



HM Revenue and Customs
Pensions Taxation Reforms: a baseline study of
individuals

July 2008

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Summary of main findings

Introduction

HMRC commissioned Opinion Leader to carry out qualitative research into attitudes to pensions, with particular reference to the A-day changes. These were introduced in April 2006 and were aimed at simplifying the pension tax regime. This research formed part of a programme being carried out by both HMRC and DWP, which aims to find out more about pensions saving behaviour.

Research methodology

The research was entirely qualitative in nature, comprising 80 face-to-face depth interviews, which took place in respondents' homes and offices: 60 of these were divided between pension holders and non-pension holders, and a further 20 interviews were recruited with wealthy respondents (defined as those earning over £100,000 per year). Fieldwork was carried out during April-June 2007.

Attitudes towards future planning and saving

People tended to characterise themselves as "spenders" or "savers", with those who had pensions tending to be savers. Those who were making savings were doing so either as a general "safety net" to be accessed in the future as needed, or with a specific end, such as a holiday, in view. Savings behaviour was driven by priority as well as financial capability, with those in similar financial circumstances making different decisions according to the level of importance they placed on saving, or whether they had other priorities such as paying off debts. Some of those on lower incomes did not feel that it was worth saving as they did not want to risk their entitlement to benefits.

Savings were made in a variety of ways: cash in a current or savings account, vehicles such as PEPs, ISAs, bonds and stocks and shares were used, as was putting money into property (principal private residence and other property). Property tended to be highly prioritised by younger people, to the extent that they placed more importance on getting onto the property ladder above all else, if they had not already done so.

Attitudes towards pensions

Attitudes towards pensions were often an exaggerated version of the reasons people made or did not make savings in general. They depended on three factors and the way these interplayed in individual circumstances: the amount of money the person had, their attitude towards future planning, and their opinion of the value of pensions as a product and in comparison to other investments. Some had a flexible attitude towards retirement, and envisaged themselves continuing to work part time or on a consultancy basis. People wanted to do this for the personal and social benefits as well as for the money.

People saved in pensions to retire early, or to have a better standard of living in retirement (expected standards of living varied from person to person). Most people, apart from those who were both older and already on a very limited income, thought that the State pension would be insufficient. Some younger respondents did not think there would be a State pension at all by the time they retired. Another reason for saving in pensions was because people thought they were a convenient way of saving, with some people being very positive about the fact that they are not allowed to access their savings before retirement. Employer contributions and tax relief were two other important factors in encouraging people to save in pensions.

Those who did not save in pensions did not do so because of a number of reasons: because they did not have enough money to do so (whether because they were on a low income or had other priorities); because they did not trust pensions (sometimes because family or friends had lost money or not benefited from their pension); because they did not feel they were valuable as a product or had an alternative investment strategy which they believed would be more profitable; because they felt they were too old or too young to start one; because they did not understand about pensions; because they felt pensions did not fit their working circumstances; or because they did not want to pay into a scheme designed to pay out only much later in life.

Sources of information about pensions

Sources of information about pensions varied between holders and non-holders. Holders got information from their pension scheme, and those who are members of an occupational scheme also got information from their HR departments. Those who were very financially literate (a group that tended to be concentrated in the wealthy sample, and which included some non-holders) often also knew about pensions and pension tax because they were working in the financial field. Non-holders, and some holders who were not making current contributions, felt they could get all the information they needed from mass media. Those who had accountants or Independent Financial Advisors sometimes had the attitude that they would keep them updated on anything they needed to know or should be doing about pensions. Some people, however, had no idea where they would go for information about pensions.

Understanding and awareness of pension tax rules

Understanding of pension tax rules was generally much greater within the wealthy sample than the general public sample. Awareness in the general public sample was extremely limited, although there was fairly widespread awareness that the State pension age was rising. Within the general public sample, awareness of tax relief was very mixed – some were not aware of it at all.

Higher earners, both within the general public and the wealthy sample, were much more aware of pension tax rules, especially the existence of tax relief.

Attitudes to pension tax rules

Most of those in the sample who were aware of tax relief on pensions thought it was a good thing, as did those who were not aware of it until informed during the research. However, not everyone was influenced by it, with some people preferring to make decisions based on the quality of the investment rather than the tax relief, and others feeling that they did not have enough money to invest in a pension, whether or not there was tax relief on it. Employer contributions tended to act as a much higher incentive than tax relief as a trigger to investment, particularly among those who were not higher earners. For those who were higher earners, the 40% tax relief was an added incentive to save.

Awareness of A-day

This differed sharply between the wealthy and the general public samples, with most of the wealthy sample being so aware of the term “A-day” that they brought it up spontaneously, and most of the general public sample being so unaware that they did not recognise the term when prompted. Among the wealthy sample there was good, but not universal, awareness of what the changes were, which most had gained through their exposure to the finance world (e.g. work, financial media). There was much wider recognition of the pension age increasing, which fitted with what people had seen on the news and often their own assumptions about the age at which they would be able to retire.

Among both those who were aware of the A-day changes and those who were unaware until they were explained, there was general approval of the concept of simplification and removing restrictions on pensions. People liked the idea of being able to put as much money as they liked into their pensions, even if they were not likely to do this in practice. The revised tax relief limits were felt to make it easier to calculate any benefit people would get from increasing their contributions; however, some people in the general public sample responded to the raised tax relief thresholds by understanding A-day to have brought in, rather than changed the rules on, tax relief.

Reactions to the lifetime allowance were also positive, although most people in both the general public and wealthy samples were highly unlikely ever to approach this. The idea of being able to take a 25% lump sum was also appealing, although some counselled caution and warned that for many people this would further deplete inadequate funds. The idea of being able to continue to work while drawing part of the pension held a strong appeal to many, and was felt to fit with an ageing workforce, increasingly active older people and the personal desire of many people to continue working.

Extent to which A-day has changed behaviour

Because knowledge about the A-day changes was almost entirely limited to the wealthy sample, it had not changed behaviour to a great extent. The biggest changes were felt to be the ability to contribute more to the pension and the raising of the tax relief thresholds, but because most people in both the wealthy and the general public sample had not been contributing their pre-A-day maximum (because of both the total amount of money they had available and the other priorities they had) they did not feel that this was likely to impact on their behaviour.

A-day had only changed behaviour amongst the highest earners, and include actively monitoring the size of the fund to make sure it did not exceed the Lifetime Allowance (after which they would then stop contributing and make alternative investments), reducing the size of lump sum contributions to keep within the annual limit, increasing contributions to take advantage of the increased tax relief thresholds, and opening or more actively managing SIPP. The Lifetime Allowance appeared to be the factor that was making the most difference to people's behaviour.

Some respondents thought that some of the A-day changes might encourage them to start a pension (such as the ability to take a lump sum). However, this is more a result of their overall lack of knowledge about pensions – as they would have been able to find a scheme that offered these features before A-day.

Other factors people said might encourage them to take out a pension or increase their contributions included flexibility – for example being able to pass on a pension to dependants; access to impartial advice about pensions (this was confined to the general public sample); increasing awareness of the need for pensions, such as familiarising people with pensions from a young age; and financial factors – having the money to save in a pension while meeting their other priorities.

Conclusions

People were generally aware of the need to save for their retirement but differed in the priority they placed on this and whether they thought they could afford to do so. Pension provision was driven by the interplay between attitudes to pensions, financial resources and other priorities. These personal factors had much more of a bearing on whether someone saves than factors such as tax relief. Tax relief could move pensions up the list of priorities, but was not able to overcome entrenched mistrust of pension schemes or free up the resources for people to invest.

Knowledge about both pensions in general and the A-day changes is much higher among higher earners. People in both samples were more likely to say that A-day may change their behaviour in the future than that it has already done so, with existing behavioural changes being confined to the wealthy sample. Those outside the wealthy sample who said that any of the A-day changes might change their behaviour often said so more as a result of lack of knowledge about the pension system in general rather than A-day. Any information would therefore need to be positioned with this in mind.

A-day had begun to make a difference to the highest earners, but more information may be needed for the general public. The new rules were thought to be sensible and people in both samples reacted positively to changes such as the 25% lump sum and potential to take part of the pension while working. It is likely that information about these changes will not be enough to change behaviour on their own, however. Information needs to be combined with communications that work on people's priorities more generally.

