in Table 6.6. Men claimed to have a clearer idea than women about making important financial decisions: 39 per cent of men said they would have a clear idea about what they needed to do to make such a decision, compared to 29 per cent of women. Only nine per cent said they would have no idea, which was the view of 17 per cent of women.

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<sup>32</sup> By this we mean the total of their money in various easily accessible accounts and financial products, including current and savings accounts, ISAs/Tax Exempt Special Savings Accounts (TESSAs), National Savings, stocks and shares and endowments. It excludes the value of land, property and other more fixed assets.

**Table 6.6 Feelings about making important financial decisions, by gender**

Feelings about making financial decisions	Male %	Female %	Total %
Would have clear idea	39	29	34
Would have some idea	51	54	52
Would have no idea	9	17	13
Don't know	0	1	1
<i>Base</i>	<i>880</i>	<i>1,070</i>	<i>1,950</i>

Base: All respondents.

It remains to be seen, of course, whether this self-declared level of confidence translates into financially-capable forms of behaviour. Other evidence on different approaches of men and women, in the survey, showed that women are more likely than men to talk to friends and families about financial decisions, about as likely to conduct research, but slightly less likely to read the 'small print'.

In Table 6.7, we break down views about financial decisions by age group. Generally speaking under 30 per cent of those aged 18-34 would have a clear idea of what to do, compared with around 35 per cent of those aged 35-54, and over 40 per cent among those aged 55 or older.

**Table 6.7 Feelings about making important financial decisions, by age group**

	18-24	25-34	35-44	45-54	55-64	65-69	Total
Feelings about making financial decisions							
Would have clear idea	23	28	35	34	43	41	34
Would have some idea	50	62	51	57	46	38	52
Would have no idea	24	11	14	9	10	19	13
Don't know	4	0	0	1	1	1	1
<i>Base</i>	<i>138</i>	<i>328</i>	<i>450</i>	<i>379</i>	<i>447</i>	<i>207</i>	<i>1,950</i>

Base: All respondents.

## 6.5 Multivariate analysis of attitudes towards pensions, saving and risk

The sections of this chapter have looked at a variety of related question areas, including:

- general attitudes towards saving (and credit);
- views about making important financial decisions;
- attitudes to risk and confidence to take decisions about investments;
- views on risk of stock market investment; preferred level of risk.

It is worth considering how each of these sets of questions relates to each other. That is, can we uncover any patterns underlying the responses given, to see if there are strong underlying traits that might help interpret the answers? **Within** each of these topic areas, there were clear associations between the particular questions. For example, those who said they were encouraged to save were unlikely to say they bought things they could not afford – and vice-versa.

But questions in one topic area (e.g. 'making important financial decisions') were not linked to particular replies in the other topic areas (such as general attitudes to saving).

A more formal means of looking for patterns within the data is known as 'factor analysis'. Using this method we attempt to discern if there are a few underlying (or latent) characteristics that might explain the pattern of answers that we have. In the event, it was difficult to discern any strong pattern in the data. Therefore, the overall usefulness of the factor analysis is unclear. On this occasion, the use of the individual questions remains appropriate, and the factor analysis does not take us much further than would separate analysis of those questions.

Appendix B provides further details.



## 7 Attitudes to pensions

- Just less than a quarter (24 per cent) agreed they would definitely have enough to live on comfortably in retirement.
- Levels of worry about retirement income were significantly higher among the economically inactive, older age groups, women, those with fewer financial resources and those without pension provision.
- The most widely perceived negative view of pensions was that they can sometimes seem too complicated to know the best thing to do – nearly three-quarters (74 per cent) agreed this was the case.
- Confidence about how to save for retirement was rather low: 62 per cent disagreed that they ‘knew enough about pensions to decide **with confidence** about how to save for retirement’.
- Of a range of pension providers, respondents were most confident in their own employers to guarantee an income and deliver a sufficient income in retirement.
- Those aged 18-24 tended to hold different views on retirement and pensions to older groups; the views of those aged 55-65 were typically the counterpart to the views of 18-24 year-olds.
- Sixty per cent thought the best time to start making pension contributions was as soon as one started earning any money.
- Over half of respondents (53 per cent) believed that putting money into a pension is the most secure way of saving for their retirement.
- Fewer than a quarter (23 per cent) were aware that any pension fund would need to be converted into an annuity by age 75.

### 7.1 Introduction

This chapter explores a wide range of different attitudes to pensions. We start by considering some ‘general’ views about retirement income, saving for retirement and pensions. The next part of the chapter explores levels of confidence in different

pension providers. We then move on to take a closer look at views on the way that pensions operate, including aspects of the State Pension as well as private pensions.

## 7.2 Attitudes towards expected income in retirement

Table 7.1 presents responses to two attitude statements about expected retirement income. There was considerable concern about the level of income that would be available in retirement. More than half (57 per cent) of those not yet retired worried about how much they would have to live on. However, few felt strongly about this issue. Just 11 per cent strongly agreed and two per cent strongly disagreed that they worried how much they will have to live on.

Widespread concern, coupled with a lack of strong conviction, was also exhibited in respondents' assessments of whether they would definitely have enough to live on comfortably. Fewer than a quarter (24 per cent) agreed, while 38 per cent disagreed. A large minority, 32 per cent, neither agreed nor disagreed and seven per cent did not know if this would be the case. Few respondents expressed strong opinions; just one per cent agreed strongly and five per cent disagreed strongly. While the majority were worried to some degree, an absence of strongly-held views suggests that some may simply not have a very clear idea about their likely circumstances in retirement.

**Table 7.1 Expectations for income in retirement**

	Agree	Neither agree nor disagree	Disagree	Don't know	Base
I worry about how much I will have to live on	57	12	32	0	1,613
I will definitely have enough income to live comfortably	24	32	38	7	1,613

Base: All respondents not defined as retired.

Those with fewer actual or potential financial resources for retirement were more likely to think they would definitely not have enough income to live comfortably:

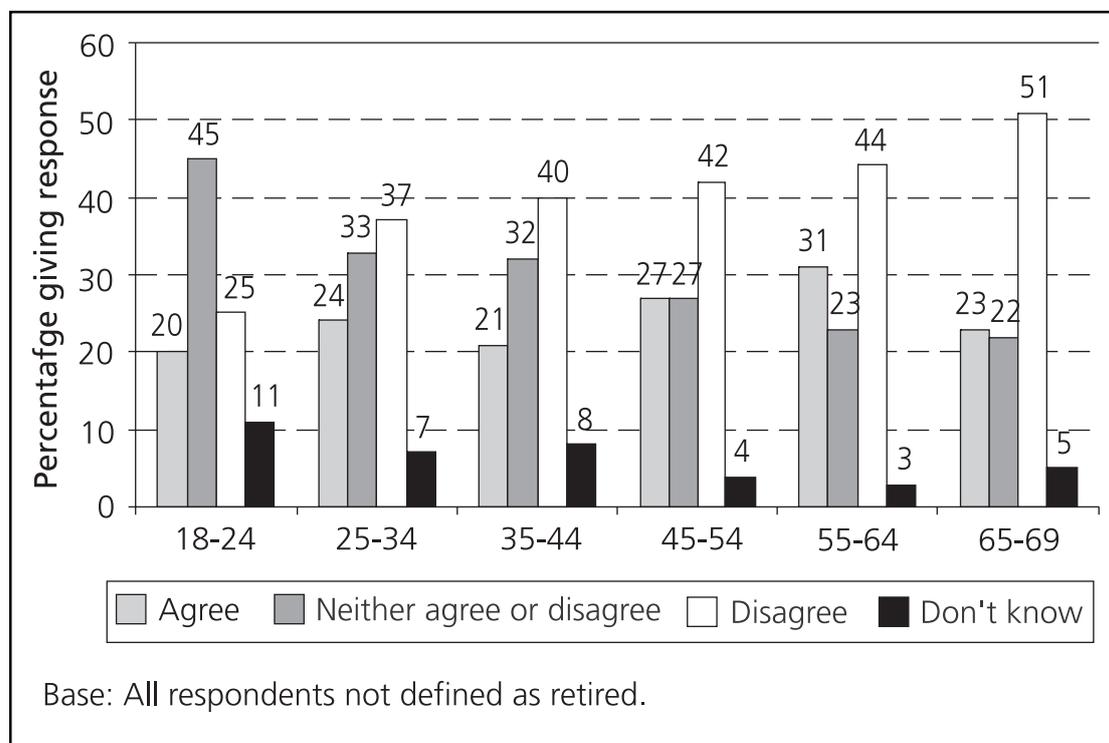
- 44 per cent of those who earned £10,000 or less thought they would not have enough compared to a quarter (25 per cent) who earned more than £29,000;
- more than half (53 per cent) with an annual household income of less than £15,000 did not think they would have enough compared to less than a quarter (24 per cent) with an annual household income exceeding £44,000; and
- over half (54 per cent) with no savings thought they would definitely not have enough to live on compared to 17 per cent with £50,000 or more savings.

The most marked differences relate to levels of savings. Savings remained a significant predictor of this belief when other factors were controlled for through

multivariate analysis<sup>33</sup>. More general levels of worry about having enough to live on in retirement are significantly related to levels of savings, but not to earnings or income. This might be because savings represent an available resource for retirement (whereas earnings or income may be earmarked for other purposes).

Attitudes to whether expected retirement income will be sufficient varied with age. While the proportion who agreed they would have enough to live on rose slightly with age, the most marked shift occurred between those who did not have an opinion and those who disagreed. As Figure 7.1 shows, the proportion without an opinion fell from just under half (45 per cent) of those aged 18-24 to a quarter (23 per cent) of those aged 55-64. High levels of uncertainty among the young are no doubt due to retirement being a long way off. On the other hand, the proportion who disagreed they would have enough to live on almost doubled between the typical ages of starting work and retiring. A quarter (25 per cent) of those aged 18-24 did not think they would have enough to live on compared to 44 per cent of those aged 55-64. Age remained a significant predictor of attitudes to retirement income where other factors were controlled for through multivariate analysis. It seems that the attitudes of much of the population to retirement income shift from uncertainty to a negative viewpoint as they near retirement age.

**Figure 7.1 Views on whether will definitely have enough income to live comfortably, by age**



<sup>33</sup> Individual savings, gross household income and annual earnings are highly correlated. For this reason, only individual savings was included in the regression model.

Current work status was linked to attitudes about expected retirement income. Over a third (36 per cent) of those in or about to start work disagreed they would have enough to live on compared to 47 per cent of the economically inactive. Those in work were likely to have more financial resources, shown to link with expectations for retirement income. When multivariate analysis was undertaken, current economic status was not a significant predictor of attitudes for retirement income (narrowly missing the selected level of statistical significance). This suggests that the relationship between economic status and expected retirement income may result from a correlation between economic status and another predictive factor – likely to be level of savings.

Women were more likely than men to be concerned about their retirement income. Thirty-five per cent of men and 41 per cent of women disagreed they would definitely have enough to live on. Men were more likely to be working and to have higher earnings, income and savings – all factors related to attitudes to retirement income. However, sex remained a significant predictor of attitudes to retirement income when its interactions with these other factors were controlled for through multivariate analysis.

Those who had experience of pension provision were more likely to be confident about their retirement income, although for a large majority this was not the case. Twenty-six per cent of those who had ever had a pension compared to 20 per cent of those who had not thought they would have enough to live on, a difference narrowly missing the selected level of statistical significance. Those who currently had a pension were also slightly more likely to think they would have enough to live on than those who did not, although this difference was even less marked (26 per cent compared to 22 per cent). The possession of a pension may abate concerns about having enough to live on, by representing a definite income for retirement. However, experience of pension provision was not a significant predictor of attitudes to retirement income, when other factors were controlled for using multivariate analysis.

### 7.3 Attitudes to saving for retirement

Chapter 6 has already considered more general attitudes to saving. Here we look at saving for retirement, and in particular, attitudes that people may hold which are related to **not** saving for retirement. Indeed, despite concern about retirement income, many respondents believed they were currently unable to save for this purpose, and a minority saw saving as unnecessary for different reasons.

#### 7.3.1 Inability to save for retirement

Of the three statements we asked respondents to agree or disagree with, reported in this section and presented, in two cases, in Table 7.2, the most widely-held attitude was not being able to afford to put money aside for retirement. Nearly half (49 per cent) of respondents felt this was true for them. This is an issue which

respondents felt strongly about; 14 per cent agreed strongly that they cannot afford to save while four per cent disagreed strongly.

A number of characteristics are linked to this view. Those with lower incomes were more likely to think they cannot afford to save: 82 per cent with an annual household income of less than £15,000 stated this compared to 26 per cent of those whose income exceeds £44,000. Inevitably, ability to save for retirement will be determined by the availability of finances to set aside, and therefore, it is not surprising to find that around three-quarters (73 per cent) of the economically inactive, compared to 37 per cent of those in or about to start work thought they were unable to save. Multivariate analysis found both income and work status to be significant predictors of a perceived ability to save for retirement, when all other relevant factors were controlled for.

Individuals have financial commitments and priorities in addition to saving for retirement. Those who had dependent children and who prioritised their current living standards were more likely to consider themselves unable to save. While the proportions with and without dependent children who said they cannot afford to save were similar, those with three or more children were more likely to state this (though they were sufficiently small in number to prevent an assessment of the significance of this difference). Those who agreed that they would rather have a good standard of living today than save for retirement were more likely to state they cannot afford to save. Fifty-nine per cent who strongly agreed that they prefer to have a good standard of living today stated this compared to 22 per cent who strongly disagreed. The priority given to current standard of living remained a significant predictor of perceived ability to save, when all other factors were controlled for through multivariate analysis. Clearly, the belief that one is unable to save for retirement is influenced not just by available resources, but the extent to which saving is a priority.

Perceived ability to save increases with age (see Figure 7.2). Almost two-thirds (64 per cent) of those aged 18-24 stated they cannot afford to save for retirement; this proportion dropped to 47 per cent of those aged 25-34, declining slightly throughout the remaining working age years. While age is itself correlated with incomes and economic activity, both shown to be associated with a perceived ability to save, multivariate analysis also highlighted age as a significant predictor of a perceived ability to save for retirement, controlling for all other factors.

Finally, 37 per cent of those who had ever had a pension thought they cannot afford to save for retirement, compared to almost three-quarters (74 per cent) who had not. Those who felt unable to save for retirement might have been less able or inclined to set up a pension. However, feeling unable to save for retirement was widespread among younger age groups, who were also less likely to have ever had a pension.

### 7.3.2 Time-related reasons for not saving for retirement

As shown in Table 7.2, only a minority of respondents' attitudes to saving for retirement are informed by the perception that that this life-stage is distant, or that they may not reach retirement. Around a sixth (15 per cent) thought it was not worth worrying about what they will live on in retirement as it is so far off, while a similar proportion (11 per cent) expressed this view because they might not live that long. In addition to general disagreement with these views, there was considerable strength of feeling in opposition to the latter view - almost one in five (18 per cent) strongly disagreed with this sentiment.

**Table 7.2 Time-related reasons for not saving for retirement**

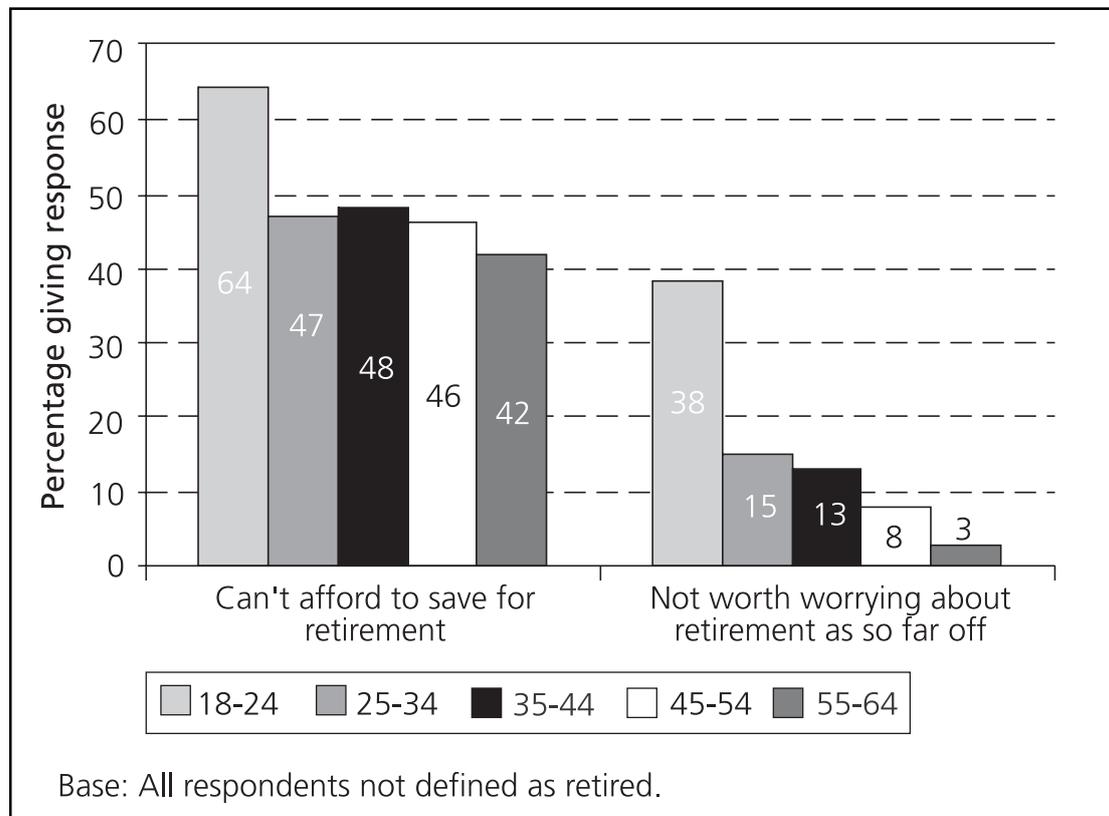
	Agree %	Neither agree nor disagree %	Disagree %	Base
It's not worth saving for retirement as I might not live that long	11	8	80	1,613
My retirement is so far off it is not worth worrying about what I will live on	15	9	77	1,613

Base: All respondents not defined as retired.

Younger age groups were more likely to think it is not worth saving for retirement as it is so far off (see Figure 7.2). Thirty-eight per cent aged 18-24, 15 per cent aged 25-34 and three per cent aged 55-64 expressed this attitude. Those who were older would logically be less likely to perceive retirement as far off. What is interesting though is that, as with perceptions of ability to afford to save, there was a major shift in attitudes between those aged 18-24 and those aged 25-34, after which agreement declined more gradually.

Those who did not predict a long life expectancy, and anticipated no or a relatively short retirement, were more likely to agree it is not worth saving for they might not live that long. Around a sixth (16 per cent) of those who estimated a lower life expectancy for themselves than someone of the same age and sex believed this, compared to less than a tenth (eight per cent) of those who expected to outlive them. Multivariate analysis indicated that self-perceived life expectancy remains a significant predictor of the belief, when all other factors are controlled for.

Those not currently in work were more likely to agree it is not worth saving for retirement for the two reasons given. A tenth (ten per cent) of those in or about to start work adhered to this view because they might not live that long compared to nearly two-tenths (16 per cent) of those who were economically inactive. Similarly, 12 per cent of those in or about to start work expressed this view as retirement is so far off compared to 26 per cent of those who were economically inactive. Multivariate analysis identified current work status as an independent predictor of this attitude.

**Figure 7.2 Attitudes to retirement, by age**

Those who had never had a pension were more likely to believe that it is not worth saving:

- 16 per cent who had never had a pension and nine per cent who had had a pension agreed that it is not live that long;
- just over a quarter (28 per cent) who had never had a pension agreed that it is not worth worrying about retirement income as it is so far off, compared to less than a tenth (eight per cent) who had had a pension.

## 7.4 Personal and general attitudes to pensions

The range of attitude statements about pensions that were included in the survey can be grouped into two broad topics. The first topic explores views relating to the process of engaging with pensions, including two aspects of pensions that can put people off engaging: their complexity and the fact that pensions can be perceived as boring. We also consider the fact that people can feel they lack confidence to decide what to do about pensions. The second topic addresses views about pensions as products, including whether they are the most secure way to save for retirement, and their tangible outcomes. The most widespread negative attitudes expressed by respondents related to the process of engaging with pensions rather than any tangible outcomes that may be perceived.

### 7.4.1 Views about engaging with pensions

As shown in Table 7.3, the most widely held negative perception of pensions was that they can sometimes seem too complicated to know the best thing to do. Almost three-quarters (74 per cent) agreed this is the case, with a comparatively large proportion (14 per cent) agreeing strongly. A sizeable minority, 41 per cent, found pensions boring.

**Table 7.3 Views about engaging with pensions: complexity and boredom**

	Agree %	Neither agree nor disagree %	Disagree %	Base
Sometimes pensions seem so complicated that I cannot really understand the best thing to do	74	10	16	1,950
I find pensions boring	41	23	37	1,950

Base: All respondents.

While the view that pensions can be too complicated was widespread, it was more likely to be held by those with lower educational qualifications and less knowledge of this topic (measured by the knowledge test reported in Chapter 4). Those with higher levels of education are likely to be more experienced and skilled in interpreting complex information – skills that would assist in understanding a pension:

- 62 per cent of those who had a degree compared to 80 per cent of those who had no qualifications stated pensions can be too complicated; and
- 77 per cent of those with the lowest third of test scores and 66 per cent of those with the highest third of test scores expressed this view.

Nevertheless, majorities of those with a good knowledge of pensions and the highest educational qualifications, still sometimes found pensions too complicated.

A slight difference (just missing the selected level of statistical significance) existed between those with and without experience of 'bad pensions events'. Seventy-eight per cent of those who had experienced one or more bad pension events and 72 per cent of those who had not agreed that pensions are sometimes too complicated. It seems plausible that some 'bad pension events' occur when the individual does not take appropriate action; this may be more likely when they find the subject too complicated to understand. There were no other differences between those with and without experience of bad pension events with regard to the process of dealing with pensions.

Women were more likely to find pensions boring than men (44 per cent compared to 38 per cent) and too complicated (79 per cent compared to 68 per cent).

A lack of confidence could also put people off engaging with pensions. We asked people whether they felt they 'knew enough about pensions to decide **with confidence** about how to save for retirement'. Less than two per cent felt able to 'agree strongly' with such a claim, though 21 per cent did say that they agreed. However, 53 per cent disagreed, plus a further nine per cent who disagreed strongly. A sizeable number (14 per cent) neither agreed nor disagreed. Confidence in deciding how to save for retirement was clearly rather low.

The older the respondent, the more likely for them to have confidence they knew enough about saving for retirement (Table 7.4). Even so, over half (52 per cent) of those aged 55-64 disagreed that they had such a level of confidence.

**Table 7.4 Whether knows enough to decide *with confidence* how to save for retirement, by age group**

<b>Knows enough to decide <i>with confidence</i> how to save for retirement</b>	<b>18-24 %</b>	<b>24-34 %</b>	<b>35-44 %</b>	<b>45-54 %</b>	<b>55-64 %</b>	<b>Total %</b>
Agree strongly	1	1	3	2	1	2
Agree	11	24	19	21	30	21
Neither agree nor disagree	13	15	14	15	15	14
Disagree	57	50	56	54	45	53
Disagree strongly	18	10	7	8	7	9
Don't know	1	1	*	*	1	1
<i>Base</i>	<i>138</i>	<i>328</i>	<i>450</i>	<i>370</i>	<i>307</i>	<i>1,613</i>

Base: All respondents not defined as retired.

Note: \* means less than 0.5 per cent but more than zero.