1. Introduction

HMRC commissioned Opinion Leader to carry out qualitative research into attitudes to pensions, with particular reference to the A-day changes introduced in April 2006. The research was carried out during April-June 2007, and formed part of a programme of research being carried out by both HMRC and DWP, which aims to find out more about pensions saving behaviour.

1.1 Background to the research

Our society is an ageing one, due to two factors. Firstly, the “baby boomer” generation has begun to reach retirement age, and this, along with the fact that life expectancy is increasing and people are therefore spending a greater number of years in retirement, means that there are a greater number of pensioners than ever before. With this in mind, it has become increasingly clear that the population as a whole is not making sufficient provision for retirement. This has become a key issue for Government, and one which it is seeking to address through a number of measures.

Over the past few years, a number of measures have been introduced aimed at encouraging retirement saving, including improving access to pensions through the introduction of stakeholder pensions, bringing in measures to improve the security of (and hence public confidence in) pensions, and simplifying taxation on pensions.

The measures simplifying taxation on pensions came into force on 6th April 2006 (“A-day”), and were designed to:

- Improve choice and flexibility for pension providers, employers and individuals;
- Increase competition among financial services firms providing pensions;
- Encourage people to save for retirement;
- Reduce administration, compliance and training costs for employers, scheme administrators, providers and advisers.

The current research, being concerned with individuals, touched only on the first and third of these aims. More specifically, the changes introduced at A-day, insofar as they affect individuals saving (or being encouraged to save) in pensions were as follows:

- For the first time, everyone is able to save in more than one pension scheme at the same time;
- There is no limit to the amount of money that an individual can save in a pension scheme (although there are limits to the amount of tax relief they can get: individuals can get tax relief on amounts up to 100% of earnings, up to the “annual allowance (£215K at A-day, rising to £255k at 2010-11));
- Tax obstacles to flexible retirement have been removed – people in occupational schemes can now work part-time while drawing part of their pension, as long as their scheme allows it;

- It is possible for everyone to take up to 25% of the pension fund as a tax free lump sum (if the scheme allows), although personal pensions were already allowed to offer a 25% tax free lump sum;
- A “lifetime allowance” has been introduced (£1.5m at A-day, rising to £1.8m by 2010-11) above which a tax is payable when an individual takes their benefits. However, those with pension funds in excess of the lifetime allowance at A-day were allowed to apply for exemption (and have three years from A-day to do this);
- The age at which it is possible to take a pension is increasing – from 50 at A-day to 55 in 2010 – and pensions must be taken by the age of 75.

1.2 Aims and objectives

The overall aim of the research was to gather information on the impact of the changes introduced at A-day on individuals’ attitudes and behaviours in relation to retirement saving. More specifically, the research aimed to:

- Explore overall retirement saving habits - long and short term pension savings and other retirement savings and investment behaviour;
- Explore awareness and understanding of tax relief available on pensions;
- Assess levels of knowledge, awareness and understanding of the new pensions tax simplification regime and perceived impact upon future pensions savings behaviour;
- Understand the reasons for saving or not saving enough for retirement (i.e., pensions versus other savings and investments versus not saving at all);
- Explore what might encourage people to take out a pension (or make extra contributions) or other retirement saving or investments;
- Explore how people gain their knowledge and information about pension tax and any misconceptions.

Many people did not know that the pension tax system had changed. We were aware that this would be the case, and so the research explored reactions to, and perceived future impacts on behaviour, as well as what the actual impacts of the changes had been.

2. Sample and methodology

2.1 Methodology

The research was entirely qualitative in nature. An open-ended qualitative approach was best suited to the project objectives: qualitative methods provide the opportunity for investigative and exploratory enquiry; they are conducive to answering 'how' and 'why' questions. They provide the space to be open ended and iterative, enabling the research to scope out issues, develop theory for policy and draw out ways forward.

In terms of the specific qualitative approach used, face-to-face in-depth interviews were felt to be the best way of carrying out the research. In-depth interviews are preferable to other methods for research which examine impacts on behaviour or behavioural changes, as they allow the totality of a single person's experience to be understood, making it easier to pull out factors that have a direct bearing on choices, decisions and behaviour. People are also reluctant to disclose details of their personal finances in a group setting, making one-to-one interviews the ideal choice. In-depth interviews also allowed us to tailor the interviews to different levels of pensions and savings knowledge, as this varied widely between individuals.

Face-to-face rather than telephone interviews were used as for a number of reasons this approach often yields more useful data. Although the investment in terms of time is considerable, the benefits for topics such as this amply repay the extra time needed. Depth interviews were used in order to:

- Establish a strong rapport to be able to discuss an issue such as personal finances in depth, as this is far easier when the interviewer and respondent are able to see each other, and to pick up on body language, facial expressions and other non-verbal cues;
- Enable explanation of complex topics around pensions tax, which is easier face-to-face than over the phone;
- Maintain respondents' interest: the interviews were often fairly long and complex, which is easier for respondents to cope with in a face-to-face situation than in a telephone call. In this context respondents were much more likely to give us longer responses with the detail we required.

Depth interviews took place at a place convenient to the respondent, typically their home or workplace, and lasted up to an hour.

2.2 Sample structure

The sample was constructed to reflect two populations of interest to HMRC: pension holders and non-pension holders. The sample frame used for this research can be seen in Table 1:

PENSION STATUS Pension holders = 30 Non-pension holders = 30	Holder: Currently saving in a pension scheme Total = 15	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years ¹
	Holder: Not currently contributing in a pension scheme Total = 15	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years
	Non-holding: with retirement savings Total = 15	At least 7 to have been saving for at least 15 years
	Non-holder: no retirement savings Total = 15	

Table 1: Main quotas for the general public sample

Within this overall sample frame for the general public, the research team took care to reflect a wide range of demographic groups, including a spread of socio-economic classifications. Separate quotas were set to ensure this, as seen in Table 2, below.

Age	30-39	At least 10	To be recruited across pension status group
	40-49	At least 20	
	50-59	At least 20	
	60-69	At least 10	
Employment status	Working – employed	At least 40	To be recruited across pension status group
	Working – self-employed	At least 5	
Family status	No children	At least 10	To be recruited across pension status group and include a good mixture of single people and couples
	With children	At least 15	
	Post-children	At least 15	
Socio-economic group	AB	At least 15	To be recruited across pension status group, if possible

Table 2: Additional demographic quotas for the general public sample

In addition to this, a “booster” sample frame was created, as seen in Table 3, to ensure there were several wealthy individuals included in the research². For “wealthy” respondents the research team felt the key distinction to draw was between those who were pension holders and non-pension holders. The level of detail in the general public sample structure was not appropriate for the wealthy group, as the group was likely to be more homogenous and their pension saving decisions driven by different factors, such as investment opportunities.

¹ Respondents were asked the question : 'For how many years have you been saving in a pension in total? This doesn't just mean the pension(s) you are currently contributing to, I mean the total number of years you have been saving in any pension'. Their answer had to exceed 15 years for them to be included in this quota.

² A “wealthy” individual was defined as someone earning over £100,000 per year.

	Total
Pension holder	10
Non-pension holder	10
Total	20

Table 3: Booster “wealthy” sample

Sample frames showing the achieved sample can be found at Appendix 10.1.

2.3 Recruitment

Recruitment was carried out through three methods:

1. Recruitment from respondents to a previous HMRC/National Centre for Social Research study into pensions saving behaviour who had given their permission to be recontacted for future research (general public sample).
2. Recruitment from HMRC records (wealthy sample).
3. “Free find” recruitment (general public and wealthy samples).

For the first two categories, a recruitment letter was sent to everyone in the sample (some preliminary geographical clustering was undertaken within the recontact sample in order to target areas of the country with the highest number of potential contacts: the North West, North East and London and the South East).

Potential respondents were given two weeks to “opt out” of the research by writing to or calling the research team or the HMRC project contact, after which their names would then be removed from the list of people to be contacted. After the termination of the opt-out period, recruitment was undertaken purposively from the remaining sample, using screening questionnaires to help us determine which quotas respondents fell into. “Free find” recruitment was used as a “top up” to fill the last quotas for both the general public and wealthy samples, and an independent recruitment agency³ was used for this.

One issue that came up in the recruitment, and which is a key learning for future research on the topic of pensions, is that people were often very unsure about whether or not they were pension holders. They were able to tell us whether or not they currently contributed to a pension, but frequently believed they were non-holders at the recruitment stage, only to remember a pension that they had contributed to, but which was still accruing, during the interview. Intensive questioning during the recruitment stage reduced the frequency with which this happened, but it remained an issue throughout the project.

For this reason, we are keen not to overstate the differences between “holders” and “non-holders” in the sample. The differences between these two groups were far more blurred than the differences between holders who were contributing at the time of the interview, and those who were not contributing at the time of the interview, often irrespective of whether or not they were pension holders. Current pension

³ Saros Research Ltd

provision appeared to be the main distinguishing factor. This was because many respondents had had a number of jobs throughout their working life, and often held one or two very small pensions that they might only have contributed to for a couple of years, having made no pension provision since. These had often been started because membership of the scheme was compulsory or automatic. It can readily be seen that such people were not likely to have markedly different attitudes from those who had never made any pension provision in their lives.

2.4 Incentives

Incentives were paid to all respondents, either in the form of cash or as a donation to a charity of their choice. Incentives are general practice in social and market research, and are a cost-effective means of encouraging participation and minimising drop-out, as well as being used to thank respondents for their time. Incentives paid ranged from £40-£50 for this research.

2.5 The discussion guide

The discussion guide was developed after discussion with HMRC and was designed around the research objectives. Separate guides were developed for the general public and wealthy samples, as the balance of what we needed to know varied slightly between the groups (for example, we asked wealthy respondents directly about whether they used an agent, but assumed that this would not be applicable to the vast majority in the general public sample). The discussion guides can be seen in Appendices 10.4 and 10.5.

As the issue of personal finance is a sensitive one, we gradually built up to the questioning on respondents' pension provision. The discussion guide included a substantial introductory session aimed at building rapport and warming the participant up to the topic, getting to know their specific situation and circumstances (family, work, etc.), and discussing their general views and attitudes towards pensions and other savings, before we asked about specific provision they had made.

During the discussion guides, certain techniques were used to help respondents articulate how they felt about pensions in general, and the A-day changes in particular. We made use of 'handouts' and verbal briefings in order to explain the key elements of pension tax simplification. We also used 'hearts and minds' approaches. These asked people to consider what they might think, say, feel and do about pension saving. This is a useful technique where respondents might feel compelled to say 'the right thing', rather than what they really think and feel: people are often aware that they "should" be saving more for retirement and therefore care must be taken to separate out what they think they should be saying they will do from what they actually are likely to do. The handouts and stimuli used can be seen in Appendix 10.6.

3. Attitudes towards future planning and saving

The research explored respondents' general attitudes towards savings and future planning, in order to put their views on pensions and on making other provision for their retirement into context.

There was a tendency for those who had pensions to also be "savers" in other vehicles and it was generally true that pensions and savings were related, with a holder of one also likely to have the other. However, this did not always hold true. There were those who held pensions but did not have cash savings, or not to the extent that they felt them worth considering. Conversely, several who did not have pensions had cash savings. Usually each of these groups had a particular aim in view (this is discussed further in Section 3.1).

3.1 Why people save

Respondents frequently characterised themselves as "spenders" or "savers" quite spontaneously during the interviews, and indeed believed that the extent to which an individual makes or fails to make savings and other future provision was as much a reflection of character as of circumstances. Respondents tended to have entrenched attitudes towards saving, often as a result of childhood or other life events, for example a divorce.

"I suppose the world I was brought up in, income was extremely volatile, and that meant a few good times and a lot of enormous frustration during my growing up years, and that has undoubtedly had an enormous impact and I think it goes to the heart of the difference that there is between my partner and I... financial security is extraordinarily important to me, whereas he just believes there's a pot of gold at the end of the rainbow."

(Female, pension holder – wealthy)

"Protestant ethic I suppose; hard work yields good results. I think it's just inbred really that savings are important."

(Male, pension holder, currently saving, over 15 years)

"Never saved, never ever. I can't save. It's one thing I can't do."

(Male, non-holder, no other retirement savings)

Older respondents (those over 50 or so, especially with grown-up children) in particular prided themselves on their ability to save, often comparing their own ability to make savings in reduced circumstances with their children's tendency to use credit cards and borrow from their parents.

"If you haven't got the money to pay for something then you don't have it. We don't believe in credit cards or anything like that. If you haven't got the cash to actually pay for something, then you do without it."

(Female, pension holder, not currently contributing, over 15 years in past)

When asked about the purpose of making savings, these fell into two distinct categories – savings as a general safety net, or savings for a particular purpose. Savings as a general safety net were accessed over the medium term to pay for household emergencies, to be accessed for special occasions such as children's weddings, or were just built up against "the future" without respondents thinking more specifically about this. These savings often seemed less secure than pensions – some had made savings when they could, only to deplete them during harder times.

"I would always want to have some sort of cash savings float, because you never know when the roof is going to need replacing or the boiler goes or some holiday or whatever, that's obviously an expense that comes out once a year and you obviously need that cash that you're building up during the year to pay it."

(Male, pension holder – wealthy)

"We're quite aware that we do need to save for the future and we do save. We're not extravagant people."

(Female, pension holder, under 15 years)

Specifically, respondents tended to be saving for holidays (saving either on an annual basis or saving until they were able to afford a holiday, taking the money and spending it, then starting to save again) or houses. Housing was in fact the biggest single financial preoccupation for very many of the sample. Younger people wanted to get on the housing ladder and so were saving with this in mind (for example, for a deposit), whereas some of the older people in the sample were saving with the intention of investing in buy-to-let or other property (e.g. holiday homes).

Cash savings and investments such as stocks, shares and bonds were generally not designated for retirement, even where it was clear that they would probably be used during this period. Pensions were the primary savings designated for retirement, although some had also earmarked property for this purpose.

3.2 Why people do not save

The research found that saving decisions are driven by two main factors: financial literacy⁴ and level of priority given to saving. Respondents with similar financial circumstances may make entirely different savings decisions because of the attitude towards saving and the level of importance they give to saving as compared to other matters.

⁴ The ability to access, understand and use financial information; and, to communicate about personal financial matters.

Those who did not have a sufficient income to save were either on benefits or reduced income, perhaps because one partner was sick or bringing up children. However, they generally recognised the value of saving and aspired to be able to do so.

"It would be lovely to be able to save because then you wouldn't be worrying whether you've got enough money to cover bills, or... if there's an emergency and there's nothing to cover for (it) ... Unfortunately by the time you've paid the bills and everything else you need to pay out, there's not enough left to save, you have enough left to buy food and if you need clothing or anything else and that's it."

(Female, non-pension holder, no retirement savings)

Other priorities included paying off debts, and several respondents preferred to pay as much of the mortgage off as possible, on their principal private residence. This could be either because they did not see the point of paying a higher interest rate on their mortgage than they were earning in savings, or with a longer-term aim in view: whether to enable earlier retirement as their outgoings would be less, or as a semi-pension – some stretched themselves to afford as big a house as possible and to improve it, with the expectation that they would downsize and reap the savings during retirement. This was considered to be a form of saving in some cases. In other cases, although the principal private residence (or second home where this existed) was not considered primarily as an investment, those who had bought one did consider it a safety net in case they did need the money for any reason in retirement.

"The mortgage... it's gone now practically, in fact I just owe £500 or £600... rather than saving it went in to my mortgage, so that was the way that I chose to save because it made sense to me. I couldn't really understand why I would want to pay 7% and earn 5% at the same time... (Also), rather than having money in the bank, I spent £28,000 on a caravan plot, the plot of land which the caravan goes on, and I'm always going to get my money back and in the meantime I can have my holidays there, so in a way it is still saving."

(Male, pension holder, not currently contributing, over 15 years in past)

"It's a rock and a hard place, I don't earn much and that has always been the case due to things that have happened and that is quite scary, to be single in your forties with two children. The only thing I can fall back on is the bricks and mortar really."

(Female, non-pension holder, no retirement savings)

There were also respondents with a very "live for the moment" attitude to life, although this was much less apparent in the more general field of savings and investments, than in the specific area of pensions and retirement planning. Most people, even if they disputed the value of pensions and did not plan for the long term, did not contest the value of having an emergency fund they could use as needed.

However, there were some respondents in the sample who had been diagnosed with cancer, or had a partner who had been, and who were either battling this at the time of the interview or had reassessed priorities in light of a previous illness. In these cases, they tended to prioritise enjoying time with (which often meant spending money with) their families, rather than planning for a future which they had realised was precarious.