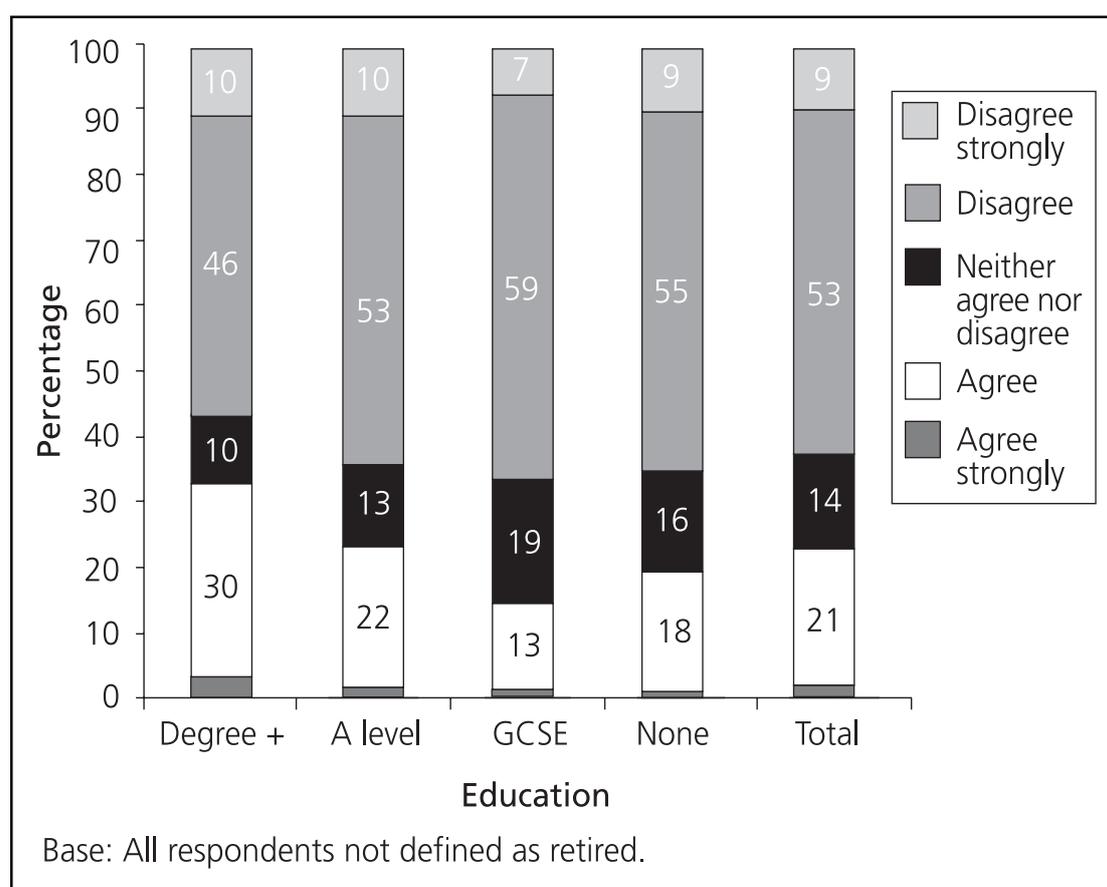
Low levels of confidence in saving for retirement are perhaps to be expected, given the low level of pensions knowledge we report in Chapter 4. This lack of confidence is quite widespread, and having been through several layers of education seems to do little to boost confidence. As we show in Figure 7.3, while graduates were more likely than others to have confidence in knowing how to save for retirement, still 56 per cent **disagreed** with the statement that they were confident in doing so. Academic attainment apparently does not provide the necessary mix of interest and capability to feel self-assured in dealing with pensions and different approaches to saving for retirement.

As with the statements on complexity and boredom, women were less likely than men to feel they know enough to decide with confidence how to save for their retirement (18 per cent compared to 27 per cent).

Experience of having joined a private pension did tend to be associated with a higher degree of confidence. This might have reflected gaining experience of how non-state pensions operate, though equally the knowledge might have been a motivation

in joining such a pension. Such differences were not large – 30 per cent of those who had joined a personal pension felt confident in their knowledge of retirement planning, compared with 20 per cent of the remainder. The corresponding proportions among those who had joined employer pensions were 28 per cent and 17 per cent.

**Figure 7.3** Whether knows enough to decide *with confidence* how to save for retirement, by highest educational qualification



There were particularly low levels of confidence about saving for retirement among social tenants – only 13 per cent believed themselves to have the right level of knowledge to be sure about making decisions. This compared with 31 per cent of outright owners (see Table 7.5). As with other analysis presented in this report, housing tenure is strongly correlated both with a positive material situation and general confidence about making choices. This in the context, once again, that general levels of confidence in dealing with pensions and savings were rather low across the board.

**Table 7.5 Whether knows enough to decide *with confidence* how to save for retirement, by housing tenure**

Knows enough to decide <i>with confidence</i> how to save for retirement	Owned outright %	Being bought including shared ownership %	Social tenant %	Private tenant %	Other, including rent free %	Total %
Agree strongly	5	2	0	1	[0]	2
Agree	26	22	13	21	[21]	21
Neither agree nor disagree	15	14	19	7	[10]	14
Disagree	51	53	53	55	[59]	53
Disagree strongly	3	9	14	14	[11]	9
Don't know	0	1	0	1	[0]	1
<i>Base</i>	291	806	305	164	46	1,613

Base: All respondents not defined as retired.

Note numbers in [ ] are percentages based on fewer than 50 actual cases, and which may be unreliable.

#### 7.4.2 Views about pensions as products

Table 7.6 shows attitudes to pensions as products, including a focus on their tangible outcomes. The most widely held attitude was the view, held by more than half (53 per cent), that they represent the most secure way of saving for retirement. Thirty-seven per cent preferred to save in some other way. A similar proportion (33 per cent) were not keen on saving through a pension as it was unclear how much they will get back, although almost half of respondents (48 per cent) disagreed with this viewpoint.

Preference for saving in another way and the view that pensions have an unclear return were highly correlated. Uncertainty of return may be a key factor that discouraged preference for pensions as a method of saving for retirement.

**Table 7.6 Views about pensions as products**

	Agree %	Neither agree nor disagree %	Disagree %	<i>Base</i>
Putting money into a pension is the most secure way of saving for your retirement	53	19	27	1,613
I prefer to save in some other way than a personal or employer pension for my retirement	37	24	39	1,613
I'm not keen on saving in a pension as I don't know how much I'll get back	33	19	48	1,613

Base: All respondents not defined as retired.

Possibly as a consequence of their lower confidence about saving for retirement, women were less likely to prefer to save in another way than men (34 per cent compared to 39 per cent) – a preference that may be encouraged by confidence in one's understanding of the range of available ways to save.

Pension provision tended to relate to attitudes about pensions as products. Those who preferred to save in another way were more likely never to have had a pension. Around three-tenths (31 per cent) who had had a pension and almost half (49 per cent) who had not expressed this preference. While this difference suggests individuals exercised in practice their preferences for particular ways of saving for retirement, it is also possible that views are influenced by the decisions previously made about pension provision.

Those who had never had a pension were more likely to oppose pensions on the basis of their unclear return. Almost half (45 per cent) indicated this compared to 27 per cent of those who had had a pension. Decisions to take up pensions may then be influenced by perceptions of their return. The fact that there were no differences between the proportions with and without pensions who agreed this is the most secure way to save suggests that the perception of pensions as secure did not have the same effect on take-up of this provision. Again, however, a note of caution must be sounded: we cannot know whether the attitude influenced the behaviour or *vice versa*.

Those who had experienced a 'bad pension event' were significantly more likely to prefer to save in some other way. Nearly four-tenths (39 per cent) of those who had experienced a 'bad pension event' indicated this, compared to three-tenths (30 per cent) of those who had not. It may be that negative experience relating to pensions had led them to have this preference. No other attitudes relating to pensions as products were associated with the experience of 'bad pension events'.

## 7.5 Explaining people's attitudes to pensions

The sections of this chapter have looked at a variety of related question areas about attitudes, covering concerns about income in retirement, attitudes towards saving for retirement and views concerning pensions. In this section we consider if there are any underlying characteristics that are helpful in summarising these attitude questions.

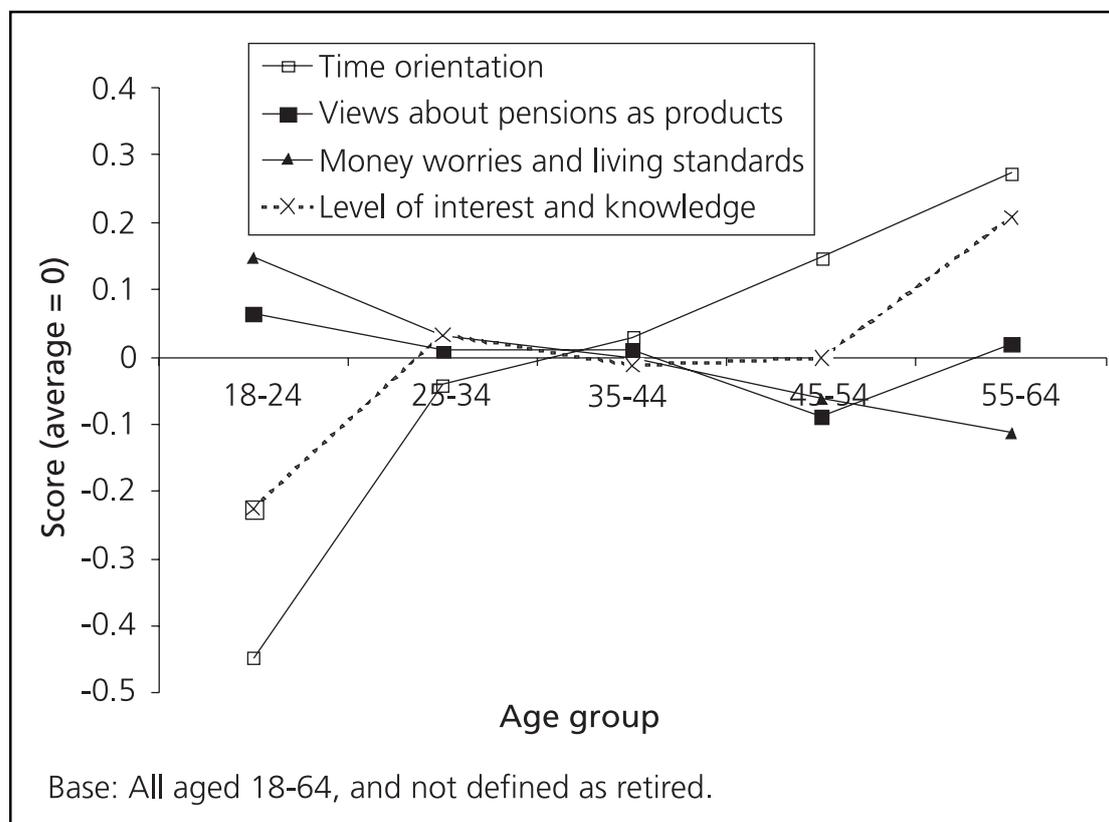
As discussed in Chapter 6, the usual statistical way of approaching this question is through a technique known as 'factor analysis'. Using this method we attempt to discern if there are a few underlying (or latent) characteristics that might explain the pattern of answers that we have. A full set of results is shown in Appendix C and we briefly present the key findings here.

Four factors emerged, relating to time, views about pensions as products, money worries and living standards and levels of interest and knowledge. A plot of the average value of each factor, by age, is shown in Figure 7.4.

An overall conclusion that may be drawn is that the youngest group (those aged 18-24) tend to hold rather different views to older groups. It is also generally true that the views of those aged 55-65 are rather different to most age groups – and typically the opposite to the views of 18-24 year-olds.

- It was possible to place respondents on a scale, indicating their preference for planning for the future, compared to focusing on the present time. This characteristic was very sensitive to age. The youngest group (18-24s) were the most negative about planning for the future, with views becoming more positive than average among respondents aged 45 or older.
- Views about pensions as financial products tended to become less positive as people get older.
- Money worries tended to be lowest among the older age groups interviewed, and highest among the 18-24s.
- Levels of interest in pensions were relatively high among those aged 55-64, quite low among the 18-24s, and otherwise there was a fairly similar level of interest in pensions for the age groups in between.

**Figure 7.4 Attitudes towards pensions and retirement saving, by age group**



## 7.6 Trust and confidence in pension providers

Attitudes towards, and confidence about pensions as a method of saving for retirement, can be affected by views about pension providers. We turn now to explore respondents' levels of confidence and trust in different providers.

### 7.6.1 Confidence in pension providers

There were varying degrees of confidence that different pension providers would guarantee an income and deliver a sufficient income in retirement, shown in Table 7.7 and Table 7.8 respectively. Overall confidence levels in different organisations were determined by calculating the percentage point difference between those who placed themselves at points '4' and '5 (very confident)' on the scale and those who placed themselves at points '1 (not at all confident)' and '2' on the scale. It was anticipated that confidence levels would reflect views about the security and risks of the pensions provided by different organisations.

There was most confidence in respondents' own employers to guarantee an income, with a confidence level of 16 per cent. Respondents had similar slightly positive levels of confidence in the Government (three per cent) and financial companies (five per cent). There was least confidence in employers in general (-19 per cent). This may have resulted from a lack of knowledge of what employers generally provide; 44 per cent placed themselves on the mid point of the scale in relation to other employers. In practice, only the government can be thought of as guaranteeing an income in retirement; the data suggests a degree of confusion and scepticism among respondents regarding this assumption.

**Table 7.7 Confidence that organisations will *guarantee* an income in retirement**

	<b>Your employer</b> %	<b>Government</b> %	<b>Financial companies</b> %	<b>Employers in general</b> %
Confident	45	37	34	17
Neither confident or unconfident	24	28	35	44
Unconfident	29	34	29	36
Overall confidence level	+16	+3	+5	-19
<i>Base</i>	1,091 <sup>+</sup>	1,950	1,950	1,950

Base: All respondents.

+Base: All current employees.

In each case, there was less confidence in providers to deliver a sufficient income than to guarantee an income. Overall, confidence levels relating to the delivery of a sufficient income were all negative. Respondents were most confident that their own employers would do this, with a confidence level of minus three per cent. As

with the guarantee of an income, they were more confident in financial institutions than employers in general (with confidence levels of -17 per cent and -33 per cent). There was least confidence in the Government, with a confidence level of -41 per cent.

**Table 7.8 Confidence that organisations will deliver a *sufficient income* in retirement**

	Your employer %	Government %	Financial companies %	Employers in general %
Confident	31	14	22	10
Neither confident or unconfident	33	29	37	44
Unconfident	34	55	38	43
Overall confidence level	-3	-41	-17	-33
<i>Base</i>	1,091 <sup>+</sup>	1,950	1,950	1,950

Base: All respondents.

+Base: All current employees.

Substantial differences existed between public and private sector employees' confidence in their own employers. Public sector employees were more confident that their employers would both guarantee and deliver a sufficient income. Thirty-seven per cent of private sector employees were confident their employer would guarantee an income compared to 86 per cent of public sector employees. A quarter (25 per cent) of private sector employees and 44 per cent of public sector employees thought their own employer would deliver a sufficient income.

Those who had ever had an employer pension were confident in their own employers: 59 per cent were confident their own employer would guarantee an income to those with an employer pension. This confidence might have resulted in their take-up and continuation with the employer pension. Those who had ever had an employer pension were confident their employers would deliver a sufficient income – almost four-tenths (39 per cent) indicated this.

There were no differences between the confidence in financial institutions of those with different experiences of pension provision. This suggests that, while respondents exhibit different levels of confidence in various pension providers, these do not relate to their decisions to take up particular pensions. We might expect those who had had a personal pension to be more confident in financial institutions which provide these, for instance; the data suggests this is not the case.

Respondents who were already retired exhibited a different pattern of confidence in pension providers to those yet to retire. Retired respondents, both in the case of guaranteeing and delivering a sufficient income, were more likely to trust the Government and employers in general compared to other respondents, and less

likely to trust financial companies. Almost half (46 per cent) of retired respondents were confident the Government would guarantee an income in retirement compared to 37 per cent of non-retired respondents. Conversely, 15 per cent of retired respondents were confident in financial companies to deliver a sufficient income in retirement, compared to 22 per cent of non-retired respondents. Although retired respondents to this survey were in no way representative of the retired population as a whole, these differences might suggest that levels of confidence change once the individual has retired and gained actual experience of what different organisations provide.

### 7.6.2 Trust in pension providers

Respondents exhibited varying levels of trust in different pension providers, as shown in Figure 7.5. When considering trust in pension providers, a distinction is often drawn between two attributes – competence and care. In this survey, competence was defined as being financially competent (the question referred to this as ‘making the most of your money’) and care was defined as ‘acting in your best interests’.

Respondents were most likely to trust a bank or building society, or a non-profit organisation<sup>34</sup> to be competent; almost three in ten (30 per cent and 29 per cent respectively) trusted these organisations the most to make the most of their money. Employers (12 per cent) and the Government (ten per cent) were the only other organisations trusted the most by a tenth or more of respondents.

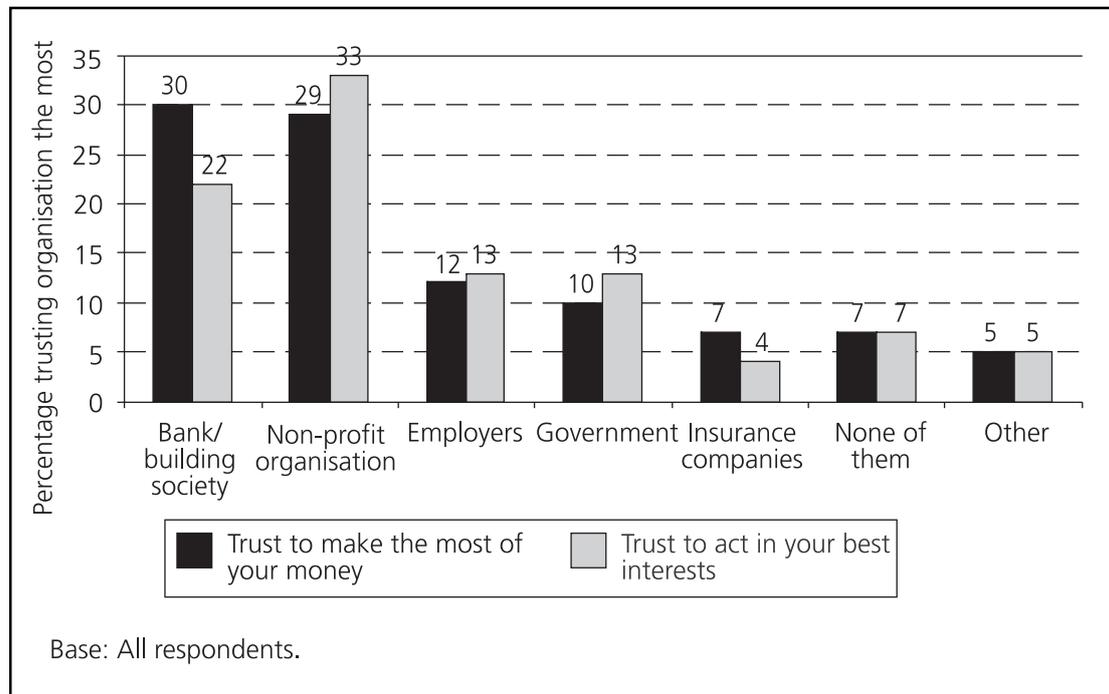
In relation to the ‘caring’ role of pension providers (acting in their members’ best interests), the picture was slightly different. Respondents were most likely to trust a non-profit organisation the most; a third (33 per cent) stated this. Twenty-two per cent trusted a bank or building society the most while 13 per cent in each case trusted the Government or employers the most.

Respondents might have perceived an organisation making them money and acting in their best interests as analogous, explaining similarities in assessments of the competence and care of different providers. However, a comparison of the ratings of each provider shows an indication of their perceived strengths and weaknesses.

Respondents were more likely to trust non-profit organisations, the Government and employers to act with care than with competence (five per cent, three per cent and one per cent more indicated this). Banks or building societies and insurance companies were more likely to be trusted to act with competence (eight per cent and three per cent more indicated this). The primary purpose of the latter organisations is to generate money; hence, they may have been viewed as mainly skilled in this area.

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<sup>34</sup> This type of organisation was described to respondents as ‘a non-profit independent organisation’.

**Figure 7.5 Trust in the care and competence of pension providers**

There were differences in the levels of trust in different providers exhibited by those with experience of particular types of pensions. Those who had had an employer pension were more likely to trust employers to be competent; 16 per cent indicated this compared to seven per cent of those who had not had an employer pension. Those who had had an employer pension were also more likely to trust employers the most to be caring. This level of trust may have encouraged their take-up and continuation with an employer pension.

Those who had current contact with employers, who were in or about to start work, were more likely to trust them than the economically inactive. In each case, the former group were around twice as likely as the latter to trust employers the most (14 per cent and seven per cent for competence and 15 per cent and eight per cent for care). Trust may have been generated by contact with employers, rather than the possession of an employer pension.

Those who had never had a pension were the most likely to trust a bank or building society to be competent. Around four-tenths (42 per cent) indicated this, compared to 25 per cent of those who had ever had a pension. For those without pensions, experience of institutions making them money may have related solely to banks and building societies. Possibly as a result of their greater trust in banks and building societies, those without pensions were the least likely to trust a non-profit organisation to be competent or caring. Twenty per cent trusted a non-profit organisation the most to make the most of their money compared to 33 per cent who had ever had a pension. Those who had never had a pension were also more likely to trust the Government. Almost one in five (18 per cent) stated they trust the Government the most to act in their best interests compared to around one in ten (11 per cent) who had ever had a pension.

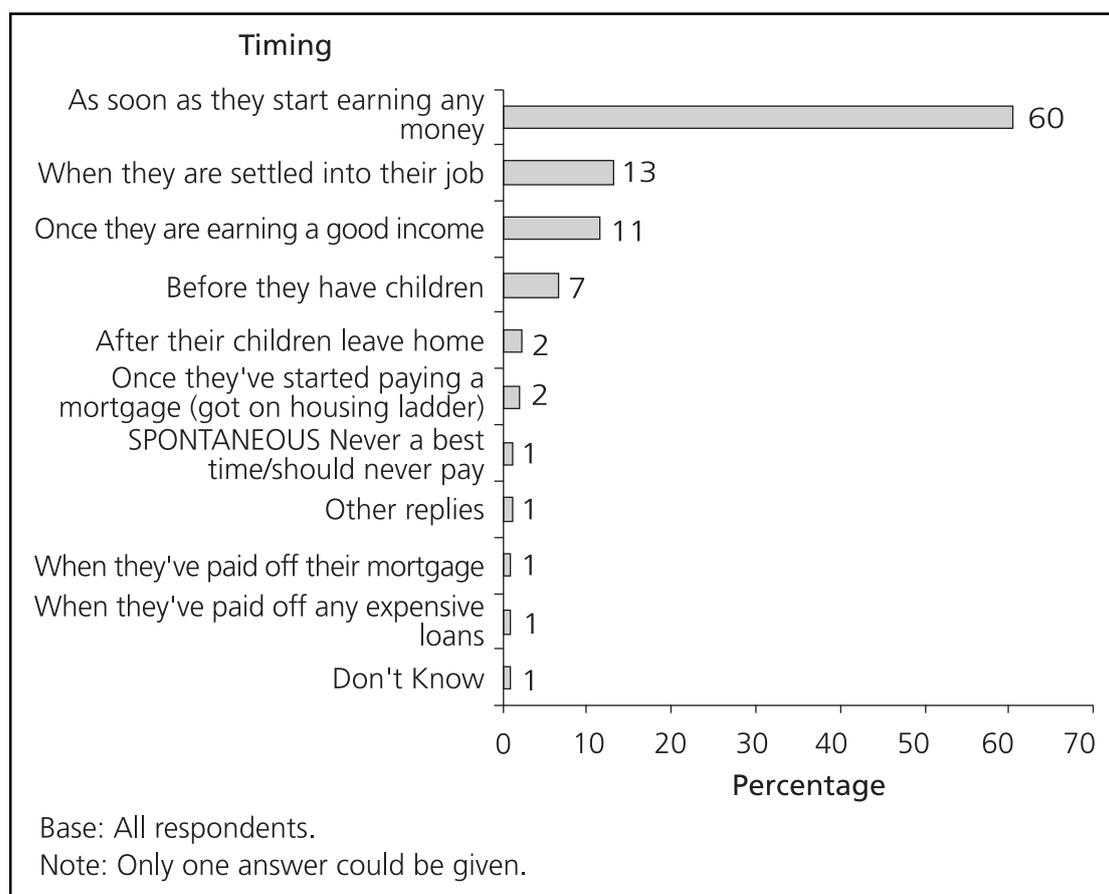
## 7.7 Pensions in practice

This section examines a range of general, rather than personal, attitudes towards different aspects of pensions, including the best time to save, different ways of saving, and views about age restrictions on accessing pension funds and annuities.