Some respondents who are working but on lower incomes hold the view that it is not worth saving, as the Government will deliver benefits to a certain level, and they do not want to risk their entitlement to this. While their incomes are not large, they nevertheless feel that it is not worth making any provision for the future, as they believe that if they save too much they will lose their entitlement to a range of benefits. This does not apply to those earning larger amounts, who do not expect to live on benefits and so do not make the calculation.

"Nowadays if you have too much in the bank, you don't get nothing ... Nowadays, the government don't give you any incentive to save more ... Because if I had any savings, I wouldn't be able to claim rent rebate or rates rebate or poll tax rebate or whatever. My sister-in-law, she's got thousands in the bank, but she's got to pay full rent, full tax, and she'd be better without a penny."

(Female, pension holder, not currently saving, saving under 15 years in past)

3.3 How people save

We also asked about other investments people had made. A range of other investments was apparent across the sample. ISAs and the principal private residence, followed by other property were the most common investments. However, PEPs, family bonds, premium bonds, stocks and shares and other investments, such as gold or property, were also held by some of those interviewed. The wealthy sample also held these, but also more complex investments such as unit trusts, Venture Capital Trusts, Enterprise Investment Schemes, Collateralised Loan Obligations and investments in hedge funds, although these were not held by everyone interviewed: as with the general public sample, financial astuteness varied (although was at a generally higher level in the wealthy sample). Not everyone had made these investments on their own behalf: some had inherited shares or property from parents or spouses.

Interestingly, several respondents held ISAs because of the tax exemption, yet did not take advantage of tax relief to be had by saving in a pension. Respondents said that this was due to several reasons: that ISAs run for a shorter period, offering quicker or immediate access; that they were a convenient way of keeping savings that respondents were making anyway; and because (cash) ISAs are not subject to fluctuations in the stock market and therefore savers do not run the risk of losing their investment. They also expressed that having several ISAs allow risk to be minimised, as money is held in several different "pots". This contrasts with the common view that pensions are a risky way of saving for retirement (see Section 4.3).

“Just hedging your bets kind of thing. I don’t think either of us would consider ourselves risky savers; we’re not going to do anything rash. Obviously we take slight risks doing equity ISAs rather than just savings accounts but I don’t consider it hugely risky. But again I think it’s just having savings in different places makes us feel a bit happier than all in one place.”

(Female, pension holder, currently saving, under 15 years)

There were also those who invested in property. As described in Section 3.2 some respondents chose to put spare money into their mortgage or to buy another property. The thinking behind this was that the property market in recent years has risen so dramatically, that it is a good investment as part of a savings portfolio, or even as all of it. Investors expect it to outperform the stock market, at least in the short term. With rising prices, many young people prioritised getting onto the property ladder above all else, while they felt they still had a chance of doing so.

“Well savings, we have been, for the last year and a half we’ve had an ISA Investor and that is a medium risk, so you know, we’ve been putting away a fair bit of money but we’re now in the throes of buying a flat so that is an investment, that’s about our future.”

(Male, non-pension holder, no retirement savings)

One or two respondents had made an investment of time which they hoped would prove to be profitable in later life (for example, they had written a book or made a film). They hoped that this would make money and that they would therefore gain an income from royalties or rights.

4. Attitudes towards pensions

As discussed, savings and pensions in general are often linked, and therefore the reasons people saved in pensions are to some extent an exaggerated version of the reasons they save or do not save in general. However, an important extra dimension influences the reasons people do or do not save in pensions – their opinions of pensions as a concept or product.

The research suggests that opinions of pensions and subsequent behaviour – i.e. whether or not people contribute to pensions and the extent to which they do so – therefore depend on the interplay of three main factors. Firstly, the amount of money the individual has (both their overall income and after considering the other demands they have on it). Secondly, the attitude held towards “rainy day” and future planning, including saving. Thirdly, opinion of the value of pensions; their opinion of them as a product and perceptions of the return from pensions as compared to other investments. Tax relief considerations may come into opinions of the value of pensions, especially for higher earners.

It is also possible for people to save in pensions without having taken a decision to do so. This is discussed here rather than in Section 4.1, as this section deals with the motivational factors around saving and not saving. People in the general public sample, although this was confined to older respondents, sometimes opened pensions because they were obliged to when they started a specific job – it automatically happened and everyone had to be a member of the scheme. Similarly, those in the wealthy sample often say that their employers offered non-contributory pensions as part of their salary packages, which they would have had no reason to opt out of. Although these pensions may be offered through other types of employer, in this sample they were associated with the generous salary packages offered to higher earners. It is therefore possible, particularly for higher earners, to hold a pension while simultaneously being unconvinced of its merits.

“I am a participant in the (name of company) Pension Scheme because it comes with my role and my job and I don't choose that but, you know, it's a benefit which I have.... There was no cost to me... the employer was putting money in, as it were and they weren't going to give me the money (instead).”

(Male, pension holder – wealthy)

Many of the sample had a flexible attitude to retirement. They did not necessarily envisage retiring all at once, but perhaps continuing to work part-time or (for those in senior and well-paid positions) on a consultancy basis. They were therefore often willing to retire later because they felt they would be able to work later, and believed work would keep them active and mentally happy, as well as allowing them to earn more money. However, crucially, they did not want to feel obliged to work, or to work full-time if their health would not allow them to.

"I'd do something like Monday to Friday, like one of the guys has left at (my workplace and) he now works in B&Q, he doesn't really need to, but he's doing it to get himself out."

(Male, holder, currently contributing, saving over 15 years)

4.1 The reasons people save in pensions

Aside from the contributions mentioned above where there was no active decision taken, the reasons people save in pensions are therefore concerned with product attributes, against a generalised desire to provide for the future.

4.1.1 *Early retirement and better standards of living*

The primary reasons people save in pensions include wanting to retire earlier than the State pensionable age, and wanting to have a better standard of living when they do retire. Although respondents from many social groups want to bring retirement forward, this attitude is perhaps more marked in careers where early retirement is usual (for example, the police) or other jobs where working hours are long and jobs pressured (for example City workers). In these cases, people often condense their working life and make higher contributions than average in order to bring retirement forwards.

The living standards that people want to maintain in retirement range from simple lifestyles, where people are able to take the odd holiday or travel to visit their children, to lifestyles they currently enjoy as high earners, taking three or four holidays a year. What one person therefore considers adequate pension provision may not suit another person with higher expectations. The quotes below illustrate the range of expectations people have for their lifestyles in retirement.

"I just hope that we will have a decent enough pension by that point that we can, and as I say we won't be wanting to be extravagant, but we'd just be wanting to pay the bills and not be having to count every penny."

(Female, pension holder, currently contributing, saving under 15 years)

"In an ideal world probably travelling and spending time (with family). By the time that they've grown up, you know, there'll be grandchildren I presume... so again I think with me it's family. Quality time. Nice holidays would be lovely."

(Female, pension holder, currently contributing, saving under 15 years)

"Well, have a house that suited the next phase of life with a garden... we have an interest in gardening, so having a bit more land to do something. And have the freedom to or the money/financial freedom to do a bit more travelling."

(Male, pension holder, currently contributing, saving over 15 years)

"I'm hoping for there not being much change from my current feelings about money I'm assuming that my net pay won't change a lot, if you see what I mean... and therefore my attitude to money I don't really want to change. I don't want to think that I'm any more constrained than I am now."

(Male, pension holder – wealthy)

There is a general assumption among all respondents, bar some of those who are older and already surviving on a very limited income, that the State pension will be insufficient for their needs. Indeed, many respondents, especially in the younger age groups (those aged below 40 or so) do not expect there to be a State pension at all by the time they retire. Generally, people are less willing to rely on there being a State pension the younger they are. Younger age groups are also more likely to assume that they will have to work to an older age, and see saving in a private pension as a means of avoiding the need to do this. For this group, "early" retirement may therefore mean retirement at the current State pension age.

"I think it's all the media hype about it, I think you think that you're going to retire at a certain age and then maybe you're not."

(Female, pension holder, currently contributing, saving over 15 years)

"I feel nowadays, with the government, they're knocking up the age of retirement more and fair enough people are living longer."

(Male, pension holder, not currently contributing, saving under 15 years)

4.1.2 Convenience of pensions

Another reason people save in pensions is because they perceive them as a convenient vehicle for building up funds for retirement. This is because they can be set up so that money is automatically taken without the individual having to make a decision each time they to make a contribution (which people can find easier than making ad hoc contributions to a savings account) for example in workplace schemes where the contributions are deducted from salary or by setting up standing orders or direct debits. Conversely, some of those who undertake freelance or irregular work find pensions a convenient vehicle for saving because they can make flexible rather than fixed contributions. Also, unlike an ordinary savings account or with many other investments, some like the fact that they are not able to access their savings until they reach retirement age (although others consider this a drawback, as discussed in Section 4.3.3). Several distrust their own financial acumen, or do not want to take the time or effort to manage their own investments, and therefore consider pension funds to be ideal as they are managed by professionals who know what they are doing and can generally be trusted to make the best choices.

4.1.3 Financial incentives

Finally, people save in pensions because of the financial reasons to do so. Employer contributions were also a valuable method of encouraging people to make the choice start pensions: several said that they

had begun paying into their occupational pension scheme to benefit from the contributions their employer would make to it. Tax relief was another reason encouraging some people to contribute to a pension. This is discussed further in Sections 5.4.

4.2 The reasons people start pensions

The “background” reasons people save for retirement (e.g. wanting to retire early, wanting a higher standard of living in retirement) may be distinguished from their reasons for starting a particular pension: the trigger for the decision. Reasons people gave for having started a pension, or a particular pension, were as follows:

- A general awareness that it was a “good idea” to provide for retirement;
- Conversations with older family members and friends where they were recommended to start a pension;
- A pension being offered to them by an employer.

4.3 The reasons people do not save in pensions

Negative opinions about pensions stemmed from a number of factors. Again, these were generally as concerned with opinions on pensions as a product as they were with respondents’ views on the need to plan for the future. Reasons for not saving centred on lack of trust, a belief that pensions are not valuable as a product, or a feeling among some people that pensions were somehow not particularly appropriate in their case: whether they were the “wrong” age to start one, felt they did not fit their working circumstances, did not understand pensions, could not afford one, or doubted the wisdom of paying into a scheme designed to pay out so much later in life.

4.3.1 Loss of trust

Loss of trust stems from a feeling that pensions are too vulnerable as a long-term form of saving. A number of factors influence this. Some respondents have direct experience of being in a company or private pension scheme that folded or otherwise lost value. They are therefore wary of this happening again. Similarly, other people in the sample knew of family and friends who had either lost money in pension schemes, or had not received as good a pension as they had thought they were going to: these schemes included the Mirror Group and Equitable Life.

“I don’t really trust them... the simple reason is that my dad, when he was working, worked for the Daily Mirror and he was in the Maxwell pension. ... both my father and my uncle. Now luckily my father’s pension, it didn’t alter that much but my uncle’s did and he paid that pension for all those years and then that happened and it was reduced... and you think, well, that could happen any time.”

(Female, non-pension holder, other retirement savings, over 15 years)

Negative media stories also undermined people's trust in pension schemes. Many of the sample had seen stories on the Mirror Group scandal or Equitable Life, or negative reporting on the abolition of Advanced Corporation Tax relief

"Occasionally in the news you hear pension companies have gone bust, and they lose all their money and you think to yourself well I'm lucky, is it worth paying into a pension; you don't really know."

(Female, non-pension holder, no retirement savings)

One respondent said that he did not want to invest in a pension because he did not trust the fund managers to make ethically sound investments. He felt that their focus was always on profit to the exclusion of human rights and other moral considerations.

"I feel very strongly during the 80's and early 90's over the South African type of investment, the pension companies have no morals (where) they invest in... racist regimes, military regimes, always one of those makes money, but I don't operate that way. So I'm not going to give them my money to play with."

(Male, non-holder – wealthy)

4.3.2 Judgements on the value of pensions as a product

The facts that some pension schemes have folded, and their vulnerability to legislative changes, was part of the judgement non-pension holders made about the value of pensions as a product. There were also other features of pensions that made people likely to worry about this, and as a result either make alternative provision for retirement, or no provision. These included the fact that pensions depend on a number of variables: fluctuating annuity rates mean that there may be a great deal of variability in the actual pension received from the same size of fund, and the size of the fund itself is dependent on the performance of the stock markets over its lifetime.

Some respondents, particularly those who are not risk averse and who have a high confidence in their own financial judgement, do not see the value of paying management fees for someone else to manage their pension funds, when they are able to make their own investments. This has historically also opened the way for them to make investments such as property for retirement, which in recent years has shown a higher return than has the stock market, on the whole. These people are more likely to be either professional investors or to be employed in the financial sphere.

4.3.3 "Life is for living"

In common with attitudes to saving in general, some respondents have a very "live for the day" approach to retirement planning. This attitude is more marked when considering pensions than it is when discussing savings, as people are more likely to see the value of having a sum of money that they can access in the short term than they are a sum of money locked up until retirement. While this group

of people does not necessarily discount the value of pensions, they feel strongly that they are not going to stretch themselves, and cut down on their enjoyment of life in the present, to contribute to one.

"I don't think that you should overstretch yourself with a pension because life is for the living and you want to have something to spend."

(Male, pension holder, not currently saving, saved for 15 years in past)

This attitude is to some extent linked to the general uncertainties surrounding pensions as described above, but is also linked to the uncertainties of life. This group feels that saving in a pension is in itself a form of a gamble, and while they accept that most people do benefit from their savings they believe it is also common to die soon after retirement without having reaped the benefits of their earlier foresight. This is an attitude also seen among those who have previously made good pension provision, but who have later fallen ill. This group as a whole is therefore likely to prioritise, or to re-prioritise, so that life experiences such as holidays and travelling are considered as important.

"It's silly really because there's bound to be thousands and thousands of people that it doesn't happen to, but I know of lots and lots of people who pay all this money and they go without, really they can't afford to put that money in, they could probably use it better but they put it in because they need it for their old age and they retire and six months down the line they're dead! I mean it's an awful thing but why have they done it?"

(Female, non-pension holder, other retirement savings, over 15 years)

4.3.4 Lack of understanding and experience

Lack of understanding of pensions also plays a part in not making contributions. If people have no direct personal experience of having had a pension, know few people who have one, and do not work for an employer that offers one, they are less likely to start a private pension on their own account (although some people in the pension holders sample have done this).

Lack of understanding is unlikely to be the sole factor in not opening a pension. Often people are aware that there would be information on pensions available should they want to look for it, but do not find the subject interesting enough to find out more about it. It is therefore likely to combine with other factors such as non-holders' opinions on the value of pensions or their financial circumstances, to reduce the likelihood of, rather than prevent, their starting pensions.

"You read the paper and it says anything about pensions and I just turn the page over. Even when it was the Budget I didn't understand what they meant when he was on about the pensions, because to me I don't have to look in to anything like that. Unless it concerns me then I'll listen about it or I'll read it but to me I haven't even thought about anything like that."

(Female, non-pension holder, no retirement savings)

Lack of understanding of pensions appears to some degree to be related to lack of experience: some people have no experience of holding a pension and therefore do not understand them: what they entail, how they might get one, and so on (unless they move into a job where taking up a pension is made easier, which appears to overcome lack of understanding to some degree). It is important to note that lack of understanding and experience may make people more vulnerable to any negative media stories about pensions.

4.3.5 Not being able to afford contributions

Several respondents claim that they cannot afford contributions. This is more common among the lower earners in the sample, but may also be seen in higher income brackets (including in the wealthy sample) where the household has a number of other outgoings, or where it is temporarily surviving on one income where two is the norm. Not being able to afford contributions is also a common reason given where there is a short or medium-term priority greater than pensions.

The people who say that they are not able to afford pension contributions fall into three groups:

- People who are on a very low income. These people are often surviving on a hand-to-mouth basis and have nothing left after their basic outgoings to contribute to a pension. They often do not see a pension as something that they are able to aspire to, or something that “belongs” in their lives. They expect to survive on the State pension (see below).
- People who are not on the lowest incomes, but whose age means that they would have to make substantial contributions in order to gain a reasonable pension. However, the age of these people does mean that they feel they are able to rely on a State pension to provide the necessities.
- People who intend to start or restart their pensions in the future. These people are aware of the need to have a pension in order to ensure they have a more comfortable lifestyle in retirement, but are not able to prioritise it at the moment. Section 4.4 explains the interplay between pensions and other priorities further.

Some respondents genuinely believe that the State pension will be enough for them. Typically these people are from non-professional social groups, such as unskilled manual workers and those on long-term State benefits, and are living on a low income. They do not have lavish lifestyles and therefore the view that they are likely to be able to maintain their lifestyle without a private pension may be a realistic one. Often these respondents take the view that because they have worked for all their lives they should be able to rely on a State pension. The State pension is also considered to be immune from the dangers inherent in private pensions – and so if respondents do not believe they will be able to build up an adequate pension pot, they may instead rely on the State pension.