### 7.7.1 Best time to start paying into a pension

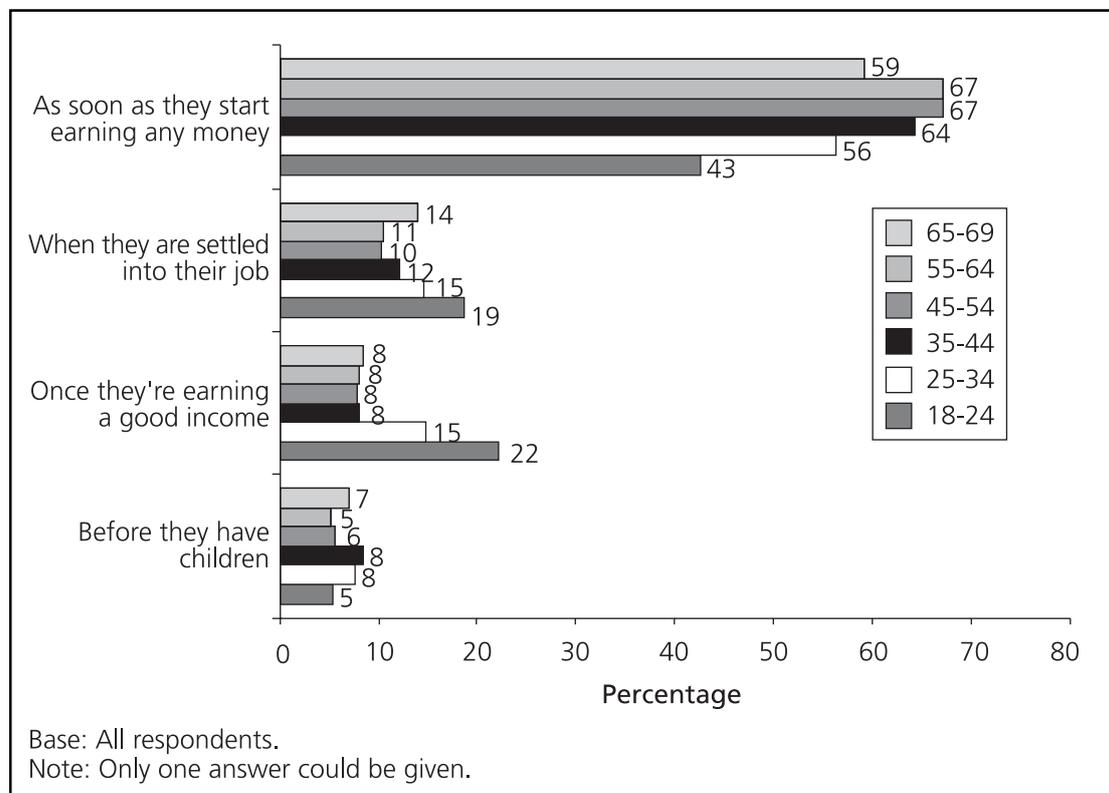
Respondents were in little doubt that people should start contributing to pensions as soon as they could. Some 60 per cent thought the best time to start making pension contributions was 'as soon as they started earning any money' (Figure 7.6). A further one-quarter (24 per cent) suggested that a person might take time to settle into a job, or to earn a 'good' income, and these might permit a slightly later start to making pension contributions. Other answers such as giving priority to expensive loans, or buying property, were not at all popular. These views indicate that people appear to believe that starting to contribute to a pension early is good.

**Figure 7.6 The best time to start making payments into a pension**



Whilst respondents in all age groups favoured paying into a pension as soon as they started earning, younger age groups gave relatively more weight towards being settled into a job or earning a good income (see Figure 7.7). Among those aged 18-24, only 43 per cent thought it was right to start as soon as they had **any** earnings, with 19 per cent mentioning being settled into a job, and 22 per cent earning a good income. There were similar views, less strongly held, among those aged 25-34. Those most likely to emphasise the importance of starting early were those aged between 45 and 64, where 67 per cent gave this answer.

**Figure 7.7 The best time to start making payments into a pension, by age group – top four answers**



### 7.7.2 Different ways of saving

Respondents were asked to select the **one** financial product they believed provided the 'safest way' to save for retirement, and the one which would make the most of their money. Pensions and property were generally regarded as safe ways to save for retirement (Table 7.9). Saving in the form of an Individual Savings Account (ISA) or high rate savings account were also seen as safe, by at least ten per cent of respondents. Premium bonds and direct investment in the stock market were not regarded as the safest way to save for retirement. These judgements may reflect low levels of knowledge about how pensions are typically invested – in the stock market.

Responses were different when people were asked about the best way to make the most of their money. Close to one-half (47 per cent) of respondents believed that investing in property would be the way to make the most of their money. The second

choice, cited by far fewer people, was an ISA (13 per cent), followed by a high rate savings account (ten per cent). Direct investment in the stock market was seen as comparable to employer and personal pensions as being the best way to make the most of their money.

**Table 7.9 Options for retirement saving**

	The safest way to save for retirement %	The way to make the most of your money %
Paying into an employer pension scheme	26	9
Paying into a personal pension scheme	17	6
Investing in the stock market by buying stocks or shares	*	8
Investing in property	26	47
Saving into an ISA (or other tax-free savings account)	15	13
Saving into a high rate savings account	10	10
Buying premium bonds	2	1
Other (please specify)	12	1
Don't know (or refused)	2	4
<i>Base</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

Note: \* means less than 0.5 per cent but more than zero.

### 7.7.3 Accessing money saved into a pension

A particular feature of pensions, compared to other financial products, is that the money invested cannot be accessed until a specified time. The saver is not able to draw on the money in a pension fund until a minimum age (such as 55), and may be better advised to wait until a later time, such as State Pension age (SPA). By contrast, money in savings accounts, including ISAs, may be accessed with relatively little notice. The difficulty of accessing money saved in the form of a pension may be regarded as both a strength and a weakness. It means that the fund is 'safe' from the day-to-day demands that people may make on it. However, people may sometimes feel they need the money earlier, and with alternative products there would be ways to convert assets into a lump sum or income more easily.

Respondents appeared to recognise the twin strength and weakness of the 'difficulty' of accessing money saved into a pension (Table 7.10). Over three-quarters (77 per cent) believed it was a good thing that one could not 'dip into' a pension fund in the same way one might be able to with a savings account. Conversely, 62 per cent did note that one might need to get at the money, and wouldn't be able to do so. Arguably this second statement tells us more about a respondent's knowledge than about their attitudes.

**Table 7.10** Features of longer-term pensions saving

	<b>Saving into pensions is best way to protect your savings as it stops you dipping into the fund</b> %	<b>You can't get at your money before pension age, even if you need it</b> %
Agree strongly	17	6
Agree	60	56
Neither agree nor disagree	9	13
Disagree	12	20
Disagree strongly	1	1
Don't know	1	3
<i>Base</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

#### **7.7.4 Annuities**

An important aspect of a defined contribution pension is the need to annuitise (generally speaking – see Cannon and Tonks, 2006). This means converting most of an accrued lump sum pension fund into a regular income stream which is guaranteed for the rest of an individual's life. Annuitisation must take place by age 75.

Fewer than a quarter (22 per cent) realised there was such a requirement (see Table 7.11). This varied from 16 per cent of those aged 18-34, to a high of 32 per cent among those aged 55-64. It is unsurprising that older groups had a higher awareness, as for them it is often more than a salient issue. Even so, a clear majority did not appear to be aware of the requirement.

This requirement was better-known among the self-employed, some 30 per cent of whom knew this. Personal pensions are rather more common among the self-employed than other groups, partly because they have no access to employer pensions. Knowledge that a defined contribution (DC) pension fund (like a personal pension, and DC employer schemes) would need to be converted to an annuity was still higher among those who had ever contributed to personal pensions (32 per cent were aware), and particularly those who were currently contributing (37 per cent). Even so, most (62 per cent) of those with personal or stakeholder pensions seemed unaware that any pension fund they accumulated would need to be converted into an income stream at some future point.

**Table 7.11 Awareness of the requirement to purchase an annuity, by age 75**

Whether aware of the requirement	Different (and overlapping) groups of respondents				
	All respondents %	Self-employed %	Employees %	All current or past personal pension contributors %	All current contributors to SHP or personal pensions %
Aware	22	30	21	32	37
Not aware	77	69	78	67	62
Don't know or refused	*	1	1	1	1
<i>Base</i>	<i>1,950</i>	<i>161</i>	<i>1,096</i>	<i>641</i>	<i>505</i>

Base: All respondents.

Note: \* means less than 0.5 per cent but more than zero.

## 8 Views on the Government's role and pension reform

- Over half thought it was up to the individual, rather than the Government or employer, to ensure they had sufficient retirement income.
- One third agreed that having to make additional pension provision (on top of tax and National Insurance (NI) contributions to fund the State Pension) should not be necessary; almost half disagreed.
- To maintain the level of the State Pension in the long term, the most popular option (out of three which were presented to respondents) was for taxes to be raised (43 per cent); the second most popular choice was an increase in State Pension age (SPA) (29 per cent).
- Eighty-five per cent thought it was right for the Government to increase pension provision for low-income pensioners. Views were divided as to whether this would discourage saving.
- Eighty-five per cent were prepared to work beyond SPA to ensure a higher standard of living.
- Respondents felt that the State Pension should be increased in line with earnings rather than prices.
- Respondents were overwhelmingly in favour (84 per cent) of the concept of a National Pensions Saving Scheme (since renamed personal accounts) and supported the idea of automatic enrolment into a pension scheme (57 per cent), particularly if there was also an employer contribution (68 per cent).
- A quarter were aware of the Pension Protection Fund (PPF), introduced in 2005, with awareness being greatest among past or current members of defined-benefit pension schemes.

### 8.1 Introduction

This chapter explores attitudes to the role of the Government in pension provision, focusing in particular on the State Pension. It considers attitudes to long-term

pension reform and more recent reforms that are currently being considered or implemented.

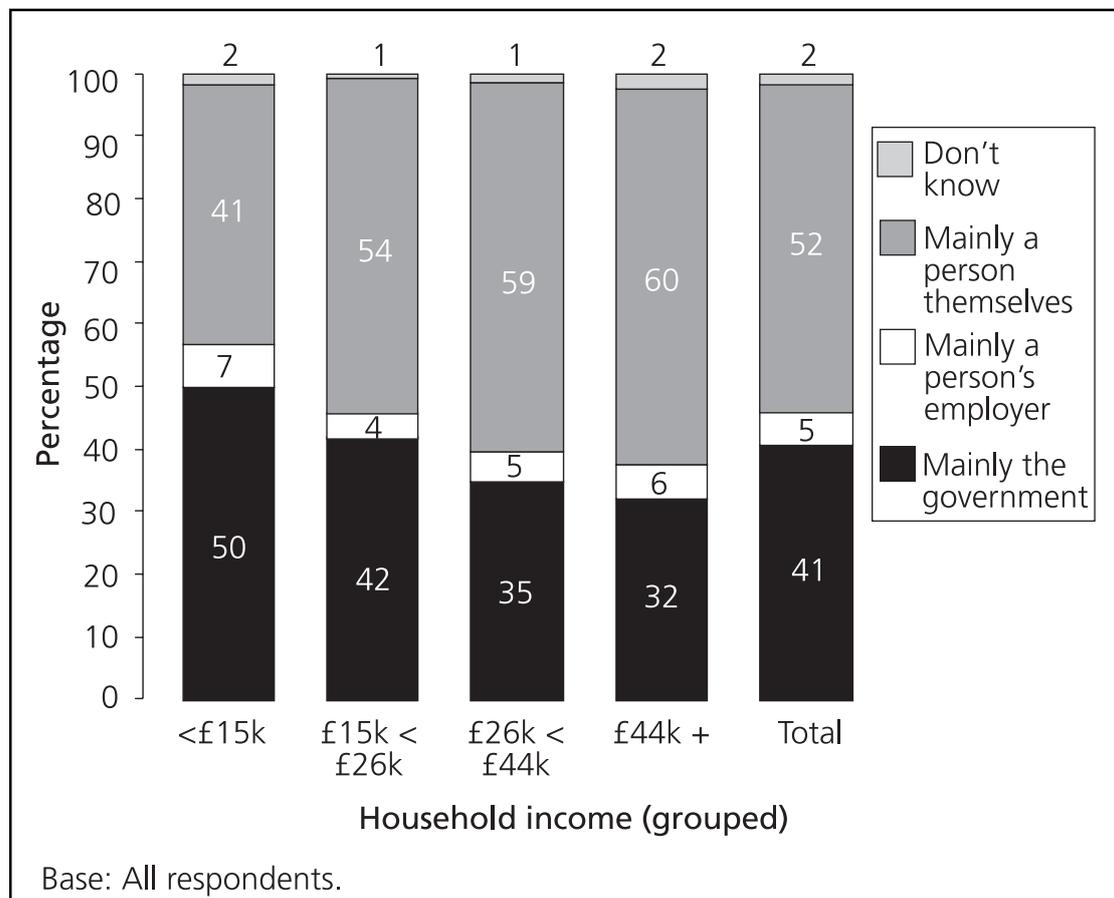
## 8.2 Role of the Government

In this section we examine what people consider the role of the Government to be in relation to pensions – how far should they be an individual or a collective responsibility?

### 8.2.1 Responsibility for pensions

A small majority (52 per cent) of respondents felt it was mainly up to individuals to ensure they had enough to live on in retirement (see Figure 8.1). A further relatively large group, 41 per cent, believed that the main responsibility was with the Government. Relatively few (five per cent) thought it should mainly be the responsibility of the person's employer.

**Figure 8.1 Who should mainly be responsible for ensuring people have enough to live on in retirement, by household income**



There was a link between higher incomes and the belief that individuals are mainly responsible for incomes in retirement. Among the highest income quarter of respondents, just over three in ten (32 per cent) believed that the Government was mainly responsible whilst amongst the quarter of respondents on the lowest

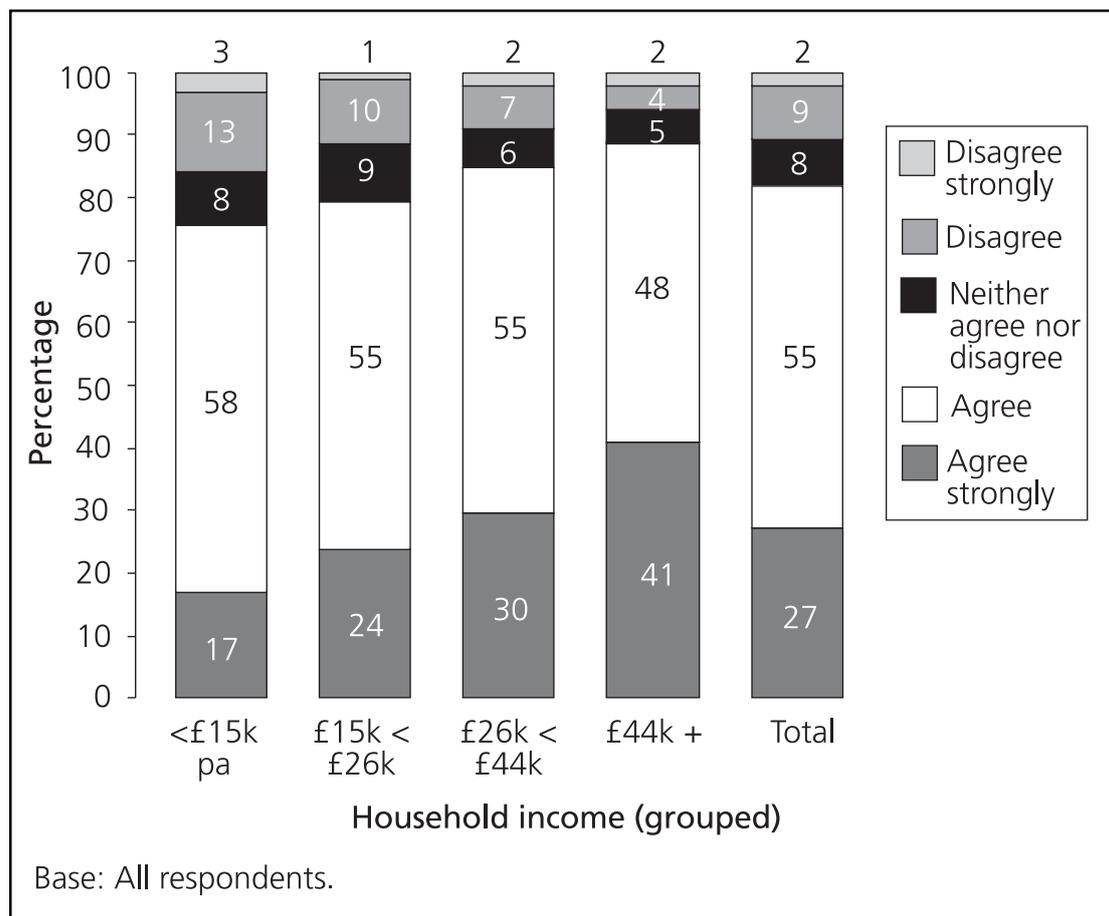
household incomes, half (50 per cent) thought it was mainly the Government's responsibility to make sure people had enough to live on in retirement.

Most people felt that the state should be encouraging people to be making their own provision for retirement. Over eight in ten (82 per cent) agreed that the Government should encourage people to save something for their retirement, and around one in ten (11 per cent) disagreed with this view. However, over half (57 per cent) disagreed that the Government had the **main** responsibility for retirement income.

Those on a higher income were more likely to think the Government should be encouraging self-provision. As we show in Figure 8.2, the higher a person's household income, the more likely they were to agree, and particularly to strongly agree, with this view.

Among those in the top quarter of household incomes, 41 per cent **strongly** agreed that the Government should be encouraging people to save, and a further 48 per cent agreed. Among those on the lowest quarter of incomes, three-quarters (75 per cent) agreed that the Government should be encouraging saving for retirement – still a high proportion but lower than for other groups.

**Figure 8.2** The Government should encourage people to provide something for their own retirement, by household income



There is a long history of the Government being involved in providing pensions, and having a welfare state 'from cradle to grave'. The view is sometimes expressed that the payment of NI (and tax) should preclude any need for self-provision. If people already pay these taxes for benefits, why the need for private provision on top?

Many people did see the need to make their own provision for retirement. However, about one in three (35 per cent) thought that because they pay tax and NI to fund the State Pension they should not have to make their own private provision (Table 8.1). Close to half (48 per cent) disagreed, with 16 per cent unsure. Some of those supporting an additional role for private saving might have felt that a small role for the state left plenty of room for private provision on top.

The views of those with private provision were very similar to the overall average, perhaps surprisingly. Perhaps these are groups believing that self-provision is necessary under the current system, but might not be necessary in an ideal world.

**Table 8.1 'I already pay my tax and National Insurance contributions to help fund my State Pension – I shouldn't have to make my own private provision too', by pension provision**

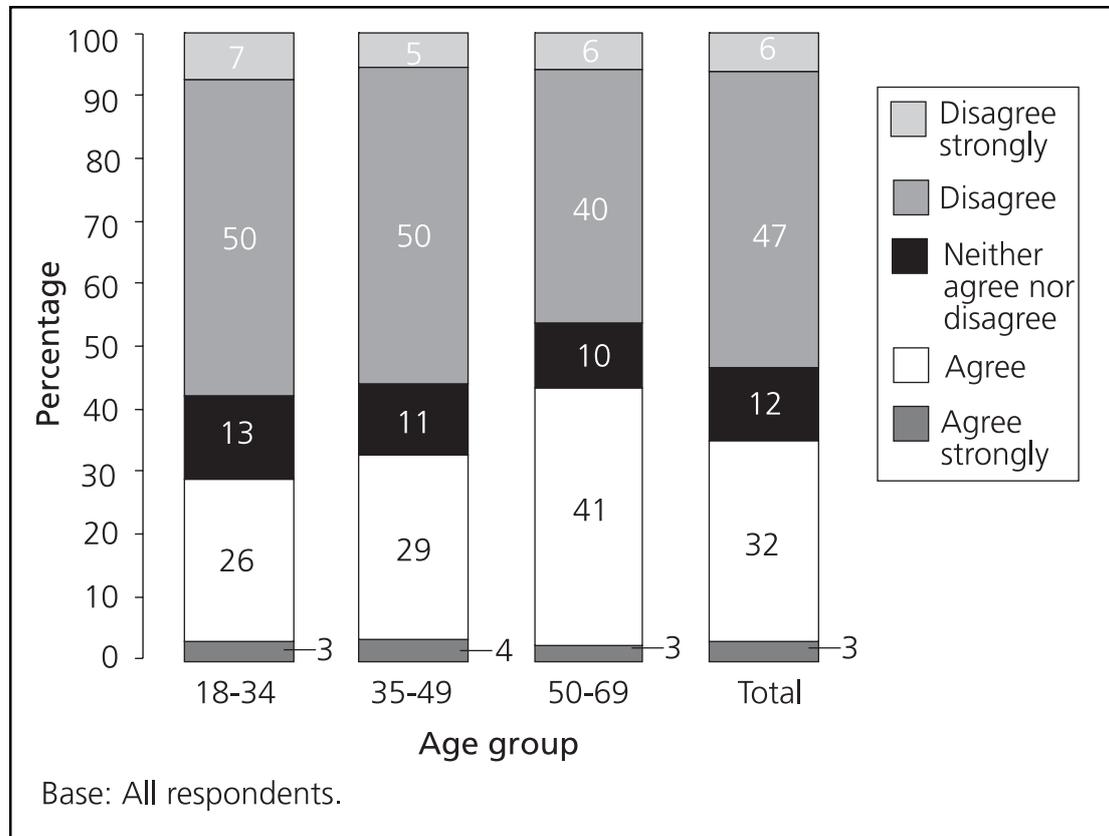
	Has current or past employer pension %	Has current or past personal pension %	All %
Agree strongly	7	7	7
Agree	25	27	28
Neither agree nor disagree	16	17	16
Disagree	46	45	44
Disagree strongly	5	3	4
Don't know	*	1	1
<i>Base</i>	<i>801</i>	<i>424</i>	<i>1,193</i>

Base: All respondents in paid work.

Note: \* means less than 0.5 per cent but more than zero.

There was a general belief that the Government should be encouraging people to save for their retirement. But there was less agreement that the state should be playing a role in **advising** people about the best means of doing so, (see Figure 8.3). This issue tended to divide respondents, with sizeable proportions agreeing and disagreeing that the Government should advise (rather than, say, encourage or inform) people on how to save. Those aged 50-69 were most opposed to the idea that this was the appropriate role of the Government.

**Figure 8.3** 'It's not the Government's job to advise people on how to save', by age group



### 8.2.2 Means-testing in retirement

One of the immediate policy priorities of the Government elected in 1997 was to raise the incomes of the poorest pensioners through the introduction of Pension Credit. This effectively tops up the incomes of low income pensioners, whilst providing some reward (in the savings credit) for having savings or other sources of private income. However, targeting benefits in this way presents some difficulties; take-up is not universal, because not everyone eligible claims it, and incentives for self-provision may be reduced. We looked at knowledge about Pension Credit in Chapter 4, and present the respondent's own likelihood of applying for it in Chapter 9. Here we focus on attitudes towards the principles of means-testing.

Overall, some 85 per cent thought that increasing the incomes of low-income pensioners was the right thing to do, with 24 per cent agreeing strongly with this (Table 8.2). Only seven per cent disagreed with this view. A follow-up question looked at the possible effect on incentives – recording whether or not people agreed that topping up incomes in this way would discourage people from saving. Views were more mixed on this point. Some 44 per cent agreed this was a likely result, with 43 per cent taking the opposite view. In general terms, one might argue that incentives are not affected (or affected to a lesser degree) if people are unaware of benefit rules or if saving derives from a range of motives and practices not all linked to issues of income replacement.

**Table 8.2 Targetting resource on low income pensioners**

	<b>The Government should top-up the income of low-income pensioners</b> %	<b>If the Government tops-up the income of low-income pensioners this discourages people from saving</b> %
Agree strongly	24	4
Agree	61	40
Neither agree nor disagree	8	12
Disagree	6	41
Disagree strongly	1	2
Don't know	*	*
<i>Base</i>	<i>1,950</i>	<i>1,950</i>

Base: All respondents.

Note: \* means less than 0.5 per cent but more than zero.

### 8.3 Pensions Commission options for long-term pensions policy

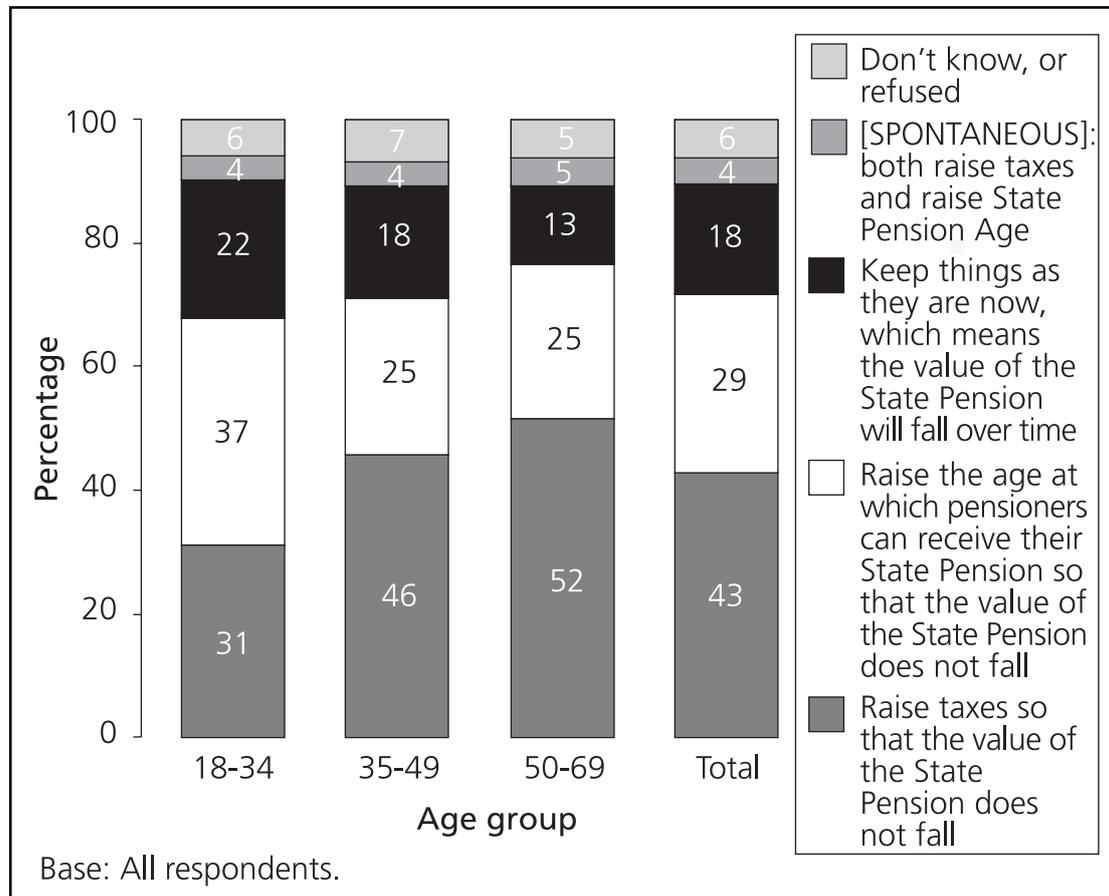
The publication of the Pensions Commission's reports (Pensions Commission 2004, 2005) have focused attention on the need for the long term reform of pensions. The First Report of the Pensions Commission (2004) set out four options:

- pensioners becoming poorer to the rest of society;
- a greater share of taxes going to pensions;
- people saving more for their own retirement;
- an increase in the average retirement age.

The Pensions Commission report, and the kinds of policy options it outlined, were influential in how the questionnaire for this survey was designed. We presented respondents with the choice of three options linked to the future funding of the State Pension – a State Pension decreasing in value in real terms, later retirement, or higher taxes (Figure 8.4). The option of maintaining the status quo, resulting in a lower State Pension, was identified as the right option by about two in ten (18 per cent). About three in ten (29 per cent) preferred a later SPA, and more than four in ten (43 per cent) thought it better to raise taxes.

Preferences differed by age. Older groups tended to prefer higher taxes to later retirement. Those aged 18-34 preferred an increased SPA to higher taxes, by a margin of six per cent. These views appear to be consistent with their **immediate** self-interest, with younger groups likely to be the ones paying higher taxes for longer, and the older groups not wanting their pension ages to rise.

**Figure 8.4** How should the Government pay for the rising cost of State Pensions, by age group



A more focused question on tax – ‘we have to be prepared to pay more in taxes to have a properly funded State Pension’ – was supported by 60 per cent of respondents. This ranged from 50 per cent of those aged 18-34, to 60 per cent of the 35-49s and 70 per cent of those aged 50-69. Relatively few people expressed **strong** disagreement with this view.

Of course, different combinations of options are also possible – and ultimately the direction of reform implies a combination of a higher State Pension, later retirement and more private saving. For a long-term pensions settlement to be sustainable the findings from this survey suggest that it may be important to try to get agreement across age groups on the appropriate mix of policies.

## 8.4 Pension reform

Following the Pensions Commission's reports, the Government set out its pension reform proposals in the Pensions White Paper (DWP 2006a). In the questionnaire we sought to measure how people regarded different elements of pension reform, covering the broad direction of policy and possible changes.

Since the survey interviews have been completed, in 2006, the policy context has moved forward again, with the publication of the Pensions Bill and in December

2006 of the White Paper 'Personal accounts: a new way to save' (DWP, 2006c). This meant, at the time of the survey, we were talking to respondents about a National Pensions Saving Scheme (NPSS) concept rather than personal accounts.

#### **8.4.1 State Pension age and working beyond it**

One of the measures proposed for funding pensions in the longer term is raising the SPA; a related alternative for some is working beyond SPA. Respondents answered three questions related to personal choices, how long people should work and whether the SPA should rise. Respondents were asked how much they agreed or disagreed with each of the following statements:

- When I reach SPA I'd do some paid work if it meant a better standard of living.
- With people now living longer on average, it's right that people should have to work longer before retiring.
- With people now living longer on average, it's right at some stage in the future to raise the age at which people can get their State Pension.

Overall responses to each question are shown in Figure 8.5. People seemed quite positive about their own appetite for working later than SPA, if that meant a higher standard of living. Overall, 85 per cent of respondents who had not yet retired agreed with this, including 18 per cent who strongly agreed. Relatively few, by definition, disagreed. Later (in Chapter 9), we look at this issue from a different angle – respondents' expectations for the age of their retirement, and whether they would consider doing further paid work after retiring from their 'main' job.

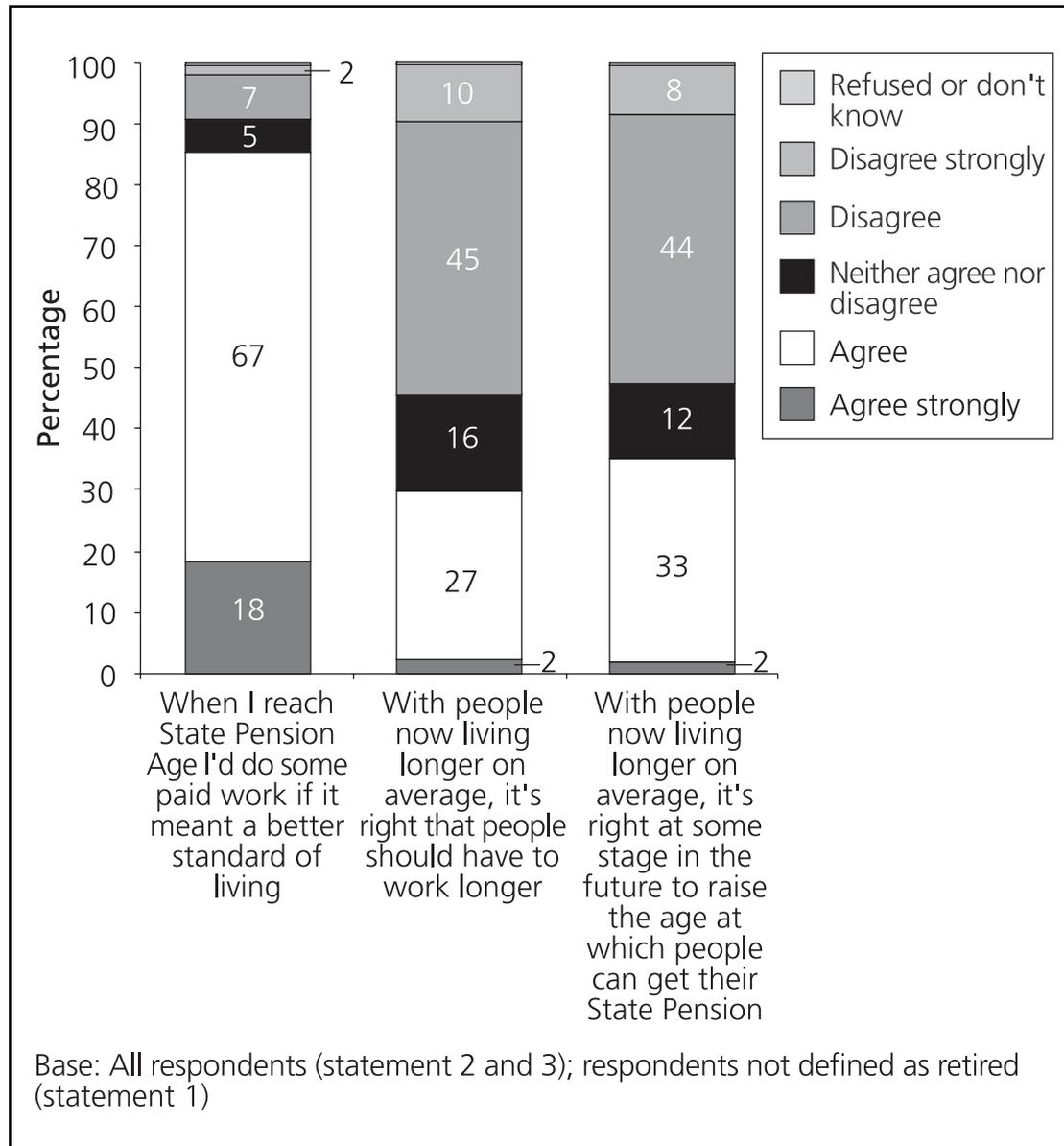
Whilst many individuals expressed an interest in working late themselves, this did not mean they supported a higher SPA imposed on all. Respondents were asked if they supported a higher SPA 'at some stage in the future' – just over half (52 per cent) disagreed with this view, whilst 35 per cent agreed.

Where people believed that the SPA should rise, the most common answers to the 'right' age were (in descending order of popularity) 68, 70 and 67 years of age.

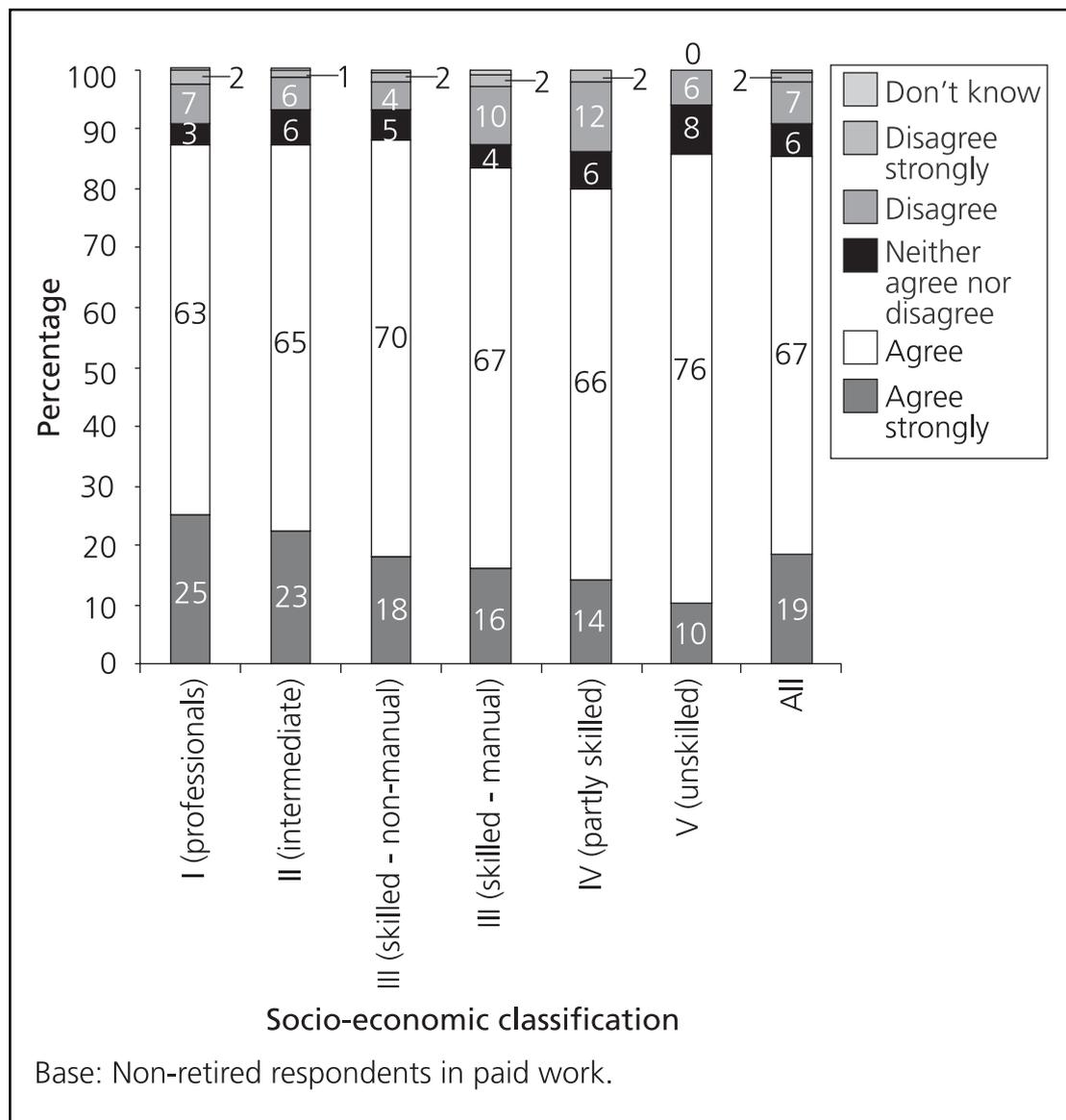
Turning to consider differences in views between sub groups, first, we will consider those saying they would do some paid work after SPA if it meant a better standard of living. Most people agreed with this statement, and there was little difference in response between different age groups. Those in the better off income quartile were more likely to 'agree strongly' (23 per cent, compared with 18 per cent overall and 14 per cent among the worst off income quartile), but this was mostly reflected in a smaller proportion simply saying 'agree'. There was something of a link between occupational classification (social class) and a willingness to work longer for a higher standard of living after SPA. Overall, non-manual groups were more positive about this idea than manual workers (Figure 8.6). Higher level professionals were clearly the most likely to strongly agree with this view.

These views may be a reflection of their different kinds of experience of work and the demands that each makes upon them.

**Figure 8.5 Attitudes towards State Pension age and working beyond it**



**Figure 8.6 Attitudes towards idea of paid work after State Pension age to have a higher living standard, by socio-economic classification**

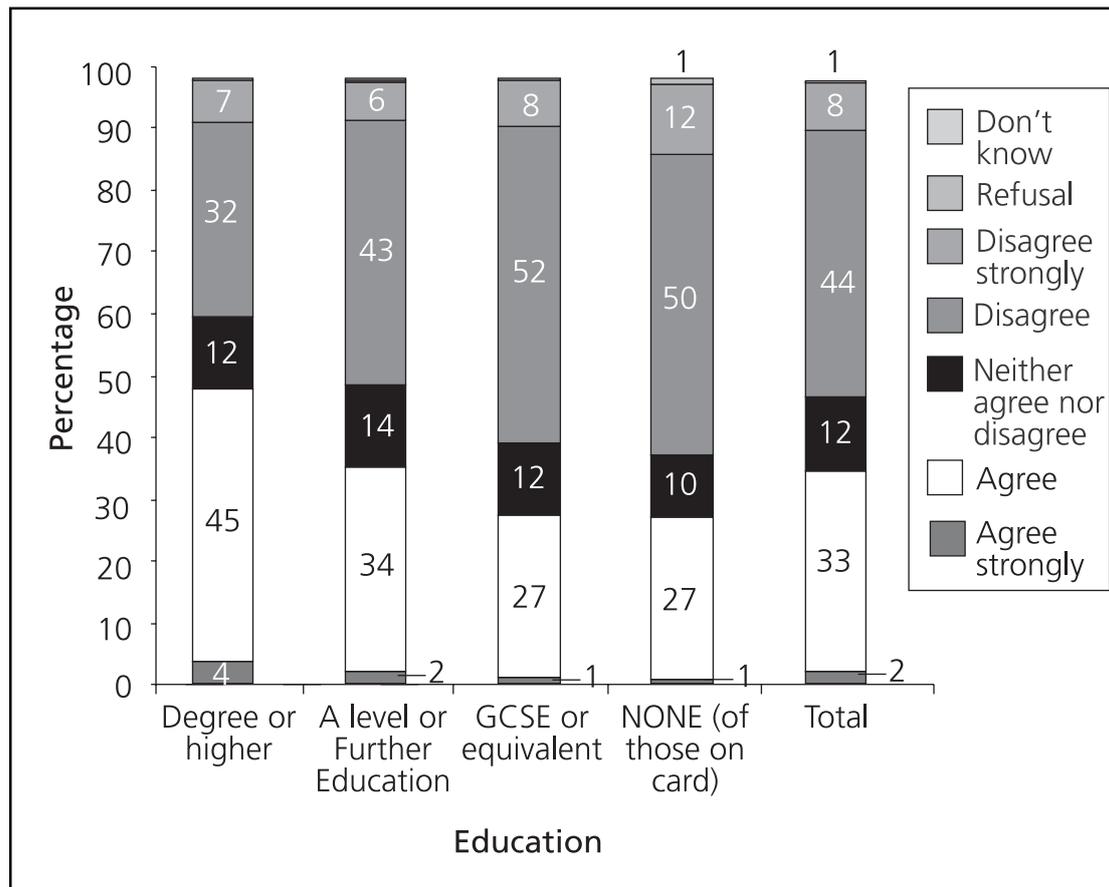


Replies to the second and third questions (people should work longer, the SPA should rise in future – both in response to people living longer) were rather similar to each other. Overall, 66 per cent of people gave precisely the same answer to each question. For most purposes it would make little difference which question was asked, as the responses are so similar. To avoid repetition we focus on the third question asked – whether it is right to increase SPA in the light of increased life expectancies.

As with the above analysis (of choosing to work longer for a higher living standard), there was little to choose between the views of different age groups, but there were important differences by socio-economic group and educational attainment. As we show in Figure 8.7, the higher the level of education the more likely the person agreed that SPA should rise (because people live longer). Close to half of graduates

(49 per cent) thought this, nearly double the proportion of those without qualifications (28 per cent).

**Figure 8.7 Attitudes towards idea of increasing State Pension age in the light of longer life expectancies, by highest educational qualification**



#### 8.4.2 Uprating the State Pension

Until 1980 the State Pension was raised annually by the higher of price inflation or earnings growth<sup>35</sup>. Since then the basic State Pension has been linked to prices, which generally rise more slowly than earnings. Restoration of the link between pensions and earnings growth has become a topical issue.

In this study respondents were asked to consider which of two statements was closest to their own view, specifically:

1. The State Pension should be increased in line with **prices** (this means taxes could stay the same, but there would be less money available for the State Pension).

or

<sup>35</sup> Between 1974 and 1979 the basic State Pension was set to rise by earnings.

2. The State Pension should be increased in line with **earnings** (this means taxes would have to increase, but there would be more money available for the State Pension)<sup>36</sup>.

People favoured the second option of indexing State Pensions to earnings growth rather than to price inflation. Some 70 per cent suggested that the State Pension should rise in line with earnings; 26 per cent said in line with prices (and with a lower tax take); and four per cent weren't sure.

### 8.4.3 Personal accounts

The Pensions Commission recommended creating a new NPSS. This would become a 'default' option for those without access to employer schemes, or appropriate personal pensions. Employers would be compelled to contribute (for those employees not opting out), and the Government would provide tax relief. This idea has been taken forward, and the latest Department for Work and Pensions (DWP) White Paper on pensions refers to them in its title: 'Personal accounts: a new way to save' (2006c). However, at the time we designed the questionnaire, the Pensions Commission had used the term NPSS and this was the term we used in our questions. Respondents were, therefore, asked this relatively lengthy question:

*'It has been suggested that a new NPSS be introduced. Employees without a good company scheme would automatically be included, unless they chose not to. They and their employer would make contributions, and there would be tax benefits from the Government. Are you in favour of or against this suggestion?'*

There was overwhelming support for the scheme. Eighty-four per cent said they were in favour, eight per cent were against, and eight per cent could not choose. With such high levels of support, it was difficult to find groups who were against the concept. Those slightly less likely to be supportive were:

- younger (18-24s) and older (65-69s) (79 per cent in favour);
- self-employed people (also 79 per cent in favour);
- those with no educational qualifications (77 per cent in favour);
- social tenants (75 per cent in favour);
- lone parents (73 per cent in favour).

These are differences of emphasis and no group could be found where even a sizeable minority opposed the idea. Those expressing lower levels of support did not, on the whole, oppose the idea, but had higher proportions of people who said they could not really choose. Among lone parents 16 per cent said they could not

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<sup>36</sup> The information provided to respondents included what is shown in the brackets.

choose, and only eight per cent (the overall average) said they were opposed to such a scheme. Among social tenants 13 per cent were unable to give an opinion one way or the other.

#### 8.4.4 Automatic enrolment

One means of promoting membership of pension schemes is through automatic enrolment (where people opt out rather than relying on people to actively join schemes) (see McKay, 2006). Under such arrangements employees may later choose to leave the scheme. The White Paper published in December 2006 supports the concept of automatic enrolment (DWP, 2006c).

Respondents were first asked if they supported the idea of an opt-out process for joining pensions – automatic enrolment. Where people said no, they were asked a follow-up question to consider if they would support such a scheme if the employer was compelled to pay into the scheme.

Around six in ten (57 per cent) thought that automatic enrolment should be used. Four in ten took the opposing view (see Table 8.3); this comprised about one in ten who would support automatic enrolment if the employer was contributing to the scheme, and three in ten who would continue to oppose the concept even in these circumstances. Combining the 'should' responses from the main and follow-up questions shows that a majority of people are in favour of automatic enrolment, particularly when there is an employer contribution. Overall, 57 per cent favour automatic enrolment, rising to 68 per cent if the employer contributes.

**Table 8.3 Automatic enrolment of employees**

Whether employers should automatically enrol employees in their pension scheme			
	%		
Should	57		
Should not	41	=>	<b>If the employer contributes to the pension scheme</b>
Don't know	2	=>	<b>[base = 43 per cent]</b>
<i>Base</i>	1,950		
			Should 11
			Should not 30
			Don't know 2
			Refused *
			<i>Base</i> 831

Base: All respondents.

Note: \* means less than 0.5 per cent but more than zero.

We did not specifically ask for reasons why people would favour or be opposed to automatic enrolment. Further analysis raises the possibility that there are concerns

about the effect on incomes of people being automatically enrolled (though there is no **direct** evidence for this). Support for automatic enrolment reached 66 per cent among those in the top quarter of the income distribution, compared with a bare majority (52 per cent) among the lowest income quarter. Similarly, 67 per cent of those with degrees supported the concept, compared with 50 per cent of those without qualifications.