“The only thing (a private pension is) doing is making you have a bit more money for when you retire. At the end of the day you’re going to get a state pension.”

(Male, non-pension holder, no other retirement savings)

"To me, if you've worked all your life you should be entitled to a pension."

(Female, non-pension holder, no retirement savings)

"I think with the Government you at least know that your money is safe, up to a certain extent whereas with private pensions, you know you put the news on sometimes and there have been companies that have gone bankrupt and their pensions have gone with it and that, you know you feel sorry for those people that they have paid all that money and lost it."

(Female, pension holder, currently saving, contributing under 15 years)

4.3.6 Pensions perceived to be "irrelevant" in personal circumstances

Some non-pension holders perceive pensions to be irrelevant to them because of their working patterns or age.

Some of those who do not hold a pension say that this is because they have irregular working patterns: periods of unemployment, freelancing, working part-time, or being unemployed or on long-term sickness benefit. They associate pensions with having a regular, full-time job and do not think they would be allowed to open one, or to make the sort of irregular contributions that they would want to. However, this should not be taken to imply that all of those who have irregular working patterns see pensions in this way: there were those who worked on a freelance, self-employed, consultancy or part-time basis who were represented in the pension-holding sample.

Age is also a factor which sometimes leads people to dismiss pensions, whether this is because they perceive themselves as too old or too young to start one. These people also tend to be lower earners. Those who feel they are too old to start a pension scheme believe that they would need to make a significant cut in their present living standards in order to give them even a small pension later on. Others refer to people they have known who have overworked themselves during the few years leading up to retirement in order to contribute as much as possible to their fund, and who have then ruined their health. The older group does not necessarily dispute the value of pensions as a product, and often wish they had started one earlier in life. However, they see pensions as a long-term investment and therefore see them as no longer appropriate.

"At this stage, no, I think I'd be too old to start a pension, it would cost too much pay in to get out what you'd want to get out and I don't really think that they expect you do it at my age anyway and if I'd had been... if I was a working person, I had been working all the time probably I would have"

(Female, non-pension holder, other retirement savings, over 15 years)

(Aged 50-59)

There also appears to be a generational gap, particularly for older, lower-earning women, who are likely to have given up work for several years while raising a family, and to have paid the “married woman’s stamp” rather than have considered starting a pension, which they often say was “not done” at that time.

“If I’d had my time over again, I would have saved. I would have got a good pension scheme when I was younger and probably gone back to work earlier. Being a mother, I looked after my children. ... And in my day, when I was younger, pensions, they weren’t thought of. You paid the married woman’s stamp, which was what, £2 a week. That was it. We didn’t think about the future and what would come or what didn’t come.”

(Female, pension holder, not currently saving, saving under 15 years in past)
(Aged 50-59)

It is also possible for people to perceive themselves to be too young to think about a pension. As discussed previously, younger people often have their sights set on the housing market initially, and perceive a pension as something older people who have bought their first property are more likely to have. They see pensions as something that they do not have to start thinking about (in contrast to pension holders, many of whom started their first pensions in their early 20s). It is important to reiterate that this group of people are not in fact “young” in the generally accepted sense of the word, as the starting point for the sample profile was 30. Indeed, people in their 30s and even mid-40s can easily think of themselves as “not ready” to start a pension, and it is therefore easy to see how “not ready” may easily flow into “too old” to start one.

“It’s something I’ve never even thought about even enquiring about because to me I’m not ready to do that yet.”

(Female, non-pension holder, no retirement savings)
(Aged 40-49)

Life circumstances associated with age are also a factor. For example, travelling, prioritising a deposit on a house, or taking a succession of casual jobs while young, or taking substantial amounts of time out to look after a family or taking part-time work to fit in with children are all examples of life circumstances many people are likely to experience at certain stages, and which may delay or prevent people from starting a pension, or disrupt contributions once they have been started.

“It’s going to take me a good few years (to be ready to start a pension). I mean, we plan to have our child within the next eighteen months to two years, so at least another three years until then – but by then we’re thinking about going to Brazil around that time as well.”

(Male, non-pension holder, no retirement savings)
(Aged 30-39)

4.4 The interplay between pensions and other priorities: some illustrations

Not being able to afford contributions, and feeling that pensions are irrelevant in certain life circumstances, are often a reflection of other priorities. Unless the individual is very investment-minded or has such a high disposable income that they can meet all their other priorities and still have money left to save for their retirement, pensions have to compete with a list of other things people need or want to spend their money on. It can therefore be difficult for individuals to have a sense of urgency or even importance with regard to pensions.

The following case studies illustrate the variety of individual circumstances, and how these promote or detract from pension contributions (all names and identifying circumstances have been changed).

Case study 1 – Ian, 45: Ian earns over £100k a year. He has two children. He fundamentally believes in the value of both cash savings and pensions to ensure provision for a “rainy day” and retirement. He currently has two pensions: an old company pension, which accrued for 14 years, and a personal pension, which all the companies he has worked for since have contributed to. However, he has “next to nothing” in cash savings and not as much as he would like in his pension. The reason for this is that he has put as much money as possible into his house, as he feels that the increase in its value is likely to outperform his pension funds, and also because he and his wife want to live in as nice a place as possible: *“Our view, and what we have done, is invest in our house, so that is the primary asset that we have and in fact we have taken what savings we have had and converted them into buying and developing our house. Firstly you can enjoy the asset... looking around... secondly, obviously, the appreciation in property value is significant and certainly outperforms a savings account.”* He feels he is unlikely to make more pension contributions in the near future, but is not overly concerned about this.

Case study 2 – Anne, 40: Anne is not working at the moment, as her children are aged two and five. Although her husband saves into a company share scheme and pension, and Anne holds a company pension, ISA and some windfall demutualisation shares, she admits that her pension and NI contributions have taken a back seat for the present. She wants to make up the lost ground at some stage in the future, but she doesn’t know when she will be able to because she expects to be supporting her children into adulthood and her retirement *“If I’m honest, that is a bit of a concern because I tend to think I’ve been out of work really for nearly five and a half years, so that’s contributions that I need to make up at some point.”* However, she finds that the demands of daily life and of her family’s needs take precedence over her pension for now. She doesn’t think this is unusual: *“Mums, yes, people similar to me, I think they’re doing a juggling act most of the time. Juggling with the bills, juggling with the demands of the kids – there always seems to be demands coming in about they need money for this, that and the other. So that takes precedence and also with the hike in interest rates, and just keeping the monthly bills ticking over, I think pensions tend to get put to one side.”*

Case study 3 – James, 31: James lives with his girlfriend on a council estate. He works as a chef and his girlfriend is a student. He used to work in a hotel and had some shares, and he and his girlfriend have recently been pouring all their spare money into saving for a deposit (cashing in the shares to do this). He doesn't think pensions are applicable at his age, doesn't understand much about them, and is wary about media coverage he's seen. The main factors preventing him from having started a pension are his desire to buy a house and his belief that property is a better investment. He says that he would like to start a pension at some stage in the future, but on thinking about it is unsure when this will be – he and his girlfriend would like to have a baby within the next couple of years, after which they would like to travel for a while as a family.

It is therefore easy to see how powerful factors operating in the present may lead individuals to prioritise other things over their long-term financial planning. Factors that may break through these other priorities, and lead an individual to start, or prioritise contributions to, a pension, include the following (although not all of these apply in every case, and for many non-pension holders none of them do):

- Becoming an employee at an organisation where a pension scheme is offered (especially if employer contributions are offered) or compulsory;
- Being aware of the tax advantages of pensions (although this tends to be a factor leading people to prioritise rather than to start contributions, and one which operates more among higher earners "due to higher levels of financial literacy – see Section 5);
- Having a background understanding of the importance of pensions.

5. Understanding of pensions tax in general, and the role it has on behaviour

Awareness of the tax rules for pensions varies between groups, with higher earners generally being more aware of the rules than average or lower earners. To some extent this appears to be because financial literacy and skill increase with wealth (although whether this is as a cause or result is unknowable within the limits of this research). The wealthy sample is also better informed, on the whole, about the tax rules that exist with regard to their pensions and about the recent changes to these.