There was a strong association between older age groups and being in favour of automatic enrolment. More 18-24 year-olds opposed automatic enrolment than supported it, whereas the reverse was true for the other age groups (Table 8.4).

**Table 8.4 Views on automatic enrolment of employees, by age group (without specifying any employer contribution)**

<b>Whether employers should automatically enrol employees in their pension scheme</b>	<b>18-24</b>	<b>25-34</b>	<b>35-44</b>	<b>45-54</b>	<b>55-64</b>	<b>65-69</b>
Should	42	56	59	56	64	61
Should not	56	43	39	41	34	36
Don't know	2	1	2	3	2	3
<i>Base</i>	<i>138</i>	<i>328</i>	<i>450</i>	<i>379</i>	<i>447</i>	<i>208</i>

Base: All respondents.

#### **8.4.5 Compulsory pension contributions – for employees and employers**

A possible alternative to automatic enrolment would be to compel all employees (and perhaps those who are self-employed) to join non-state pension arrangements. This was a fairly divisive issue for respondents, with roughly equal numbers supporting (40 per cent) and opposing (43 per cent) such compulsion. One in six (16 per cent) were unsure.

Views were, unsurprisingly, related to attitudes to automatic enrolment (see Table 8.5). Those in favour of automatic enrolment looked more favourably on the idea of legal compulsion to contribute, whilst those opposed to automatic enrolment expressed the strongest negative views to the idea of any compulsion to contribute towards a pension. However, even 31 per cent of those in favour of automatic enrolment were opposed to any compulsion to contribute.

**Table 8.5 Legal compulsion for workers to pay into a private pension, by views on automatic enrolment of employees**

Everyone in work should be required by law to pay into a private pension	Whether employers should automatically enrol employees in their pension scheme			
	Should %	Should not %	Don't know %	All %
Strongly in favour	11	4	[2]	8
In favour	42	20	[20]	32
Neither in favour nor against	15	17	[20]	16
Against	27	49	[56]	37
Strongly against	4	10	[0]	6
Don't know	1	1	[2]	1
<i>Base</i>	<i>1,119</i>	<i>788</i>	<i>43</i>	<i>1,950</i>

Base: All respondents.

Numbers in [ ] are percentages based on fewer than 50 actual cases and may therefore be unreliable.

In summary, there is a clear majority (57 per cent) favouring the idea of automatic enrolment, and this rises to just above two-thirds (68 per cent) if there is also an employer contribution. By contrast 40 per cent are in favour of legal compulsion for workers to pay into a private pension.

Overwhelmingly respondents liked the idea of employers being compelled to contribute into their employees' pensions – 20 per cent **strongly** in favour, and 53 per cent in favour. However, there was also a minority who disagreed, with 13 per cent against this idea (and two per cent strongly against). The remaining ten per cent did not express a view.

So, overall 15 per cent were against employer compulsion. The proportion of those in work and against employer compulsion (17 per cent) was actually higher than among the unemployed and disabled people (ten per cent) and those retired (nine per cent). Overall, the groups most likely to be opposed to employer compulsion were:

- **the self-employed:** 28 per cent opposed (a number of this group were employing people of their own);
- **part-time workers and those working long hours:** 24 per cent of those working 1-15 hours a week, and 23 per cent of those working 41 or more hours, opposed employer compulsion;
- **those with no experience of occupational pensions:** 18 per cent were against the idea;
- **the young:** 17 per cent of those aged 18-34 were opposed.

## 8.5 The Pension Protection Fund

In 2005 the Government introduced the PPF. This is a new arrangement to protect members of defined benefit occupational pension schemes (and hybrid schemes with defined benefit elements). A few further details may be found in the Glossary to this report. All respondents were asked if they had heard about the PPF.

About one in four (24 per cent) said they had some previous awareness of the PPF. As we show in Table 8.6, overall awareness was no higher among employees than in the population as a whole. However, awareness was higher – at 32 per cent – for those who had ever been a member of an employer pension scheme. It was still higher, at 39 per cent, among those currently members of defined benefit pension schemes (this last result includes five people with hybrid employer pension schemes). As the PPF had only existed for about a year prior to fieldwork, whilst only a minority of relevant scheme members had heard of it, these results may be cautiously interpreted as indicating some recognition of this new scheme.

**Table 8.6 Awareness of the Pension Protection Fund, by work and pension status**

Different (and overlapping) groups of respondents				
	All respondents	All employees	All current or past employer pension members	All current member of DB/hybrid schemes
Whether aware of the PPF	%	%	%	%
Aware	24	24	32	39
Not aware	76	76	68	61
Don't know	*	*	*	8
<i>Base</i>	<i>1,950</i>	<i>1,096</i>	<i>1,065</i>	<i>324</i>

Base: All respondents.

Note: \* means less than 0.5 per cent but more than zero.

Respondents were asked a further question about the desirability of Government intervention in under-funded pension schemes, when a firm ceases trading. This was tackled in a more general way than the question asked about awareness of the specific institution that is the PPF. Respondents were asked to consider which one of these two statements came closest to their view:

1. It's only fair that the Government should step in to help people if their company goes bankrupt and their pension scheme is underfunded.

or

2. It's not the Government's job to prop up failing company pensions schemes – the company should take full responsibility.

Two-thirds thought that the Government should intervene in such cases, and one-third did not. There were no particular groups of people who held much stronger or weaker views on the matter. Certainly, opinions on this matter were little affected by people's level of educational qualifications, and there were also few differences among men and women, or those working or not.



## 9 Expectations for retirement

### **Expected age of retirement**

- A majority of respondents in work expected to retire from their main jobs before or at State Pension age (SPA). However, 60 per cent expected to undertake further paid work after this.
- Younger respondents and the self-employed were more likely to expect to retire late while high earners tended to expect to retire early.
- Those who expected to retire before or at SPA generally explained this was due to personal preference.
- Around one-third of those who expected to retire after SPA explained this was because they enjoyed working, while the same proportion said it was because they could not afford to retire.

### **Retirement income**

- Almost half of respondents yet to retire had no idea how much their income in retirement would be.
- The majority expected a pension (most frequently their own employer or State Pension) to be their main source of retirement income.
- Only one-fifth accurately placed the current amount of the weekly State Pension in the £70 to £99 bracket. There was a tendency to think the State Pension provides a greater amount than it actually does.
- More than three-quarters indicated they would take up Pension Credit, if eligible.
- The median expected income in the first year of retirement was between £8,000 and £9,999.
- Those whose main source of income would be an employer pension expected their income in retirement to be much higher than those who would rely on a State Pension.

## 9.1 Introduction

This chapter focuses on expectations for retirement. It considers when respondents currently in work expect to retire and the factors underpinning their views. The expectations for levels and types of retirement income held by all respondents yet to retire are explored, focusing on expectations regarding the State Pension.

In a number of instances, those respondents who had already retired were asked about their experiences and how these related to their earlier expectations – to provide an indication of how far non-retirees' expectations are realistic and liable to change. However, retired respondents are not representative of the retired population as a whole as only those aged under 69 were included in our sample. Analysis of their attitudes offers a snapshot of the views of those in the initial stages of a comparatively early retirement.

## 9.2 Expectations regarding age of retirement

Retirement can be defined in a number of ways; retirement from a main job, the cessation of all paid work, or the personal perception that one is retired. There was considerable variation among respondents in work about when they expected to retire, given these varied definitions.

The most common expectation, held by more than two-thirds (69 per cent) of respondents in work, was that they would retire from their main jobs in their 60s. Smaller proportions expected to retire in their 40s or 50s (17 per cent) and in their 70s or 80s (nine per cent). Although it is recognised that only a low level of precision was required, respondents were clear about this issue, with just two per cent stating they did not know when they would retire.

All those who were able to indicate which decade of their lives they expected to retire in were asked at what specific age they would retire. A larger proportion – nine per cent – were not able to give a specific age. The majority of those who did answer expected to retire from their main jobs at 60 or 65 – 21 per cent at 60 and 36 per cent at 65. These are, of course, the current SPAs for men and women. And analysis by sex suggests that many respondents based their expectations for retirement age on SPA. Around three-tenths (31 per cent) of women expected to retire at 60 compared to slightly more than one-tenth (13 per cent) of men. Conversely, 42<sup>37</sup> per cent of men expected to retire at 65 compared to 30 per cent of women.

Data on respondents' ages and sex were used to calculate whether they expected to retire before, at, or after SPA (taking into account how this will increase in the future for women of particular ages). This data is presented in Table 9.1. Most respondents in work expected to retire before or at SPA. Around four-tenths expected to retire

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<sup>37</sup> The base for men expecting to retire at 65 is the number of men stating a precise retirement age at this particular question. In contrast, the percentages for men reported in Table 9.1 have been calculated using a different (larger) base, which accounts for the slight difference in percentages reported.

before, slightly less than four-tenths at, and two-tenths after SPA. Earlier in this Report (Section 8.4.1) we considered the issue of working beyond SPA from a more attitudinal perspective.

**Table 9.1 Expectations for retirement compared to State Pension age, by sex**

	Men	Women	All
Expect to retire <b>before</b> SPA	34	46	39
Expect to retire <b>at</b> SPA	40	30	35
Expect to retire <b>after</b> SPA	18	18	18
<i>Base</i>	<i>619</i>	<i>632</i>	<i>1,251</i>

Base: Respondents in work<sup>38</sup>

Women were more likely to expect to retire before SPA than men; this was the case for 46 per cent of women compared to 34 per cent of men. A higher proportion of men expected to retire at SPA (40 per cent compared to 30 per cent of women). Identical proportions of each sex expected to retire after SPA (18 per cent in each case).

We were interested in whether people's expectations of retiring at a particular age were founded on wider considerations, namely, on when they would be able to **afford** to retire. Fifty-five per cent of respondents in work said that the age at which they expected to retire from their main job would be when they could afford to do so. However, 25 per cent claimed they would not actually be able to afford to retire until after this, while 16 per cent thought they could afford to retire before this. The ability to afford to retire and expected retirement age are thus strongly, although not universally, linked in respondents' minds.

Having asked about retiring from a 'main job', we asked respondents if they expected to do any further paid work after this. The majority did; 60 per cent thought this would be the case compared to 30 per cent who did not. Just six per cent were unsure about this issue.

Of those who expected to do further work, the majority – 59 per cent – expected to fully retire by age 70. A further 11 per cent expected to retire fully between 70 and 80. Due to the absence of formal retirement ages for such work, it is not surprising that 22 per cent did not know when they would fully retire.

<sup>38</sup> Including those who described themselves as currently working or waiting to take up a job, and those who worked in the last seven days.

### 9.2.1 Differences in expected retirement age, further work and ability to afford to retire

Younger respondents were more likely to expect to retire later, as illustrated in Table 9.2. Twenty-two per cent of those aged 18-24 and in work expected to retire in their 70s or 80s compared to less than one-tenth in any other age band. As the idea of raising retirement age has been publicised, although this has tended to focus on the late 60s, this younger group might have concluded that retirement in the 70s or 80s will be the norm when they come to retire.

**Table 9.2 Expectations of age of retirement, by current age**

	18-24	25-34	35-44	45-54	55-64	All
40s	4	2	1	–	–	2
50s	12	24	19	13	3	16
60s	56	61	70	75	82	69
70s	22	8	4	5	8	8
80s	–	–	1	–	1	1
Some other time	1	–	–	2	3	1
Never	1	2	2	2	3	2
<i>Base</i>	<i>84</i>	<i>266</i>	<i>355</i>	<i>300</i>	<i>232</i>	<i>1,251</i>

Base: Respondents in work<sup>39</sup>

High earners were more likely to expect to retire early. Twenty-four per cent of those who earned more than £29,000 expected to retire in their 40s or 50s, compared to 13 per cent of those who earned less than £10,000. Respondents might only expect to retire when they had acquired sufficient financial resources to do so; higher earners might be better equipped to do this at a younger age. However, this difference could relate to age differences, as younger respondents, who tended to earn less, were more likely to expect to retire later.

The self-employed were more likely to expect to retire later. Twenty per cent expected to retire in their 70s or 80s compared to seven per cent of employees. As we shall see, many employees expected to take up further paid work after retiring from their main jobs; for the self-employed, their definition of retirement from a main job might constitute the point when all paid work ceases.

Those who had ever had a pension were more likely to expect to retire in their 60s while those who had not were more likely to expect to retire later than this. Seventy-one per cent of those who had a pension expected to retire in their 60s compared to sixty-one per cent of those who had not. On the other hand, twice as many of those who had never had a pension as those who had expected to retire in their 70s (14 per cent compared to seven per cent). Experience of pension provision is associated with a number of other characteristics that are linked with expectations for retirement

<sup>39</sup> Including those who described themselves as currently working or waiting to take up a job, and those who worked in the last seven days.

age – such as age and earnings – with those who are older and have higher earnings being more likely both to have ever had a pension and to expect to retire early.

Further analysis reveals that age, employment status and earnings are all significant predictors of expected age of retirement when the interactions between them are controlled for, while experience of pension provision is not. This suggests that experience of pension provision relates to expectations for age of retirement due to its links with other predictive factors, such as age and earnings. While age and earnings are known to be linked, with older people being more likely to earn more, also shown to be the case in this survey, both variables make an independent contribution to expected age of retirement.

Those with lower earnings were less likely to think they would be able to afford to retire at the age at which they expected to do so. Thirty-one per cent earning less than £10,000 thought they would not be able to afford to retire at this stage, compared to 24 per cent of those earning £29,000 or more.

There were no differences in the expectations of men and women, the young and the old, and employees and the self-employed regarding further paid work after retiring from their main jobs. Perhaps surprisingly, respondents with higher earnings were more likely to expect to undertake further work. Seventy-three per cent earning more than £29,000 and 53 per cent earning less than £10,000 thought this would be the case. This finding contradicts the assumption that any additional paid work is undertaken primarily to increase financial resources for retirement. Similarly, those who had ever had a pension were more likely to expect to undertake further paid work compared to those who had not; 63 per cent of those with experience of pension provision stated this compared to 51 per cent of those without this experience. We saw previously that higher earners are more likely to retire from their main jobs early. Perhaps what we are witnessing is a divergence in career paths between high and low earners (and those with greater and lesser financial resources for retirement such as pensions), with the former group tending towards early retirement from their main jobs and taking up other paid work.

However, that is not the full story, as we also found that those who felt they couldn't afford to retire at the age at which they expected to do so were more likely to anticipate doing further paid work. Sixty-eight per cent of this group planned to do additional paid work after retiring from their main job, compared to 57 per cent of those who felt they would be able to afford to retire at the age they expected to do so. Further paid work may therefore be motivated, to some extent, by economic necessity.

The ability to afford retirement is thus important in explaining the ages respondents expected to retire and decisions regarding continued working.

### 9.3 Reasons for expecting to retire at particular ages

In this section, we consider a range of reasons behind expected and actual retirement ages, how universal they are and their relative importance. We look

separately at explanations for retiring early (before SPA), late (after SPA) and retiring at SPA. Overall, respondents had a wide range of motivations and calculations that underpinned their expectations about retirement age.

The majority of respondents in work who expected to retire **before** SPA said this was because this was when they wanted to retire. Seventy-two per cent of men and 58 per cent of women said this was the case<sup>40</sup>. There was no other widely held explanation for expecting to retire at this stage. Fifteen per cent of women stated they wanted to retire before SPA as 'this is the age at which women usually retire'. (This response was presented to women, but not men, as SPA for women is due to rise in the future, and therefore women might reasonably cite 60 as their expected retirement age on the basis that this is the current norm).

Women were more likely than men to say their expected retirement age was based on when their partner would retire or start to receive their pension; this was the main reason given by five per cent of women but no men. Personal reasons, ill health and the fact the employer would not allow continued working were the main explanations for expected retirement age for small proportions of both men and women.

**Table 9.3 Main reasons why people expect to retire early, by sex**

	Men %	Women %
I want to	72	58
That's the age women generally retire ( <i>option only available for female respondents</i> )	–	15
Personal reasons	8	9
Employer wouldn't allow continued working	8	4
Ill-health	7	4
Partner/spouse retires/starts to receive pension	0	5
Other	*	5
<i>Base</i>	208	281

Base: Respondents in work who expect to retire before SPA.

– = not asked.

Note: \* means less than 0.5 per cent but more than zero.

Respondents who expected to retire **at** SPA generally did so because of personal preference and perceived normal behaviour. Thirty-eight per cent said they expected to retire then because they wanted to, while 25 per cent explained their expectation as 'this is when people usually retire'. Eighteen per cent anticipated retiring at SPA

<sup>40</sup> Women were given an additional response option to men and therefore their answers are reported separately. For this reason, it is not surprising that slightly higher proportions of men identified a number of reasons for retirement before SPA, given they had a more limited range of options available.

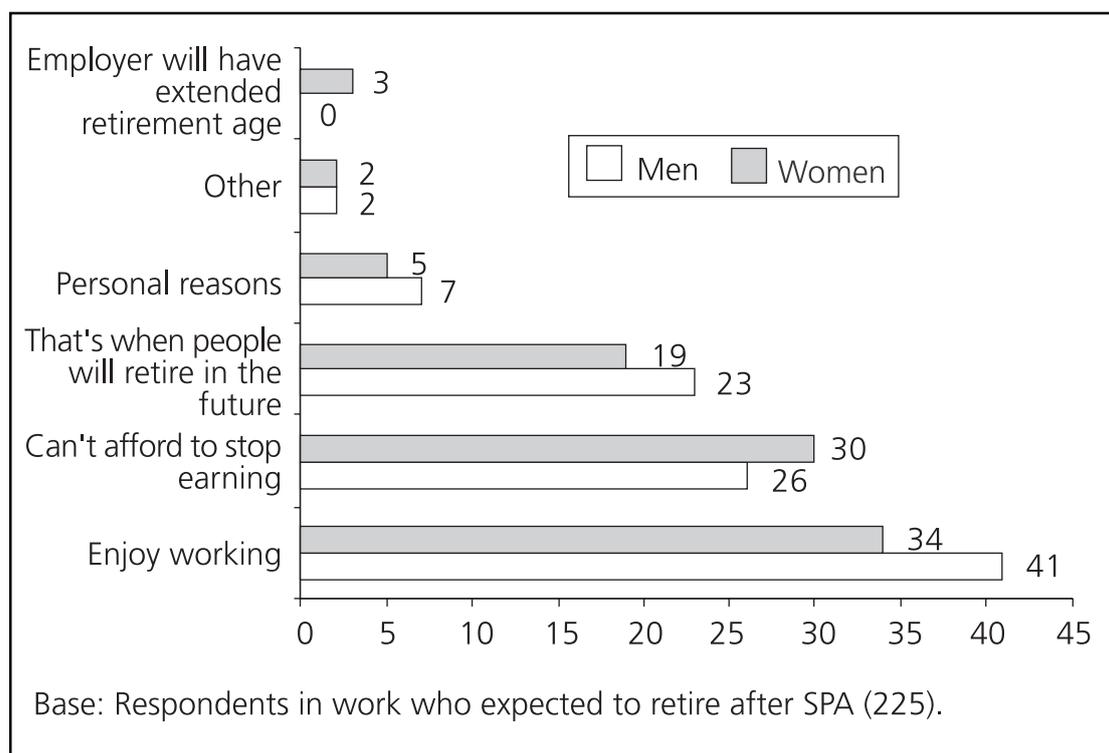
because that is when they would begin to receive their State Pension. Minorities of respondents expected to retire at this stage due to employers' rules on retirement (12 per cent), personal reasons (six per cent) and other reasons (three per cent).

Although the sizes of sub-samples are too small for these to be classified as significant, we can tentatively identify a number of potential differences between men and women regarding their reasons for expecting to retire at SPA. Forty per cent of men expected to retire at SPA because that is when they wanted to retire compared to 34 per cent of women. Nine per cent of women expected to retire at SPA for personal reasons, compared to four per cent of men.

Respondents were offered a different range of reasons for expecting to retire **after** SPA (shown in Figure 9.1). Around four-tenths expected to retire after SPA because they enjoy working. Three-tenths explained their expectation on the basis that they would not be able to afford to stop working. Slightly more than two-tenths said they expected to retire at this stage as this is 'when people will generally retire in the future'. Only small proportions expected to retire late for personal or other reasons or because their employer will have extended the retirement age.

While subgroup sizes are again too small to enable the identification of significant differences, the data suggests a number of possible differences between men and women in their reasons for expecting to retire after SPA. Forty-one per cent of men expected to retire after SPA because they enjoy working compared to 34 per cent of women. Slightly more women than men expected to retire after SPA because they could not afford to stop earning (30 per cent compared to 26 per cent of men).

**Figure 9.1** Main reasons for expecting to retire *after* State Pension age, by sex



### 9.3.1 Reasons why retired respondents retired at particular ages

Retired respondents were also asked why they had retired at particular ages. Only very small numbers had retired at or after SPA, meaning that analysis is only possible for those who retired **before** SPA. However, the base for this group is just 50, meaning that subgroup analysis is not possible, and the figures presented below should be treated with caution.

There were a wide range of reasons underpinning retiring early. The reason most frequently identified as the **main** reason by respondents was that they were offered reasonable financial terms; 24 per cent stated this. However, of all the different reasons identified for retiring early, the most common was ill health, referred to by a third (33 per cent). Clearly, ill health is far more frequently cited as a reason for retiring early by respondents who have already retired than by those who expect to retire early (fewer than one in ten men and women gave this reason for expecting to retire early). It is likely that this is due to the fact that those still working cannot always predict what developments might occur in the future that would alter and influence their expectations regarding retirement age (such as the onset of ill health).

## 9.4 Expectations for retirement income

### 9.4.1 Knowledge of retirement income

Almost half (47 per cent) of all respondents yet to retire had no idea what their income in retirement would be (Table 9.4). Nineteen per cent only had a vague idea of what to expect, while around a quarter (24 per cent) said they had a reasonable idea. Just ten per cent had a good idea what their income in retirement would be.

**Table 9.4 Expectations for retirement income**

Expectations for retirement income	%
I have a good idea of what my income in retirement will be	10
I have a reasonable idea of what my income in retirement will be	24
I know vaguely whether I will have enough to live on or not	19
I have no idea of what my income in retirement will be	47
<i>Base</i>	<i>1,613</i>

Base: All respondents not defined as retired.

As we might expect, younger respondents were much less likely to have a good idea of what their retirement income would be. Seventy-three per cent of those aged 18-24 had no idea what their income would be, compared to 21 per cent of those aged 55-64<sup>41</sup>. Those nearing retirement would logically have a better idea of the

<sup>41</sup> As this question is concerned with expected income in retirement, it was only asked of those respondents in the 55-64 age bracket who were yet to retire.

financial resources available to them compared to those who had just begun work. Men felt they had a clearer idea about retirement income than did women; 39 per cent stated they had a good or reasonable idea about this compared to 27 per cent of women. This reflects the tendency noted in Chapter 7 for men to be more confident in their knowledge of finance for retirement, including pensions and savings. Those who thought their main source of retirement income would be the State Pension were more likely to say they had no idea what their income in retirement would be; 64 per cent stated this, compared to 47 per cent of all respondents.

Despite these generally low levels of self-perceived knowledge about retirement income, respondents were able to give a response to a more general question asking whether they thought they would have 'enough money to cover basic costs such as housing, heating and food'. Seventy-eight per cent thought they would definitely or probably have enough money; only two per cent stated they did not know if this would be the case.

In Sections 9.4.3 and 9.4.6 we examine in more detail expectations for retirement income, focusing on sources of income and expected income in the first year of retirement.

#### **9.4.2 Attitudes of retired respondents about retirement income**

Information provided by retired respondents shows expectations of retirement do not necessarily match up with reality. Views were mixed among retired respondents about whether their financial expectations for retirement matched their current financial situation.

Forty-nine per cent said they were as well off in retirement as they had expected to be; 26 per cent said they were worse off and 23 per cent were better off than they had expected.

We also asked those who had worked prior to retirement how their current financial situation compared with the time when they were working. The majority agreed that they were worse off than when they were working. Fifty-three per cent indicated this, while 29 per cent thought they were as well off as when they were working and 16 per cent thought they were better off.