5.1 Sources of information about pensions and tax

Sources of information about pensions and tax vary between holders and non-holders. Perhaps unsurprisingly, holders are likely to get information from their pension scheme from time to time, perhaps in the form of a newsletter or an annual statement. This is likely to be where they gain any awareness of tax relief.

"We do get a newsletter that occasionally I'll flip through. Yes, there's the odd bit of news in there that's been quite relevant, but I don't really pay a great deal of attention because (paying into a pension is) something I've just always done."

(Male, pension holder, not currently contributing, saving less than 15 years in past)

Those who are members of a scheme organised through their employers tend to get extra information about their pension scheme through HR, as well as direct from the scheme itself.

"We had a lot of leaflets around within (organisation) with our payslips so I think we got quite a lot of information... whenever you started or moved jobs you got a new pack with all the information about your pension scheme."

(Female, pension holder, not currently contributing, saved over 15 years in past)

Pension holders (and some non-holders) who are very financially literate (almost all of these are to be found in the wealthy sample) know about pensions and the pension tax regime because of the kinds of jobs they do. Rather than needing to make an effort to find it out, they deal with tax and tax rules on a daily basis during their working lives and find out about changes to pensions as part of a general effort to keep up with any changes in the financial world. They do this by reading the professional press, accessing websites such as the FSA, and talking to colleagues informally. One person in the general public sample is aware of the pension tax regime because she works in HR and so has to deal with queries.

"I know it myself. In the professional press, I know chartered accountants and I follow these things really... Financial Times, various pension fund and investment magazines and also my colleagues in the office. We've got tax experts. And we deal with lawyers all the time, so..."

(Male, Holder – wealthy)

Those who are not pension holders, or who are not making current contributions, either do not believe that they need other sources of information, or feel that they can get everything they need from more general channels of information such as news coverage on the TV or in newspapers. The group that access information through their existing pension schemes, HR departments or workplace, are also likely to use this source of information. However, they are likely to engage with it much more closely: those who are not currently making contributions do not feel they need very much information at all – they feel it is not relevant to them and they may be wary that someone is trying to “sell” them either the concept of a pension or the actual product.

"Since I left working for a company, the only bit of pension information that I really have in my head is from the news. Because I think as well there's always these people trying to sell you pensions. As soon as anybody begins a financial conversation, mortgage or whatever, people start and oh I've got pension and you just kind of – you know they're trying to sell you something and I just vaguely switch off."

(Male, pension holder, not currently contributing, saved for under 15 years in past)

Those who have accountants or Independent Financial Advisors (IFAs) sometimes feel that they do not have as much need for information on pensions as those who do not. To some extent, they have the attitude that they are paying their accountant or IFA to give them any relevant or useful information on their personal finances, including pensions, and may use their agent as their sole or main source of information. This does not seem to apply to the same extent to people in the wealthy sample who use accountants and IFAs, however, who are often still well informed.

"Also remember, when you're in a position where you've got an accountant and a financial adviser to prompt you, you probably don't need to know the detail as much as you might otherwise."

(Male, pension holder, not currently contributing, saved for over 15 years in past)

Those who do not hold a pension felt that they did not need very much, or any, information about them, although they wanted information on their State pension entitlements. Indeed, many freely admit that they have no interest in the topic. Non-holders are often aware that there are sources of information that they would be able to access if they needed to, but they are generally not interested in doing so: it appears that it is often lack of interest and perceived relevance, rather than lack of understanding, that impedes knowledge about pensions. Alternatively, they may have accessed some information during their normal media consumption, but not have needed to use it.

"I suppose you could follow the financial news, I mean we all knew about pension funds and money not being available and the doom scare stories in the newspapers and I suppose maybe when the budget is televised you pick up bits and pieces and I suppose you could go to a government website."

(Female, non-holder, no other savings for retirement)

"I've listened to stuff on the radio that initially sounds quite complicated but I'm not entirely sure it is so complicated."

(Male, non-holder, other savings for retirement)

However, some have no idea where they would go to look for information on pensions, and would therefore be reliant on what other people tell them (although the people in the sample who said this were among the most economically marginalised, and were therefore very far from being in a position to start a pension in any case).

"I have no idea. It's only what I've heard through word of mouth or whatever..."

(Male, non-holder, no other savings for retirement)

5.2 Understanding of tax rules for pensions

Understanding pension rules is generally much greater within the wealthy than the general public sample. Although awareness in the general public sample is limited, the area that is most commonly understood is that retirement age is rising, as a result of media coverage on the raising of the State retirement age. Within the general public sample, awareness of tax relief is mixed, with many not being aware of it at all.

Higher earning respondents, on the other hand, particularly those within the wealthy sample, are much more aware of pension tax rules. In particular, they are much more aware of the availability of tax relief on contributions they make to their pension. There was very high awareness that the relief was available, among both pension holders and non-holders.

5.3 Attitudes towards tax rules for pensions

Most of those who are aware of tax relief on pensions think that it is a good thing, although not all believe it will directly influence how much they put into their pensions (the role of tax relief is examined in greater detail in Section 5.4). However, some respondents believe that any tax relief they get on contributions they make will be negated later when their pensions are taxed. They felt it might act as more of an encouragement to people to save in pensions if they were not taxed when the holder comes to draw them.

5.4 The role of tax relief in making decisions about pensions

Changes to pension tax and their subsequent impact on behaviour must be understood in their wider context: that is, the extent to which tax relief already plays a part in influencing behaviour around pensions.

The general public sample (including some of those who hold pensions) is on the whole less aware of the existence of tax relief than the wealthy sample. When tax relief is mentioned, some of those who are not aware that tax relief already exists believe that this would encourage them to increase their contributions. This may possibly highlight an information need, but this is not borne out by analysis of those respondents who hold pensions and who are aware that tax relief exists. These people generally feel they are already contributing the maximum they can. Those who do not hold pensions have separate reasons (discussed in Section 4.3) for not doing so.

Among those who are pension holders and who are not higher earners, employer contributions tend to act as a much greater incentive to both start and contribute to a pension than does tax relief. Some point out that despite the existence of tax relief, they still have to have the spare money to make contributions – the money is not given directly as a cash refund. (Those who say this do not make the link that the existence of tax relief means that they have to put less money in to gain the same benefit.) However, tax relief does act as an encouragement for a few respondents to make or maximise contributions.

"Although you're getting tax relief, you've still got to pay the money out in the first place... the tax relief doesn't save the money you're paying out, and you'll end up without as much money in the pay packet at the end of the month, even with the tax relief."

(Female, pension holder, not currently contributing, saved for over 15 years in past)

"I am aware that as a higher tax payer the government effectively puts in more into my pension. What I pay in has increased significantly because I am a 40% tax payer."

(Male, pension holder, currently contributing, saving for over 15 years)

Among the wealthy sample, knowledge about tax relief is much greater, with very high levels of awareness and understanding, although not all allow their levels of pension contribution to be influenced by it. Often tax relief is a key reason to start or maximise contributions, and to some extent can overcome other dislikes about pensions, such as the investment being tied up for several years.

"The tax relief on contributions was an advantage. I mean certainly if that hadn't been there then the incentive for me to contribute to a pension would have been a lot less because there are other restrictions I still don't particularly like around pensions when you actually come to accrue them and take the money at the end... things about to what

extent you can take a lump sum, to what extent it then gets taxed again when it comes out... you don't have as much flexibility as I think you should have when the time comes to actually cash it in and use it."

(Male, pension holder – wealthy)

However, among those who are fundamentally unconvinced of the value of pensions as a product, tax relief does not overcome these objections. This group of respondents have identified investments that they think will outperform pensions even allowing for the additional contribution made by tax relief, believe that the disadvantages of pensions such as loss of control over the funds outweigh the advantages, or believe that the fundamental criterion for investment is the soundness of the investment rather than the tax relief it attracts.

"It's very material, the value (of tax relief) but... it all depends on the value you place in having control of the assets. I place a lot of value in that and you know if it was only a surrender for five years or something then maybe I think (saving into a pension) would be worthwhile thing to do but you know, I just don't trust the Government basically."

(Male, pension holder – wealthy)

"A fairly wise sage once said, you should never make an investment based on tax, you should make an investment based on whether it's a good investment or a bad investment and then the tax is broadly a bonus or comes into the equation."