#### **9.4.3 Sources of retirement income**

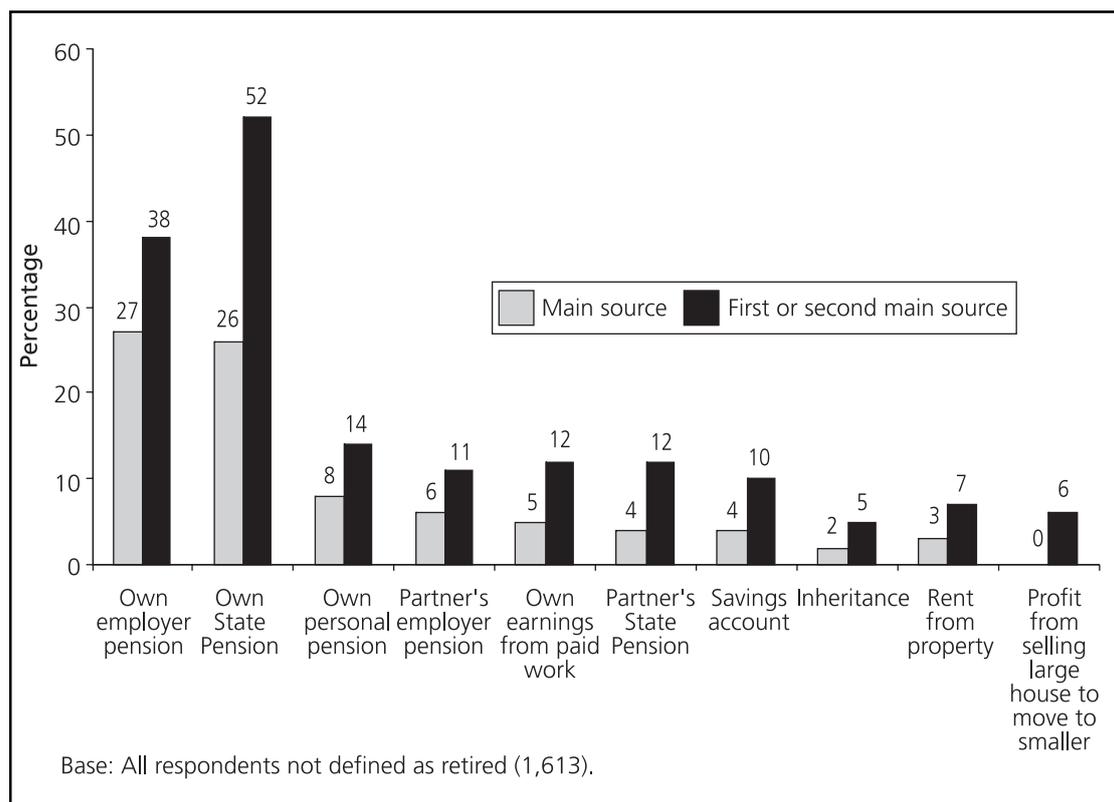
Respondents not yet retired identified a wide array of sources which they thought would be their main or second main source of income in retirement.

The majority expected a pension to be their main source of income (see Figure 9.2). The respondent's own employer pension (27 per cent) and State Pension (26 per cent) were the most widely identified main sources of income. No other main source of income was identified by more than one in ten respondents, although more than

three-tenths expected a source other than their State Pension or occupational pension to be their main source of income. Personal pensions and partner's employer pensions were cited by eight per cent and six per cent of respondents respectively.

When looking at the main and second source of retirement income combined, a respondent's own State Pension was the source most frequently identified as being one of the two main sources of retirement income; this was the case for 52 per cent. Once again, pensions dominated the two main sources of retirement income; 38 per cent cited their own employer pension; 14 per cent listed their own personal pension, 12 per cent cited their partner's State Pension and 11 per cent identified partner's employer pension. Two sources other than pensions were identified by a tenth or more of respondents – their own earnings from paid employment and savings accounts.

**Figure 9.2 Respondents' main sources of income expected for retirement**



#### 9.4.4 The State Pension

The State Pension is regarded as one of the main sources of income in retirement for around half of yet-to-retire respondents. However, 38 per cent did not know how much they could expect to get from it at current prices.

In 2006-2007, the full basic State Pension was £84.25 a week<sup>42</sup>. As shown in Table 9.5, only a fifth (19 per cent) gave answers about the expected weekly amount of basic State Pension which fell into the correct bracket of £70 to £99. There was a tendency to think the basic State Pension provides more than it actually does. Around a fifth (18 per cent) thought it provided between £100 and £139 a week and one in ten thought it was £140 or more, some thinking it was considerably more. Just 15 per cent thought that the basic State Pension provided less than £70 per week.

**Table 9.5 Expected weekly income from State Pension**

Expected weekly income from State Pension (£)	%
0	1
1 – 34	2
35 – 69	12
<b>70 – 99</b>	<b>19</b>
100 – 139	18
140 – 169	4
170 – 199	1
200 or more	5
Don't know	38
<i>Base</i>	<i>1,613</i>

Base: All respondents not defined as retired.

Bold indicates 'accurate' expectation.

As we might expect, age was strongly linked to knowledge of weekly basic State Pension income. Those closer to SPA, in the 55-64 year age group, were much less likely to state they did not know the amount of the weekly basic State Pension; 24 per cent in this group indicated this, compared to more than a third of those in any other age group. Nevertheless, given the former group are nearing SPA, this lack of knowledge is surprising. Respondents nearing SPA were also more likely to estimate the weekly basic State Pension accurately; 26 per cent placed this between £70-£99 compared to 12 per cent of those aged 18-24.

Women tended to think that they would get less from the basic State Pension than men. Thirty per cent of men thought they would receive £99 or less a week compared to 37 per cent of women. This difference may, in fact, be based on

<sup>42</sup> Some respondents, who would not be entitled to a full basic State Pension due to an insufficient number of qualifying years would, in practice, be entitled to less than this. Meanwhile, others who were eligible could receive Pension Credit on top of this amount. However, here, we were asking only about the basic State Pension.

accurate assessments by respondents in certain cases. Women are less likely to have sufficient qualifying years, as they traditionally have worked fewer years due to child-raising commitments, and older women would not have received Home Responsibilities Protection (HRP) to compensate for this. It might also be explained by the fact that those who receive a basic State Pension based on their spouse's or civil partner's National Insurance (NI) contributions (previously the Married Women's Entitlement) would get £50.50 a week. It may also reflect a greater confidence among men regarding retirement income which has been identified elsewhere.

#### 9.4.5 Pension Credit

It was explained to respondents that:

*'Some pensioners can claim Pension Credit. This is paid to those pensioners whose income is below a certain level. To claim, pensioners fill in a form asking about their income and savings. Thinking about when you retire, if you were eligible for such a benefit, how likely is it that you would apply?'*

Seventy-five per cent indicated they would be 'very' or 'fairly' likely to apply for Pension Credit if they were eligible. This finding is interesting as there has been low take-up of Pension Credit – latest official figures show caseload take-up as between 61 and 69 per cent (DWP, 2006b). It suggests that while many may not feel a stigma attached to claiming Pension Credit, the fact it is means-tested could potentially be an issue for a sizeable minority – the 12 per cent who said that they would not be likely to apply for this support if eligible and the six per cent who were unsure. However, there is no evidence of a direct link between attitudes to applying and a perceived stigma here.

#### 9.4.6 Expected income in first year of retirement

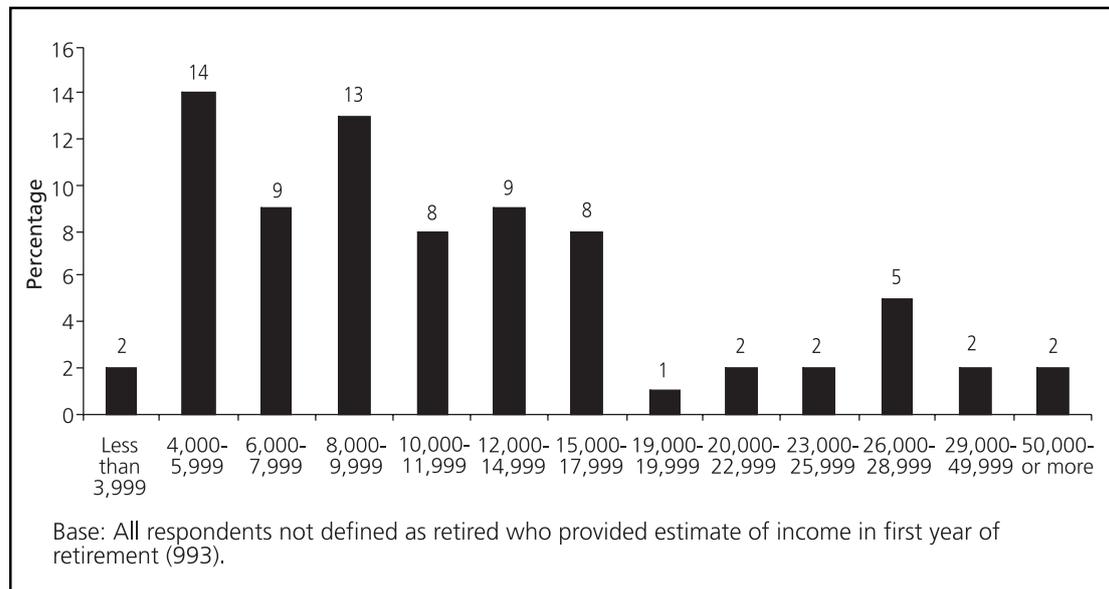
The lack of knowledge about retirement income highlighted previously was also demonstrated in respondents' assessments of their expected income in their first year of retirement; 23 per cent stated they did not know what this would be. Figure 9.3 shows the responses of those who did provide an estimate<sup>43</sup>.

The median expected income in the first year of retirement fell between £8,000 and £9,999. However, as illustrated in Figure 9.3, this estimate varied considerably.

As we would expect, current earnings were strongly related to expectations for initial retirement income. The median expected retirement income of those earning less than £10,000 fell between £4,000-£5,999, while those earning more than £29,000 anticipated an income of between £12,000-£14,999 in their first year of retirement.

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<sup>43</sup> In the majority of cases, where respondents with a partner defined their income on the basis of the couple's joint income (88 per cent), estimated income was halved, to obtain a comparable figure for the respondent as an individual.

**Figure 9.3** Expected income in first year of retirement (£)

Expected income in the first year of retirement appears to be strongly related to the main source of retirement income expected by respondents. Those who stated that their own basic State Pension would be their main source of income expected a median income of between £4,000-£5,999 in the first year of retirement. It is interesting to note that the actual annual income from the State Pension in 2006/07, at £84.25 a week, is £4,381, falling within this expected income band. However, those who cited an employer pension as their main source of income expected a substantially larger median income of between £10,000-£11,999. This is what we would expect to find as those with an employer pension as their main source of income would also receive a State Pension. This ties in with the fact that those with employer pensions also tend to have higher levels of other financial resources, such as savings.

While women more frequently did not know what their income in the first year of retirement would be (with 28 per cent saying this, compared to 19 per cent of men), their median estimated incomes and the range of their responses were very similar.



# 10 Tax treatment, simplification and 'A' day

- Knowledge of how the tax systems treats pensions was slightly higher, at least on a reduced set of questions, than knowledge about other pensions issues: Respondents correctly answered 60 per cent of the four taxation questions in the knowledge test, compared to 53 per cent of the other questions.
- Tax relief was mentioned as a motivation for joining private pensions by a small proportion of respondents; this was the case for 13 per cent of those buying a personal pension, compared with seven per cent for employer pensions.
- Forty per cent of respondents were unaware of any of the tax rules in relation to pensions (those which existed before April 2006).
- Over one in three (36 per cent) said they had heard at least something about the changes to the pensions regime known as 'A-Day'.
- Large proportions of those aware of A-Day had neither made concrete changes to their pension provision due to the A-Day reforms, nor had found out more about the reforms (84 per cent and 75 per cent respectively).

## 10.1 Introduction

In this chapter, we look at people's knowledge of how pensions are treated in the tax system, and how this tax treatment affects their decisions about taking out pensions. We also look at awareness of changes to the regulation and tax treatment of pensions that took place in April 2006 (also known as 'A' day).

In Section 10.2, we summarise some of the information relating to people's knowledge of pensions and taxation, and how this compares to pensions knowledge more generally. More specific details of the regime prevailing before April 2006 are examined in Section 10.3. People may join pension schemes for many reasons, and Section 10.4 explores the role played by tax relief in taking out pensions. The final section (10.5) looks at awareness of the changes which took place in April 2006, and people's reactions to them.

## 10.2 Knowledge of pensions and tax

People's level of pensions knowledge has already been explored in detail (in Chapter 4). In this section, we focus on the knowledge questions most salient to taxation.

### 10.2.1 Knowledge test

Knowledge of the links between pensions and the tax system was reasonably promising, in the context of relatively weak knowledge of pensions in general. To recap the results of four key questions:

- 62 per cent knew (or, at least, correctly guessed) that the State Pension was taxable;
- 73 per cent knew that personal/employer pensions were taxable;
- 53 per cent knew that private pensions qualify for tax relief;
- 52 per cent knew that private pensions could not be accessed at any age.

There were strong associations between answering these questions correctly, and providing the right answers to the remaining ten other questions within the pensions knowledge test. On average, people correctly answered 2.4 of the four tax questions (60 per cent) compared with an average of 5.3 out of ten (53 per cent) on the remaining knowledge questions (see Table 10.1). Older groups tended to know rather more than younger people, both on pensions in general and their tax treatment. On average those aged 18-34 provided the right answers to two of the four taxation questions, compared with 2.4 among those aged 35-49, and 2.7 for those aged 50-69.

People who had ever contributed towards pensions tended to have a higher level of knowledge. Those with a current or past personal pension on average correctly answered 2.7 of the four tax questions, and 5.7 of the ten general pensions questions. This was slightly higher than for members of employer pension schemes (who 'scored' 2.6 out of four and 5.5 out of ten respectively).

**Table 10.1 Knowledge of pensions, and taxation, in the pensions test**

Questions	Score on tax questions [max=4]	Score on other pensions questions [max=10]	Base
Age group			
18-34	2.0	4.8	466
35-49	2.4	5.1	643
50-69	2.7	5.9	841
Has current or past employer pension	2.6	5.5	1,065
Has current or past personal pension	2.7	5.7	641
All	2.4	5.3	1,950

Base: All respondents.

It is important to be clear that only four questions were specifically about tax, in the overall knowledge section of the questionnaire. For any individual respondent they may not be a reliable guide to knowledge, but the short set of questions should provide an indicator of which groups tend to know more and less about pensions and their treatment within the tax system.

### 10.2.2 The best way to receive a pension: lump sums and regular income

The value of a pension fund must typically be converted into an income stream, through an annuity, by the age of 75. We reported on knowledge of the requirement to annuitise pension funds in Chapter 7. A proportion of the value of the pension fund may also be taken as a lump sum. Broadly speaking, knowledge of this annuitisation requirement was relatively low, with only 22 per cent of people aware of it. Even among those with personal pensions, only a minority seemed aware of this necessity.

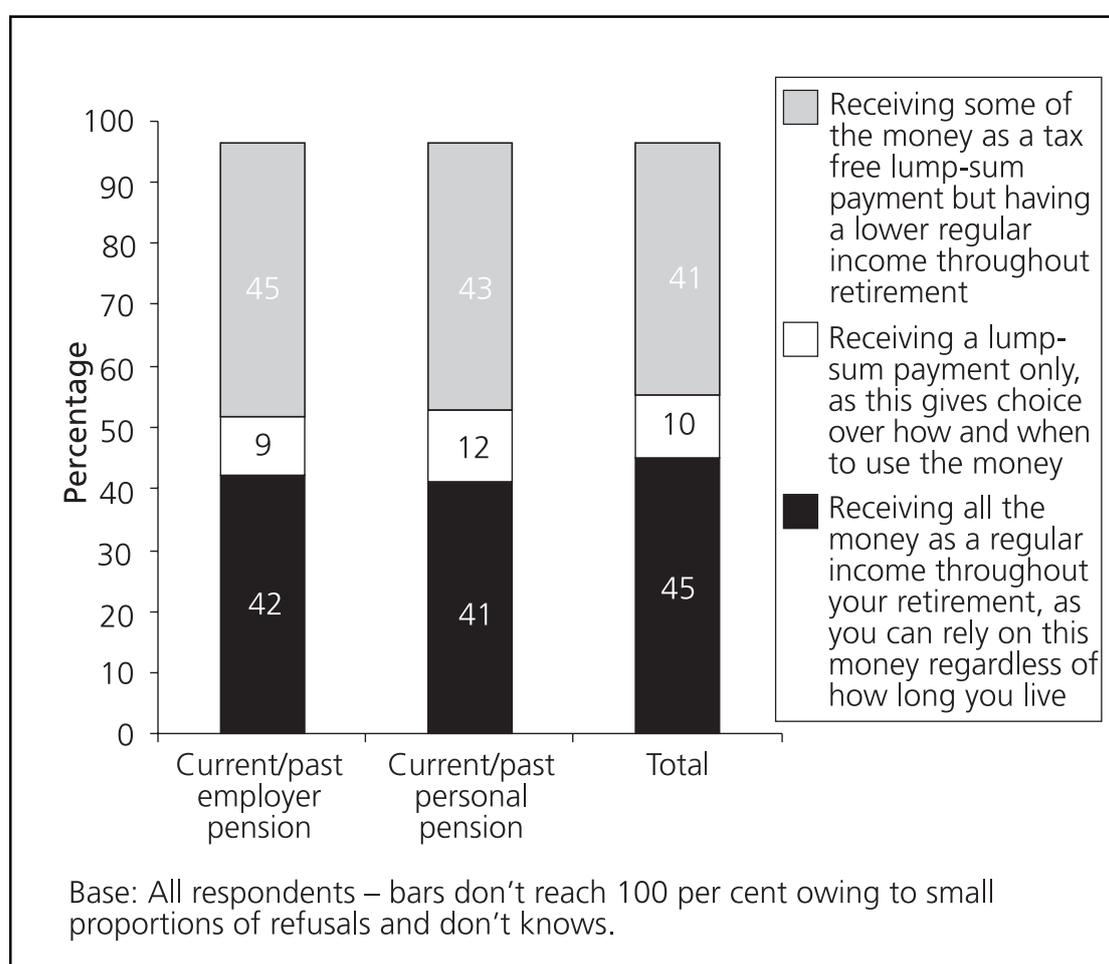
When people receive a non-state pension it is typical for them to receive an initial lump sum – which is tax-free up to a limit – and an ongoing pension for life. The pension in payment is potentially taxable (if the person's total income is over the income tax threshold). It is customary to draw as large a lump sum as possible, owing to this tax advantage over a pension in payment.

Respondents were asked which of three options would be the best way to use a pension fund at retirement – as a lump sum, a regular payment, or a combination, subject to the fact that taking a lump sum would naturally reduce the value of any subsequent ongoing pension (and *vice versa*). As we show in Figure 10.1, opinion was quite evenly divided between having all the money as a regular income stream (45 per cent) or having a lump sum and a lower regular income during retirement

(41 per cent). The option of just a lump sum payment was unpopular, chosen by one person in ten.

Respondents with personal experience of private pensions (both employer and personal) held similar views to the overall average. If anything they were slightly more likely to favour the combined option, which may be a reflection of their knowledge of how they will receive their own pension in time.

**Figure 10.1 Preferences for receiving a lump sum versus an annuity, by private pension provision**



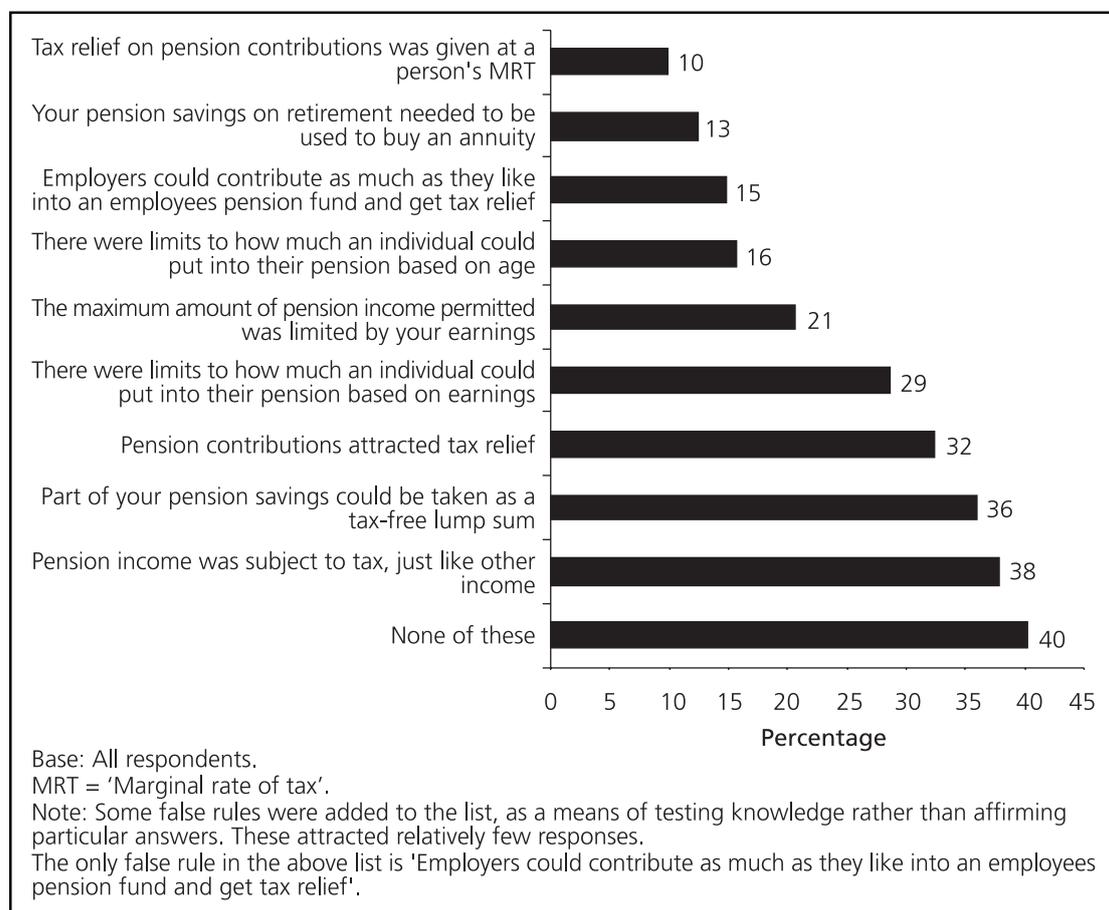
### 10.3 Awareness of tax rules relating to pensions before A-day

Respondents were presented with a list (on a card) of some of the rules governing pensions **prior** to April 2006. This included such things as earnings and age-based limits on contributions, tax relief on pension contributions, and the ability to take part of a pension fund in the form of a lump sum. Despite having this list in front of them, a significant group (40 per cent) said they were not aware of any of the rules shown. Other people mentioned only one or two principles or rules (e.g. that pensions attracted tax relief), whilst others said they were aware of a wide range of

these rules – the full list is shown in Figure 10.2. Excluding those unaware of any tax rules, on average people selected 3.5 responses. This ranged from 2.7 replies from those aged 18-34, to 3.9 replies among those aged 50-69.

Figure 10.2 shows the answers selected most often. This may be interpreted as the **salience** of particular rules. People were most likely to recognise that pension income was subject to tax (38 per cent), that you could take some pension savings as a lump sum (36 per cent), and that pension contributions attracted tax relief (32 per cent). There was much less awareness of more detailed points, such as the fact that tax relief was provided at a person's marginal rate of tax, meaning it was potentially more valuable for higher rate taxpayers than for those paying the standard rate.

**Figure 10.2** Awareness of *previous* tax rules regarding pensions



## 10.4 The role of tax relief

People may join a non-state pension arrangement for various reasons, and the steps may be taken both actively and passively. People may be in a position to choose between saving in a pension, and other kinds of savings, and their motives for particular choices may well be quite varied. Some may prefer to lock money away for the longer term, others may prefer to be able to access their funds more quickly. Some savings products may be riskier than others, but hold out the prospect of better returns in the longer run. Individuals may consider a range of factors to be important when making savings and investment choices.

One of the possible factors people may consider is how different products are treated for taxation. The return on a savings account is typically liable for income tax, unless a tax-favoured type of saving (like an Individual Savings Account (ISA)) is used. Pensions are generally regarded as having a favourable tax regime which may incentivise people to save through employer and personal pensions. However, other factors including the presence of an employer contribution, or concerns about locking money away for a long time, may be more important considerations for at least some people.

In Table 10.2, we show the reasons mentioned by members of employer pension schemes for joining that pension. Respondents were invited to select which reasons affected their choice, and then to select the most important reason (if they had given more than one).

The most common reasons for joining the employer pension were that people thought it was a good way to save (54 per cent), or that they had been automatically enrolled into the scheme (40 per cent), the employer was making a contribution (38 per cent), and their employer had encouraged them to join (24 per cent). The attraction of tax relief on the contributions made was mentioned by seven per cent. The numbers saying they were automatically enrolled into the scheme seems relatively high, but it should be remembered that this is across the whole sample including public sector workers<sup>44</sup>.

These are taken from among the different reasons that people gave, and they gave 1.76 replies on average. When asked to choose the most important reason for joining (or, taking the only reason given where just one reply had been made) by far the most common answers were that:

- it was a good way to save for retirement (42 per cent);
- automatic enrolment into the employer scheme (28 per cent); and
- the employer made a contribution (15 per cent).

Men and women gave quite similar answers as to their motivations in joining an employer pension scheme. If anything, men were more likely to mention the fact that the employer was also making a contribution or had encouraged them to join. Women were more likely to mention that it was a good way to save for retirement. However, the differences were too small to be statistically significant.

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<sup>44</sup> The relevant phrase among reasons for joining was, 'My employer automatically enrolled me into the scheme.' A range of different possible answers were shown to respondents on a card, from which they selected the most appropriate.

**Table 10.2** Reasons for joining current employer pension scheme

Questions	Answer given (multiple answers allowed) %	Given as <i>most important</i> (or only) reason		
		Men %	Women %	All %
I felt it was good way to save money for retirement	54	38	46	42
My employer encouraged me to join	24	9	4	7
My employer automatically enrolled me into the scheme	40	28	29	28
My employer also made a contribution	38	18	12	15
A financial professional advised me to	10	3	2	3
I was attracted by the tax-relief given on pension contributions	7	2	1	2
Other (please specify)	3	2	4	3
Refusal or don't know	*	1	1	1
Average number of reasons given	1.76	1.86	1.65	1.76
<i>Base</i>	597	291	306	597

Base: Members of employer pension schemes.

Note: \* means less than 0.5 per cent but more than zero.

We considered if the reasons for joining pensions might differ between Defined Benefit (DB) and Defined Contribution (DC) schemes. The **number** of reasons given were virtually identical. However, members of DC schemes were more likely than DB members to say they felt it was a good way to save for retirement (66 per cent, rather than 49 per cent). DB members were much more likely to say that they had been automatically enrolled (50 per cent, compared with 31 per cent of DC members). There were also differences in the selection of the **most important** reason for joining. Automatic enrolment was the reason selected by twice as many DB members (39 per cent and 19 per cent). Conversely, three times as many DC members pointed to the employer contribution as the main reason (24 per cent, compared with eight per cent of DB scheme members).

The corresponding reasons for taking out a personal pension are shown in Table 10.3. Again, the table lists all the reasons that were mentioned, and then the **single** most important reason. However, many of those with personal pensions (84 per cent) gave just a single reason, and only gave 1.2 reasons on average. Some 64 per cent saw a personal pension as a good way to save for retirement, and for 60 per cent this was the most important reason given.

More mentioned tax relief as a motivation than had done so for employer pensions – 13 per cent of those buying a personal pension, compared with seven per cent for employer pensions. This was the prime motivation of five per cent of those taking out a personal pension. The role of financial advice was also important, with a quarter saying they had purchased a personal pension on the advice of a financial professional, and 17 per cent regarding this as the most important reason for their decision.

**Table 10.3** Reasons for joining current personal pension scheme

Questions	Answer given (multiple answers allowed) %	Given as <i>most important</i> (or only) reason		
		Men %	Women %	All %
I felt it was good way to save money for retirement	64	64	55	60
A financial professional advised me to	25	15	19	17
I was attracted by the tax-relief given on pension contributions	13	5	5	5
Other	10	9	12	10
No choice – had to join	5	5	6	5
Non-professional advised me to	2	2	2	2
Refusal or don't know	1	1	2	1
Average number of reasons given	1.22	1.26	1.15	1.22
<i>Base</i>	475	268	207	475

Base: Those with current personal pensions.

Where respondents had mentioned tax relief as a reason for taking out an employer or personal pension, or knew that pensions attracted tax relief, they were asked how much difference this made to their decision to take out a pension and the level of contributions they had made in the last five years. This prompted style of questioning provides more of a focus on the role of tax relief than the above style of questions – where it was simply one option amongst many. Close to half (47 per cent) said that the availability of tax relief played no part in their decision to take out a pension, and 14 per cent that it had played a small role (Table 10.4). However, 11 per cent said it had affected their decision to take out a pension 'a great deal' and a further 28 per cent said it had made 'some' difference.

Having taken out a pension, did tax relief affect the size of contributions made? For most people (60 per cent) with pensions of longer than five years' standing, the level of tax relief had not affected the value of contributions made. For 11 per cent it had affected the contribution level a great deal, and it made some difference for 15 per cent.

**Table 10.4** How tax relief affected pension decisions

Questions	Decision to take out a pension %	Level of contributions, in last five years %
A great deal	11	11
Some	28	15
A little	14	12
Not at all	47	60
Refused or don't know	*	1
<i>Base</i>	<i>459</i>	<i>377</i>

Base: Members of pension schemes, aware of tax relief. For right-hand column only those in a pension scheme for five or more years.

Note: \* means less than 0.5 per cent but more than zero.

Taking in combination the replies in Tables 10.3 and 10.4, it appears that tax relief (from the individual's perspective) is not a particularly strong influence for most of those with pensions. However, there is a minority for whom it is very important, and perhaps the most important motivation. Further analysis, of relatively small groups in some cases, suggested that those in the highest quarter of incomes were among the most likely to stress the importance of the tax relief available.

In a follow-up question we asked what people would have done if tax relief on contributions had not been available. This is quite a difficult hypothetical question, and answers might well be conditional on what other changes would be assumed under such a scenario. The answers provide an initial reaction to how decisions might have been affected. Since many people's decisions to take out a pension were not strongly influenced by tax relief, in its absence their decisions would be unaffected. The findings support this; 56 per cent said their pensions decisions would have been unaffected had tax relief not been available. Just over three in ten (31 per cent) would have looked into alternative ways of saving that were tax-efficient, with just under one in ten (nine per cent) saying they would have instead just saved into a bank account.

The idea of selecting an alternative tax-efficient form of saving was more popular among those on higher incomes. Whilst 31 per cent gave this as an option, this ranged from 22 per cent of those with household incomes below £26,000, to 33 per cent for those with incomes higher than this but lower than £44,000, and 38 per cent of those with incomes exceeding £44,000.

### 10.4.1 The tax treatment of different financial products

Different savings products and investments are treated differently for tax purposes, often in complex ways. Pension contributions attract tax relief, and a tax-free lump sum, but the pension income is subject to tax. This is sometimes known as an Exempt, Exempt, Taxed (EET) regime. It benefits from the most generous form of tax

treatment, of the products considered here. ISAs have tax-free returns, and there is no tax on the money taken out at the end, but contributions are made from taxed income (which may be represented as TEE). Another popular investment is in a person's main property, which is exempt from Capital Gains Tax (CGT) (and with no tax on the imputed rental income from owner occupation). Those with buy-to-let properties may deduct mortgage interest from their rental incomes in calculating their tax liabilities. Premium bonds have returns that are tax-free, but are purchased from taxed income.

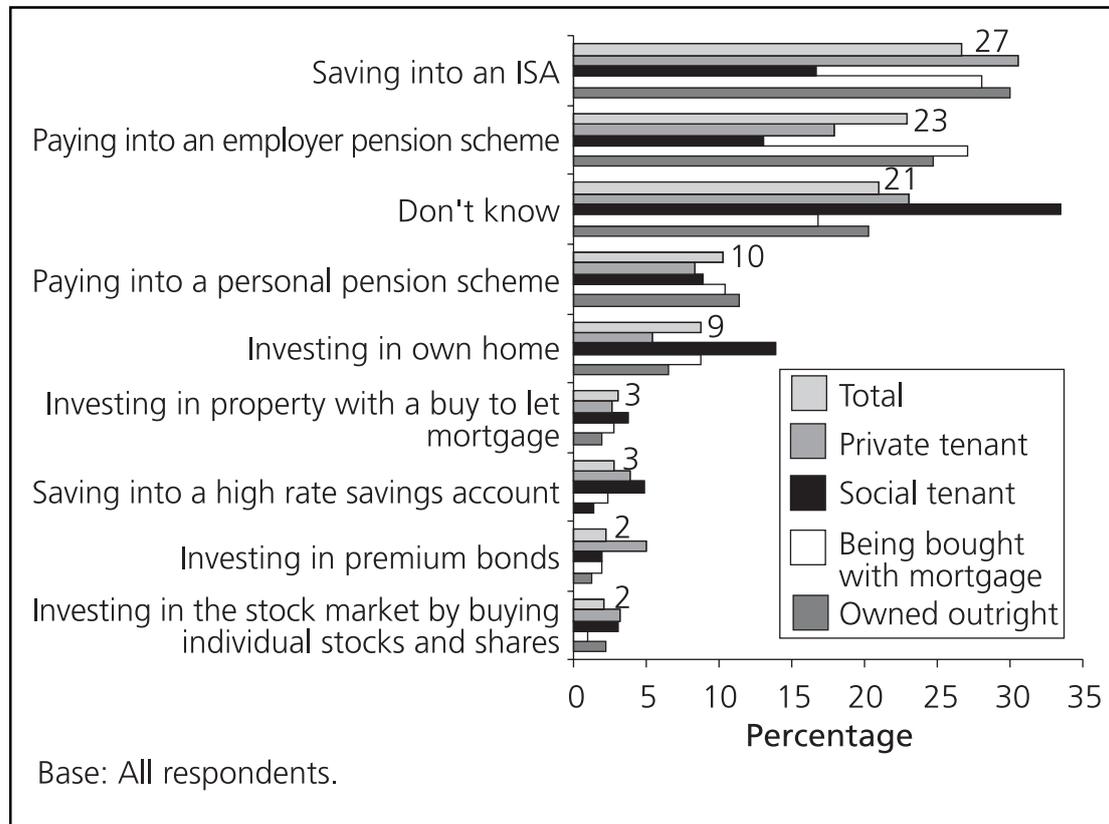
As we can see, tax treatment varies considerably. The **pensions** tax regime is typically regarded as the most generous, or certainly among the most generous, but requires funds to be locked away for much longer than money saved into ISAs or other products. This is, of course, one reason for tax relief being provided. However, it does mean that savers seeking flexibility might turn to other products instead of pensions, or in addition to pensions but instead of higher pension contributions. Financial decision-making will also depend on any relevant charges, which can tip the balance in favour of products such as ISAs where charges are regulated and relatively low (Cook and Johnson, 2000).

As well as the relative tax treatment, people's choices may depend on their perceptions of where the pre-tax returns are likely to be highest and the risk of the investment. We asked people which product they believed enjoyed the most beneficial tax treatment, and results are shown in Figure 10.3. A significant proportion (21 per cent) were unable to select a specific answer.

Overall, 27 per cent believed that ISAs had the most generous tax treatment. This was closely followed by 23 per cent who thought that employer pensions were more tax favoured, with ten per cent believing that personal pensions attracted the most tax relief. Nine per cent thought that investing in a home was the most tax-efficient option, while other answers attracted relatively low responses.

The results are broken down by housing tenure. This is a good indicator of longer-term living standards, and owner-occupation is favoured in some ways within the tax system (e.g. no CGT on the sale of a main residence). Owner occupiers tended to believe that ISAs, followed by employer pension schemes, attracted the most generous tax relief. Social tenants, who were the group most likely to register a 'Don't know' response, were also more likely than average to believe that investing in one's own home was the most favoured by the tax system – 14 per cent, compared with eight per cent of owner occupiers. They were also less attracted by the potential benefits of ISAs or pension schemes.

**Figure 10.3 Which product attracts the most generous tax relief, by housing tenure**



## 10.5 A-day: awareness of changes

The pensions regime changed significantly in April 2006, with a package of changes to pensions regulation that came to be collectively known as 'A-day'. Over one in three (36 per cent) said they had heard at least something about these changes. Levels of awareness varied between different groups:

- **Knowledge of the tax treatment of pensions:** 51 per cent of those correctly answering all the four tax relief questions knew about the changes, compared with 18 per cent of those scoring zero, and 28 per cent of those getting just a single right answer.
- **Qualifications:** 50 per cent of graduates were aware that changes had been made, compared with 19 per cent of the unqualified.
- **Income:** 20 per cent of those with household incomes below £15,000 were aware, compared with 49 per cent of those with incomes exceeding £44,000.
- **Age:** 26 per cent of those aged 18-24 compared with 44 per cent of those aged 55-64 were aware of A-day.

Table 10.5 shows respondents' levels of awareness of the new rules which took place in April 2006. Just over four in ten (42 per cent) of those aware of A-Day were not able to identify any particular rules from a showcard. The most commonly

mentioned rule – identified by a quarter of those who had heard about A-Day – was 'new rules on moving pensions between schemes and employers'.

**Table 10.5 Awareness of particular changes taking place in April 2006**

Questions	Total
None of these	42
A new lifetime allowance on contributions which attract tax-relief	15
A new annual allowance on contributions which attract tax-relief	12
New rules allowing a person to start receiving their employer pension whilst still working	22
New rules on moving pensions between schemes and employers	25
<i>More generous entitlement to tax-relief on pension contributions for women under the age of 40 +</i>	5
New rules allowing a person to withdraw up to 25 per cent of their savings as a tax-free lump sum	16
New rules allowing a person to invest in more than one pension scheme at the same time – for example, an employer pension and a personal pension	21
<i>New rules allowing everyone to contribute only ten per cent of their salary each year into a pension +</i>	10
Mean number of responses, if any	1.69
<i>Base</i>	<i>691</i>

Base: Those aware of the A-day reforms.

+ Note: some false statements were included in the list, as a means of testing knowledge. These attracted five to ten per cent of responses.

The main source of information, for those aware of the change, was the general media (newspapers, TV, radio). This was cited by 62 per cent of those aware that changes had been made. Other important information sources included employers (12 per cent) and family, friends or colleagues (eight per cent). HM Revenue and Customs (HMRC)/Inland Revenue was mentioned by three per cent of those aware of the changes, broadly comparable with the proportions mentioning financial advisers and pension providers.

With a low level of knowledge about the specific changes made, it was difficult for people to give a clear evaluation of the direction of change. Half of those aware of the changes couldn't say if they thought the new rules were more or less complex than before (plus 11 per cent not answering the question directly). An even larger proportion couldn't say if the rules were fairer than previously – 57 per cent neither agreed nor disagreed on this point, and 16 per cent didn't answer (either refusing to answer or saying they didn't know). Both questions are reported in Table 10.6.

**Table 10.6** Whether changes made to tax rules in April 2006 affect complexity and fairness

	<b>New rules are more complicated than the old</b> %	<b>New rules are fairer than the old rules for people like me</b> %
Agree strongly	5	*
Agree	26	16
Neither agree nor disagree	50	57
Disagree	7	10
Disagree strongly	1	1
Don't know or refused	11	16
<i>Base</i>	691	691

Base: Those aware of April 2006 changes.

Note: \* means less than 0.5 per cent but more than zero.

Knowing about the changes, would people act differently? We asked whether the new reforms would lead respondents to change their approach(es) to saving for retirement, and the answers are analysed by age group in Table 10.7. About one person in four, among the roughly one-third of people who had heard of the changes, agreed that their approach to saving for retirement might change. This is a relatively weak threshold for identifying behavioural changes, and in any case might refer to changes not actually happening for some time. Moreover, even most of those aware of the tax changes said their approach would not be affected. This was particularly true of those over 50, the group with least opportunity to turn around any savings approach or retirement planning they had in place.

**Table 10.7** Whether changes made to tax rules in April 2006 will affect approach to saving for retirement, by age group

	<b>18-34</b> %	<b>35-49</b> %	<b>50-69</b> %	<b>All</b> %
Agree strongly	1	4	0	2
Agree	29	22	18	23
Neither agree nor disagree	40	36	34	37
Disagree	24	29	41	31
Disagree strongly	3	3	6	4
Don't know or refused	3	7	2	4
<i>Base</i>	135	221	215	571

Base: Those aware of April 2006 changes.

Few people had made any **concrete** changes to their saving behaviour in the light of the April 2006 reforms. Some 84 per cent of those aware of the changes had made no alterations to their saving approaches (Table 10.8). The most common action made as a response to the reforms was to seek out or request further information (eight per cent). However, four per cent did mention increased provision through a non-pension investment, and three per cent each mentioned increasing their contributions to an existing pension scheme or making different provisions for any partner or dependants.

**Table 10.8 Action taken as response to changes to tax rules in April 2006, by age group (multiple answers allowed)**

	18-34 %	35-49 %	50-69 %	All %
None of these	86	79	86	84
Requested or searched for further information on pensions or retirement planning	5	12	8	8
Increased contributions to an existing pension scheme	3	5	1	3
Joined a private pension scheme	0	2	*	1
Left/stopped contributing to a private pension scheme	6	2	3	2
Increased/started saving for retirement through any other form of investment	5	5	2	4
Made different provision arrangements for partner and/or dependants	2	4	2	3
<i>Base</i>	<i>135</i>	<i>221</i>	<i>215</i>	<i>571</i>

Base: Those aware of April 2006 changes. Note, answers attracting <1 per cent of responses are suppressed.

Note: \* means less than 0.5 per cent but more than zero.

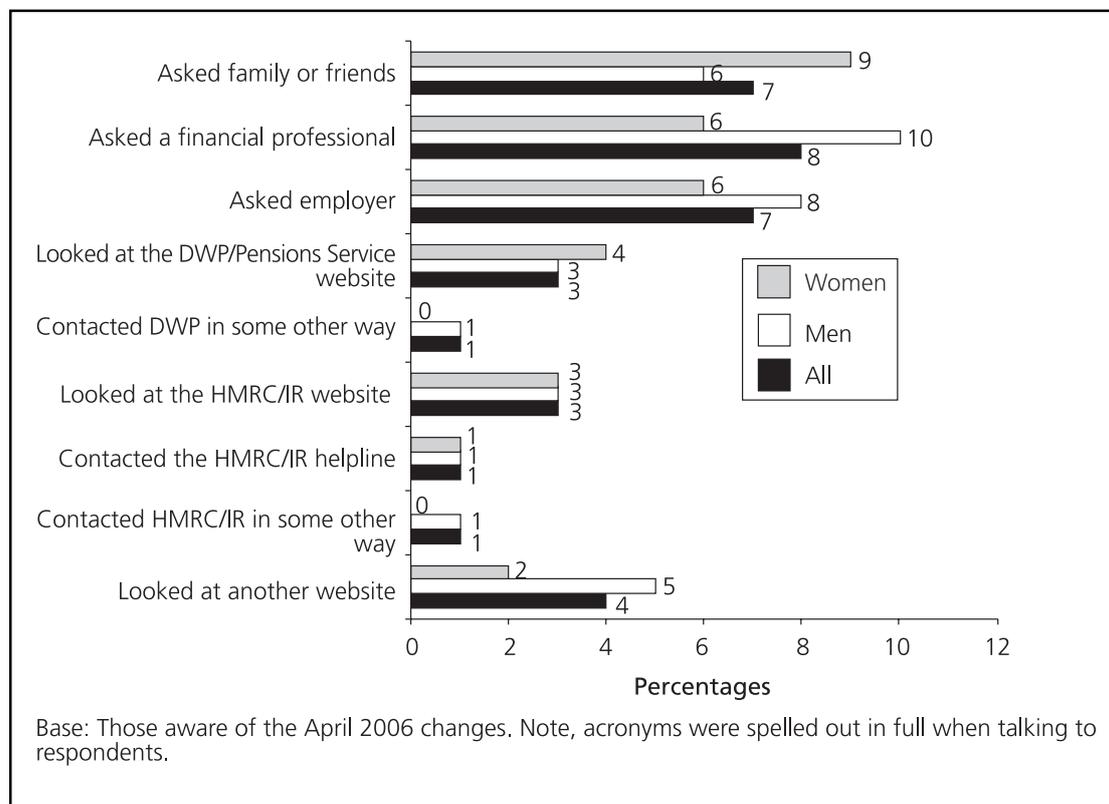
We now turn to look at whether people had taken any active steps to learn more about the pension reforms introduced with A day. Few respondents had taken any active steps to find out more about the reforms. In Figure 10.4, we show what kinds of actions were taken, among the one in four who had done at least something – the average number of actions made was 1.5. The main conclusion is, of course, that even among those aware of the reform, most hadn't taken any of a range of steps to learn more (overall 75 per cent had not taken any actions – this figure is not shown in the chart which focuses on what steps were taken).

Advice or information was most commonly sought from financial professionals (eight per cent), employers (seven per cent) or friends and family (also seven per cent). Most of the remainder had consulted websites – three per cent each checking

the Department for Work and Pensions (DWP) and HMRC websites, and a few more looking at other financial websites.

The responses made by men and women were relatively similar. More women had sought advice from friends and family, and more men had asked an employer or professionals – and although this is consistent with expected differences the numbers are too small to be significant.

**Figure 10.4 Whether took any of the following steps to find out about changes to tax rules in relation to pensions in April 2006 (percentages of those aware of the 2006 changes)**





# Appendix A

## Regression results

**Table A.1** Linear regression model of pensions knowledge (test score)

Knowledge	Coefficient	Standard error	Significance level
<b>Variables</b>			
(Constant)	7.0	.219	.000
<b>Qualifications (compared to GCSE level)</b>			
Degree or higher	.68	.141	.000
A level	.60	.131	.000
None	-.65	.920	.481
<b>Male</b>	.15	.112	.177
<b>Age group (compared to 35-44 group)</b>			
18-24	-.10	.212	.631
25-34	-.35	.166	.037
45-54	.60	.170	.000
55-64	1.37	.202	.000
65-69	1.13	.326	.001
<b>Housing tenure (compared to buying on a mortgage)</b>			
Own outright	.02	.154	.921
Social tenant	-1.10	.169	.000
Private tenant	-.53	.189	.005
Others	.06	.278	.819

Continued

**Table A.1 Continued**

<b>Knowledge</b>	<b>Coefficient</b>	<b>Standard error</b>	<b>Significance level</b>
<b>Family type (compared to couple with no children)</b>			
Single, no kids	-.52	.139	.000
Lone parent	-.32	.263	.224
Couple with kids	-.21	.153	.172
<b>Work status (compared to working)</b>			
Unemployed	-.21	.297	.471
Sick or disabled	-.11	.269	.694
Retired	.17	.253	.491
Others	-.40	.188	.034
<b>Life expectancy for self (compared to 80-84)</b>			
<=74	.07	.170	.690
75-79	.35	.168	.039
85-89	.35	.164	.035
90+	.09	.174	.601
Refusal	-.75	.373	.046
Don't know	-.86	.222	.000
<b>Any past or current employer pension</b>			
Current or past personal pension or SHP	.53	.123	.000

R-squared: 0.22    Standard error: 2.31

Base: All respondents.

# Appendix B

## Factor analysis of attitudes towards pensions, saving and risk

Table B.1 gives the results from the factor analysis, excluding those respondents defined as retired who were not asked all of the questions.

We are able to identify a few questions that were particularly influential in explaining the mix of results. The answers to three questions about knowledge and confidence (level of knowledge, knowing enough about pensions to decide with confidence<sup>45</sup>, feelings about making important financial decisions) were quite powerful in explaining the overall set of responses to the 15 questions asked. This knowledge factor explained about 16 per cent of the overall variation in people's responses. A second factor could be built around methods people would use in an attempt to discover more – whether they read the fine print of any agreements, and whether they conducted research and shopped around before choosing a product. This explained about ten per cent of the overall variation. A third factor, capable of explaining nine per cent of the overall variation, may be traced to family influences of various kinds. This included whether respondents were always encouraged to save money, and whether they consulted family and friends before making important financial decisions.

It is possible to extract further factors, and in Table B.1 we show the fourth, fifth and sixth most important factors which explain declining proportions of the overall variation. These are clearly less important and so are not discussed in any detail.

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<sup>45</sup> Levels of knowledge were discussed in Chapter 4; confidence about saving for retirement was analysed in Chapter 7.

**Table B.1** Factor analysis of attitudes towards savings and pensions

Attitude statements	Knowledge	Reading, research	Family influence	Credit	Time preference	Risk- taking
<b>Factor loadings</b>						
Level of knowledge about pensions issues	0.779					
Know enough about pensions to decide with confidence about how to save for retirement	0.761					
Feelings about making important financial decisions	0.641					
Would rarely read all the small print before making important financial decisions		0.839				
Would rarely do a lot of research before making important financial decisions		0.819				
Was always encouraged to save money			0.764			
Has money saved for a rainy day	0.304		0.617			
Would talk to family and friends before making important financial decisions	-0.348		0.528			
Feelings about buying things on credit				0.711		
Better to play it safe with savings even if investing could make more				0.616		
Buys things even though can't afford them				-0.581	0.480	
You can't expect a good return if you don't take certain risks					0.645	
Would rather have a good standard of living today than save for retirement					0.609	
View on the stock market						0.817
Type of pension fund would choose to invest in						0.635
Variance explained	16%	10%	9%	8%	7%	7%

KMO = 0.67. The Kaiser-Meyer-Olkin statistic (KMO) measures the sampling adequacy (whether data are likely to factor well, based on correlation) and should exceed 0.5 for a factor analysis to proceed.

Base: All respondents not defined as retired (N = 1,613).

# Appendix C

## Details of further factor analysis

As may be seen in Table C.1, a total of twelve questions touched on issues around attitudes to pensions and saving for retirement. Sets of variables contributing most strongly to each factor have been grouped and a suitable label applied. A strong first factor was able to explain almost one-quarter (23 per cent) of the overall variation in responses. This factor was particularly concerned with time-related answers – whether retirement was considered to be too far off, or the respondent might not live that long, or the respondent preferred a higher standard of living today. A further, smaller, contributory element was whether people felt able to save towards their retirement at present.

A second factor seemed to be related to perceptions specifically about pensions, and how pensions were regarded in relation to other savings products. Two lesser factors we label 'Money worries and living standards' and 'Level of interest and knowledge'. The other, remaining factors were less important.

It is possible to calculate values for each of the factors listed above, and these are used in the main part of the chapter. These values have an average value of zero, with a score typically ranging between -3 and +3. These are a simple weighted sum of the answers given across each of the questions – with particularly high weights attached to the variables listed in Appendix Table C.1 for each factor.

**Table C.1 Factor analysis of attitudes towards savings and pensions**

<b>Attitude statements</b>	<b>Time orientation</b>	<b>Views about pensions as products</b>	<b>Money worries and living standards</b>	<b>Level of interest and knowledge</b>
<b>Factor loadings</b>				
Retirement so far off, it is not worth worrying about	0.755			
Not worth saving for retirement as might not live that long	0.666			
Would rather have a good standard of living today than save for retirement	0.650			
Putting money aside in a pension is the most secure way of saving for your retirement		-0.824		
Not keen on saving in a pension as don't know what will get back		0.721		
Prefer to save in some other way than a personal/employer pension		0.711		
Worry about how much have to live on in retirement			0.774	
Will definitely have enough income to live comfortably in retirement			-0.760	
Can't afford to put money aside for retirement	0.487		0.564	
Pensions seem so complicated that can't understand best thing to do				0.779
Find pensions boring				0.654
Level of knowledge about pensions issues				-0.630
Variance explained	23%	14%	12%	9%

KMO = 0.73. The Kaiser-Meyer-Olkin statistic (KMO) measures the sampling adequacy (whether data are likely to factor well, based on correlation) and should exceed 0.5 for a factor analysis to proceed.

Base: All respondents not defined as retired (N = 1,613).

# Appendix D

## Technical details of the survey

### Introduction

The Department for Work and Pensions (DWP) commissioned National Centre for Social Research (NatCen) and Stephen McKay (University of Bristol) to carry out a survey of attitudes to pensions in Britain. This appendix summarises key details about the methodology, question design, sampling and weighting. Full details, including all fieldwork documents and the interview questionnaire can be found in the separate Technical Report (Martin *et al.*, 2007).

The study had the following main aims:

- To explore people's attitudes towards pensions, as well as establishing their views on associated topics such as saving, risk and financial decision-making.
- To explore the extent of people's knowledge about pensions – both about the way the State Pension and private pensions work – and also about the respondent's own pension provision, future retirement income and likely life expectancy.
- To collect information regarding people's behaviour in relation to pension provision and savings.

### Method

The survey was conducted face-to-face using Computer Assisted Personal Interviewing (CAPI). The use of CAPI for this survey offered several advantages over traditional paper-based methods. First, CAPI provided the interviewers with automatic routing. This was an important advantage as it automatically directed the interviewer to the appropriate questions based on answers given by the respondent earlier in the questionnaire. It, therefore, prevented interviewers from making routing errors. This was particularly important for this study as several sections of the questionnaire

were heavily routed depending on the current retirement status of the respondent and their State Pension age (SPA).

Further advantages of CAPI included the ability to have in-built consistency and range checks, preventing interviewers from entering answers that fell outside the legitimate range of responses, and automatic text substitution (or 'textfills') for questions dependent on previous answers for their context.

## Fieldwork

The interviews were carried out in early summer 2006 (between 17 May and 16 August). One respondent aged between 18-69 years was selected for interview at each address. An advance letter was sent to each selected address prior to an interviewer visiting. Both the NatCen and DWP logos were on the letter in order to encourage response.

## Questionnaire

The questionnaire consisted of 14 modules:

### **Household grid and demographics**

The interview started by asking for demographic information about the respondent and their household.

### **Information and advice**

This module collected details of any information and advice respondents had received or requested about pensions from a variety of sources.

### **Pensions knowledge**

This module comprised a true/false quiz on various components of the pension system. It aimed to find out about respondents' knowledge – or lack of knowledge – about pensions.

### **Attitudes to pensions**

This module collected respondents' views on many different aspects of the pension system, including views about the State Pension and how it works. It covered personal and general attitudes to pensions.

### **Attitudes to savings**

Following the attitudes to pensions topic, this module looked at personal and general attitudes to saving.

**Economic activity**

Various details about respondents' current or recent job were collected, allowing the coding of Standard Occupational Classification (SOC) and Standard Industrial Classification (SIC) at the data processing stage.

**Pension provision**

This module collected details of any pension the respondent had including employer, personal and stakeholder pensions. If they had no pension provision then they were asked a question on why they did not have a pension.

**Simplification**

This was a HM Revenue and Customs (HMRC) funded module, which asked about the changes that took place on 6 April 2006 to the tax system in relation to pensions.

**Other savings**

This module collected details about any savings or investments the respondent had.

**Debt**

This was a very short set of questions about any debt the respondent had.

**Informed choice**

The questions in this module were about pensions forecasts. The questions asked respondents whether they had received a forecast about their future pension income from either the Government or an employer or other pension provider.

**Trust and confidence**

This module collected information on respondent's levels of trust and confidence in the Government and other pension providers in guaranteeing and providing a sufficient income in retirement.

**Expectations for retirement**

This module asked respondents when they expected to retire (if not already retired), and then the computer calculated if it was before, at or after SPA. Respondents were then asked why they expected to retire then and whether they knew what their income in retirement would be.

**Demographics**

This interview finished by collecting some additional demographic information and consent for a possible follow-up study.

## Piloting

Prior to conducting the mainstage fieldwork, two pilots were carried out. First, a paper-based version of the questionnaire was piloted in January 2006, with the primary aim of testing how well the questions worked. Interviewers selected respondents on the basis of age, gender and employment status quotas. Following this exercise, the CAPI questionnaire was piloted in March 2006. In addition to checking whether any questions were problematic or could have been improved upon, this pilot also allowed for the whole questionnaire to be tested so as to ensure the instrument was working properly. It also allowed an accurate estimate of interview length to be calculated. As one of the aims of this pilot was to see how well the interview worked for different respondents the interviewers were again asked to follow a quota and select their own respondents. Each interviewer attended a face-to-face briefing prior to conducting any of the pilot questionnaires, and a similar session after the pilot in order to discuss the pilot and to give feedback.

## Sample design

The sample for the Attitudes to Pensions Survey covers England, Wales and Scotland (south of the Caledonian Canal). The sample was drawn from the Postcode Address File (PAF) sample. At each sampled address the interviewer screened for Dwelling Units (DUs) containing at least one person aged 18-69. DUs not containing anyone in that age range were not eligible for the survey. At responding DUs interviewers selected one individual aged 18-69 at random. The sample was designed to be representative of the general population aged 18-69 and living in private households in Britain.

The sample was drawn in two stages; a sample of 4,681 PAF addresses was initially drawn, however, an additional sample of 279 cases was issued during fieldwork, when it was apparent that the target number of interviews would not be reached. This was due to a higher than expected number of households without any eligible members (aged 18-69) and a lower than predicted response rate. Therefore, 4,960 addresses were issued in total. The sample design for the additional sample was identical to that of the initial sample.

### **Drawing the main sample**

The sample was drawn from the 'small user' PAF<sup>46</sup>, a list of all addresses (delivery points) in Britain that receive less than 25 items of mail per day.

The sample was drawn in two stages: at the first stage the Primary Sampling Units (PSUs) were selected, at the second stage addresses were selected within the sampled PSUs. Each PSU was defined as a postcode sector or group of sectors. Postcode sectors containing fewer than 500 addresses were grouped with

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<sup>46</sup> The version of the PAF used was Royal Mail postcode update 40.

neighbouring sectors, this was to ensure selected addresses were not too close to one another. The grouped sectors were treated as a single PSU.

The sample file was sorted prior to sample selection. The stratifiers used were Government Office Region (GOR), the proportion of the population in owner occupied households and the proportion of the eligible population (i.e. aged 18-69) aged 60 or over. The latter two stratifiers were based on 2001 Census data.

The first stratifier was region; the PSUs were first sorted into 12 regions (ten GORs, plus Scotland and Wales). Postcode sectors that spanned region boundaries were allocated to the region containing the most addresses. Within each of the 12 regions the PSUs were then listed in increasing order of the proportion of owner occupied households. Cut-off points were drawn to create three equal sized bands (in terms of addresses). Within each of the 36 bands the PSUs were listed in increasing order of the proportion of the eligible population (adults aged 18-69) aged 60 or over.

Once the sampling frame had been stratified, 151 PSUs were selected with probability proportional to the number of addresses within them<sup>47</sup>. Thirty-one addresses were then selected systematically from each sampled PSU, giving a total of 4,681 addresses.

### **The additional sample**

The decision was taken to issue fresh sample when it was apparent that the target number of interviews was not going to be achieved. At the point of fieldwork that this decision was taken, there was a higher than expected level of ineligible addresses containing no-one aged 18-69. The original sample assumptions were that 14 per cent of the issued sample minus deadwood addresses (such as those which were vacant, non-residential, or demolished) and unknown eligibility cases would be ineligible for this reason. At this stage of fieldwork, the level was 21 per cent (and had been as high as 30 per cent earlier in fieldwork). Response rates were on target at this point, so this was not contributing to the lower than expected number of productive interviews<sup>48</sup>.

The additional sample was drawn from the same sampling frame and was sorted by the same stratifiers. The 151 previously selected PSUs were excluded before the selection took place. Nine extra PSUs were then selected with probability proportional to the number of addresses within them. As before, 31 addresses were selected systematically from each of the selected PSUs.

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<sup>47</sup> Expanded by the Multiple Occupancy Indicator (MOI) in Scotland.

<sup>48</sup> In fact, these levels continued to change during the remainder of fieldwork, so that the final levels were 17 per cent ineligible cases (once deadwood and unknown eligible cases were removed), and a 57 per cent response rate.

The main and additional samples were drawn from the same sampling frame using the same method. This is equivalent to drawing the sample in one step. Since the two samples were mutually exclusive the total probability of the final sample is the sum of the selection probabilities of the two separate samples, which is equal to the selection probabilities we would have got had we sampled all 4,960 addresses together.

## Response rate

Response rates on any survey can be presented in a number of different ways. Here, we present summary outcomes for the main and additional samples (Tables D.1 and D.2). The last column of these tables calculates a response rate which is the response rate of all 'definitely' eligible cases (i.e. all where eligibility has been established). Figures are presented for the main sample of 4,681 cases in Table D.1.

Calculated in this way, the response rate for the main sample was 57 per cent. The main unproductive outcome was refusals – at 32 per cent of the eligible sample. This category includes office refusals and refusals to the interview, from the selected respondent and from someone else (a 'proxy' refusal). Non-contacts accounted for seven per cent of the eligible sample, with a further four per cent covered by other unproductives, such as being away or ill during fieldwork.

**Table D.1 Outcomes for main sample**

	Number	% issued sample	% eligible sample (maximum response rate)
<b>Issued sample</b>	<b>4,681</b>	<b>100</b>	
<b>Ineligible</b>			
Deadwood (not residential/occupied)	366	8	
No-one aged 18-69	646	14	
<b>Unknown eligibility</b>			
Unknown whether deadwood (residential/occupied)	180	4	
Unknown whether anyone aged 18-69	221	5	
<b>Definitely eligible sample<sup>+</sup></b>	<b>3,268</b>	<b>70</b>	<b>100</b>
<b>Unproductives</b>			
Non-contact	222	5	7
Refusals	1,051	22	32
Other unproductives	146	3	4
<b>Productives</b>	<b>1,849</b>	<b>40</b>	<b>57</b>

+=(issued minus ineligible minus unknown eligibility).

The additional sample of 279 cases is shown in Table D.2. This sample was issued at a later stage and therefore was covered in less time. The resulting response rate is, as might be expected, lower at 52 per cent, with a slightly higher rate of refusals and non-contacts than on the main sample. Note that the reason for issuing an additional sample was to raise the number of achieved interviews, rather than improving response rates per se.

**Table D.2 Outcomes for additional sample**

	Number	% issued sample	% eligible sample (maximum response rate)
<b>Issued sample</b>	<b>279</b>	<b>100</b>	
<b>Ineligible</b>			
Deadwood (not residential/occupied)	22	8	
No-one aged 18-69	48	17	
<b>Unknown eligibility</b>			
Unknown whether deadwood (residential/occupied)	4	1	
Unknown whether anyone aged 18-69	9	3	
<b>Definitely eligible sample*</b>	<b>196</b>	<b>70</b>	<b>100</b>
<b>Unproductives</b>			
Non-contact	19	7	10
Refusals	69	25	35
Other unproductives	7	3	4
<b>Productives</b>	<b>101</b>	<b>36</b>	<b>52</b>

The response rate presented above is the way that we monitored response during fieldwork. It is also arguably the maximum rate that could be calculated for the survey, as it excludes all unknown eligibility cases from the calculation, whereas in fact, some of the cases where eligibility was uncertain would have been likely to be eligible. Once fieldwork is completed, we can calculate the 'best estimate' and 'minimum' response rates, as follows:

- Maximum response rate = productives/all definitely eligible cases (*i.e. issued sample minus ineligibles minus unknown eligibles*).
- Minimum response rate = productives/all cases that were eligible or might have been eligible (*i.e. issued sample minus ineligibles*).
- Best estimate response rate = productives/all definitely eligible cases and estimate of eligible cases from unknown eligibles.<sup>49</sup>

<sup>49</sup> The estimate of eligibility is based on the outcomes from the main sample, and is calculated separately for unknown eligibility – residential/occupied and unknown eligibility – age.

Table D.3 presents an overview of these different types of response rates for the two sample types.

**Table D.3 Overview of response rates**

<b>Sample</b>	<b>Minimum response rate</b>	<b>Response rate including estimate of eligibility</b>	<b>Maximum response rate</b>
Main	50	51	57
Additional	48	49	52

## Data preparation

Interviewers carry out most of the data validation of CAPI surveys in the field. Interviewer checks included in the CAPI program allow interviewers to clarify and query data discrepancies directly with the respondent. The CAPI program applies range and consistency error checks and both types of checks were used throughout the questionnaire.

However, some more complex checks and the coding of verbatim responses are time consuming and may prove detrimental to the successful completion of the interview. As a result, a separate 'in-office' editing and coding process was required. This involves a coder working through each interview in turn, using a modified version of the CAPI program.

An experienced Data Processing Team carried out coding and editing of questionnaires at the National Centre's Brentwood offices. Researchers at the National Centre were continuously involved in more complex editing decisions.

All verbatim answers at 'other – specify' questions were inspected by the Data Processing Team and were back-coded into the original code-frame where possible. Occasionally additional codes were added as a result of this process.

## Weighting

Three levels of weighting were applied to this survey. This was done in order to correct for respondents' unequal selection probability and non-response of certain 'types' of respondent and to also ensure that the weighted sample matched the population as a whole in terms of age, sex and region.

### Selection weights

At each address the interviewer established the number of DU and selected one at random. This design means DUs at addresses with more than one DU are under-represented in the sample. A DU selection weight is required; this is equivalent to the number of DU at the address. For the majority of cases (98 per cent) this is equal to one.

Within each responding DU a single person aged 18-69 was selected at random. Persons in large households are under-represented in the sample. An individual selection weight is needed to address this. This weight is equivalent to the number of eligible persons in the household. The total selection weight is the product of the DU and individual selection weight.

### Modelling household non-response

The response behaviour of the sample members was modelled using logistic regression and the results of the model were used to generate a non-response weight. The logistic regression model generates the probability of a case participating in the survey given their 'type' (based on the predictor variables). The non-response weights are then calculated as the inverse of the predicted probabilities. Hence respondents who were of a type that were reluctant to take part will have a smaller probability of being a respondent and a larger weight. The variables included in the final model are given in Table D.4.

**Table D.4 The response model**

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>% population from minority ethnic background (quintiles)</b>						
1 (least)	0.5	0.16	11.3	1	0.00	1.71
2	0.4	0.15	8.2	1	0.00	1.54
3	0.4	0.14	8.8	1	0.00	1.53
4	0.3	0.15	3.5	1	0.06	1.31
5 (most)					(baseline)	
<b>% households council rented (quintiles)</b>						
1 (least)	0.0	0.12	0.0	1	0.94	1.01
2	0.3	0.13	6.9	1	0.01	1.40
3	0.2	0.12	2.5	1	0.11	1.21
4	0.0	0.10	0.1	1	0.71	1.04
5 (most)					(baseline)	
<b>Barrier to entry</b>						
Barrier	-0.5	0.15	12.2	1	0.00	0.59
No barriers					(baseline)	

Continued

**Table D.4 Continued**

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>Government Office Region</b>			31.3	11	0.00	
North East	0.3	0.20	2.4	1	0.12	1.36
North West	0.4	0.16	7.5	1	0.01	1.54
Yorkshire and Humber	0.6	0.16	16.9	1	0.00	1.91
East Midlands	0.5	0.18	8.5	1	0.00	1.67
West Midlands	0.3	0.16	2.7	1	0.10	1.30
South West	0.3	0.17	2.4	1	0.13	1.29
East of England	0.2	0.16	1.6	1	0.21	1.22
Inner London	0.2	0.23	0.4	1	0.51	1.16
Outer London	-0.1	0.22	0.1	1	0.71	0.92
South East	0.4	0.16	5.4	1	0.02	1.44
Wales	0.0	0.19	0.0	1	0.95	1.01
Scotland					(baseline)	
Constant	-0.7	0.18	13.8	1	0.00	0.51

## Notes:

1. The response is 1 = household responding to the survey, 0 = non response.
2. Only variables that are significant at the 0.05 level are included in the model.
3. The model  $R^2$  is 0.035 (Cox and Snell).
4. **B** is the estimate coefficient with standard error **S.E.**
5. The **Wald**-test measures the impact of the categorical variable on the model with the appropriate number of degrees of freedom **df**. If the test is significant (**sig** < 0.05) then the categorical variable is considered to be 'significantly associated' with the response variable and therefore included in the model.
6. The **Wald** test for each level of the categorical variable is also shown. This tests the difference between that level and the baseline category.

Variables related to response were: GOR; whether there were barriers to the address; the proportion of households renting from the council; and the proportion of the population belonging to a minority ethnic group. The range of the weights was checked and the top one per cent weights were trimmed. The non-response weights were combined with the selection weights to create the final non-response weight.

### Calibration weights

The final stage of the weighting was to adjust the final non-response weights so the weighted sample matches the population in terms of age, sex and region.

There is only one level of weighting as only one person is selected per household; therefore only an individual level weight is required. The weighted data exactly matches the population in terms of the calibration variables. This calibration weight

is the final non-response weight used in any analysis of the data. This weight has been scaled to the final responding sample size.

## Sampling errors

No sample precisely reflects the characteristics of the population it represents, because of both sampling and non-sampling errors. The Attitudes to Pensions Survey sample, like that drawn for most large-scale surveys, was clustered according to a stratified multi-stage design into a number of postcode sectors. With a complex design like this, the sampling error of a percentage giving a particular response is not simply a function of the number of respondents in the sample and the size of the percentage; it also depends on how that percentage response is spread within and between sample points.

The complex design may be assessed relative to simple random sampling by calculating a range of design factors (DEFTs) associated with it. A DEFT of one means that the complex sample has achieved the same precision as a simple random sample of the same size, whereas a design factor greater than one means the complex sample is less precise than its simple random sample equivalent. If the DEFT for a particular characteristic is known, a 95 per cent confidence interval for a percentage may be calculated. Calculations of sampling errors and design effects were made using STATA.

Table D.5 gives examples of the DEFTs and confidence intervals calculated for a range of different questions. The table shows that most of the questions asked of all sample members have a confidence interval of around plus or minus two to three per cent of the survey percentage, meaning that we can be 95 per cent certain that the true population percentage is within two to three per cent (in either direction) of the percentage we report. Sampling errors for percentages based on sub-groups within the sample will be larger.

**Table D.5 Complex standard errors and confidence intervals of selected variables**

	Percentage (p)	Complex standard error of p	95 per cent confidence interval	DEFT	Base
<b>Variables</b>					
Private Pension					1924
Has a private pension	69.4	1.4	66.6-72.3	1.36	
No private pension	30.6	1.4	27.7-33.4	1.36	
<b>Housing tenure</b>					
Owned outright	22.3	1.1	20.0-24.6	1.22	1950
Being bought on a mortgage/ bank loan	45.4	1.4	42.7-48.1	1.20	
Shared ownership (owns and rents property)	0.4	0.2	0.1-0.8	1.25	
Rented from a Council/ New Town	11.2	1.1	9.0-13.3	1.52	
Rented from a Housing Authority	6.0	0.7	4.6-7.4	1.34	
Rented privately	10.2	1.1	8.0-12.3	1.58	
Rent free	2.5	0.5	1.5-3.4	1.36	
Some other arrangement	2.0	0.6	0.8-3.2	1.87	
<b>Self-assessed knowledge about pension issues</b>					
Good	5.4	0.6	4.3-6.5	1.09	1950
Reasonable	29.8	1.1	27.6-32.0	1.06	
Very patchy	40.0	1.2	37.7-42.3	1.04	
Little or nothing	24.8	1.1	22.6-27.0	1.14	
<b>Pensions are boring</b>					
Agree strongly	6.1	0.7	4.7-7.4	1.30	1950
Agree	34.7	1.3	32.2-37.3	1.20	
Neither agree nor disagree	22.6	1.1	20.5-24.7	1.11	
Disagree	33.9	1.2	31.5-36.4	1.16	
Disagree strongly	2.6	0.4	1.7-3.5	1.23	
<b>The age at which women can receive their State Pension is going to increase in the future (True)</b>					
True	83.2	1.0	81.2-85.1	1.18	1950
False	6.0	0.6	4.8-7.2	1.15	

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