(Male, pension holder – wealthy)

However, it also appears that higher earners (in both the wealthy and general public samples) simply have higher levels of financial knowledge and are therefore more likely to take advantage of tax relief at any level. This is borne out by the fact that several say that tax relief was a consideration when they opened their first pension – when they were 22% rather than 40% taxpayers. Overall, there are three factors which operate around higher earners and tax relief:

- Awareness of the existence of tax relief is greater for higher earners because of the link with increasing financial literacy.
- Higher earners have more money and therefore a greater potential to maximise their contributions.
- The 40% tax relief rate is an added incentive.

6. The A-day changes

6.1 Awareness of A-day

The general public sample is almost completely unaware of A-day, with one or two exceptions. Those who are aware of the term are either higher-earning pension holders who have received information from an agent or pension scheme, or have come across the term in a professional capacity. As well as being largely unaware of the term A-day, the general public sample is on the whole unaware that the rules on pensions tax have changed (those who are aware of any changes are those who are aware of the term A-day).

The wealthy sample has a very good, although not universal, awareness of A-day, with respondents generally mentioning it spontaneously. Although aware of the term A-day and the main point of the A-day changes (which most describe as simplification, although some refer to the bringing in of a new lifetime allowance), there is much less awareness of the new tax relief limits, however there is certainly some. Awareness of the new tax relief limits is higher among, although not confined to, the highest earners.

Some confusion is evident around the A-day changes, even among some of those who are generally well informed about pensions. For example, the lifetime allowance may be interpreted not as a limit beyond which further saving loses most of its tax advantages, but as an absolute cap on the size of pension fund an individual is legally allowed to hold.

"I just don't see why it's necessary to have a limit on the lifetime allowance; it's like, what's the rationale for it... if they've contributed their own money, maybe you could start to make the tax relief less attractive beyond that limit, but why say that you can absolutely have no more pension? I don't really see the point."

(Female, pension holder – wealthy)

Most have gained awareness of the A-day changes through their existing means of keeping updated on changes within the wider tax or finance world (as described in Section 5.1). However, a few have been contacted proactively by an agent (whether their ordinary agent or an agent brought in by their employer) to find out what they intended to do around A-day, and deliver advice as needed.

"For those of us who are a bit more senior and have made slightly more complex pension arrangements, (my employers) arranged individual consultations which they paid for to basically see where you needed to take some actions in advance of A Day."

(Male, pension holder – wealthy)

6.2 Attitudes towards A-day changes

Among those who are aware of the A-day changes, and when the A-day changes are explained to those who are not aware of them, there is general approval of the concept of simplifying the pension tax regime. It is generally felt that anything that makes pensions simpler and removes restrictions is positive. People approve of the idea of being able to put as much as they like into their pensions, even where they have not been contributing the maximum allowed.

However, positive reactions to the A-day changes must not be overstated: many feel neutral overall towards them as the changes have had little impact on their own behaviour, although they may consider that the changes are sensible.

"My feeling is, am I bothered? So I'm a bit neutral about it really."

(Male, pension holder – wealthy)

6.2.1 Reactions to the revised tax relief limits

There is also a widespread positive reaction to the revised tax relief limits, which respondents feel will make it easier to calculate the benefit they would get from increasing their contributions. . However several (in both the general public and the wealthy groups) who cannot afford to make large payments on an annual basis say they appreciate the possibility of making a large lump sum contribution if they receive a large one-off sum of money, such as a win or inheritance.

It is worth mentioning that, among those who know little about pensions (a group largely within the general public sample, and which includes some people who hold pensions) the changes to tax relief can be understood as having brought in, rather than extended, limits on tax relief for pensions. Respondents' views on the A-day extension of the tax relief limits must therefore be understood in the light of this. Notwithstanding this, reactions to the extension of the limits were positive.

Reactions to the lifetime allowance are mixed. Most respondents in both the general public and wealthy samples have little view on its existence, pointing out that they are never likely even to approach the limits. Among the wealthy sample, reactions are divided: generally people accept that there has to be, and approve of the existence of, a limit to the amounts of tax relief given, so that the very wealthy do not abuse the system. However, some feel that all tax restrictions on pensions should be removed to encourage saving. Insofar as any limit is accepted, the £225,000 annual and £1.6 million lifetime allowances for 2007/08 are felt to be fair and even generous.

"I suppose given the number of people in this country who earn many, many times less than that, it would seem to be for the vast majority well up at the top end of the limit"

that's required. And for people who are earning significantly more than that, then I'm sure they've got other arrangements besides pensions, so I think it's reasonable."

(Female, pension holder – wealthy)

There was some call, among higher earners, for income from other sources than employment (for example income derived from share dividends) to be counted along with salary when assessing the tax relief threshold for individual pension contributions.

6.2.2 Reactions to the ability to take a 25% lump sum (scheme permitting)

The idea of being able to get a 25% lump sum on taking the pension is also felt to be useful. However, some urge caution and emphasise the need for people to be given information about the need to balance their desire to take a lump sum with the drop in the pension fund that this will entail. Some who are told about the option to take a 25% lump sum are positive about the idea in theory, as it increases the choices available to pension holders, but feel that their own pension funds are unlikely to allow them to be able to do this.

Comments about the 25% lump sum are based around the anticipated usefulness of a large sum of money at retirement (which respondents would anticipate using for a number of purposes such as starting a business, travelling or taking out to spend) rather than around overcoming the concerns some participants express about dying before they get the full benefit of their pension. Even those who think that they would be unlikely to take a lump sum themselves feel that it might be a benefit that would appeal to others.

"I think it is a positive thing yes, some people might have a very good scheme and they take 25% to sail around the world or something, it gives them the choice and I have no problem with that at all."

(Male, pension holder, currently contributing, saving over 15 years)

Some dispute that the 25% lump sum would necessarily be a valuable benefit, given that most people are not saving enough into their pensions in any case.

"You know, I think a bus pass has got more value to the majority of Londoners than that 25%."

(Male, non-pension holder – wealthy)

The point is also made, however, that the 25% lump sum is not a universal change to the rules for all pensions, i.e. a pension scheme can choose not to offer it. It is felt that to some extent this conflicts with the concept of moving towards a more standardised set of rules.

6.2.3 Reactions to the idea of being able to draw part of the pension while continuing to work

Both the general public and the wealthy sample also responded extremely well on the whole to the concept of working part-time while drawing part of their pension. Indeed, this is the A-day change that drew the most positive responses among those who do not want to stop work at 60 or 65, or who want to continue to work for as long as they are able to.

Respondents believe that this method of drawing a pension fits in well with what they see as their likely working patterns as they get older. They often express the desire to work because they need to financially, because they enjoy it, for the social benefits, because it keeps them busy, or for the intellectual challenge. However, they may feel that they want to balance this with the possibility that they may not be able to do as much as they used to as they age, and that a full-time job may not be appropriate as they get older.

"I don't see myself sitting at home like those and it isn't just for the fact of the money, it's (for) my brain and because of what I do and the people I deal with. Some people really look forward to their retirement, I see myself working until I pop off, for the pleasure of it."

(Female, non-holder, other savings for retirement, saved for over 15 years)

However, there are questions on whether there will be particular rules as there are with some benefits, such as having to work under a certain number of hours. Some also feel that the idea of working for longer will not suit everyone.

Respondents also tend to be aware that factors such as a longer-living population and the fact that the previous model of pension provision is unsustainable, mean that many people will need to continue to work for longer in the future. The idea of taking some pension while continuing to earn is therefore felt to fit in well with the ageing workforce, increasingly active older people and the desire of many people to continue working beyond retirement.

6.2.4 Reactions to the raising of retirement age

As the previous section makes clear, respondents are generally not surprised that the age at which people will be allowed to take their pension is rising – this fits with what they have seen on the news about the State pension age increasing. In any case, respondents may:

- Expect to be retiring in the next couple of years, and will be relatively unaffected by the change in rules;

- Be under the minimum age by a number of years, in which case they often expect to be working for several years into the future in any case, and so the A-day change does not impact on their expectations for the future;
- (For the highest earners in the wealthy sample) Be able to retire comfortably now, without considering their pension. Therefore the A-day changes do not impact on their expectations.

6.3 Extent to which A-day has influenced behaviour or may do in future

As knowledge of A-day and the changes that have been made was very limited, particularly among the general public sample, it is perhaps not surprising that its impact on behaviour has also been limited so far. This is true for all of the changes introduced on A-day. As might be expected, impact has been greater among the wealthy sample than among the general public sample, but even here it is limited to a few individuals – the highest earners. However, where people are affected or have changed their behaviour as a result of A-day, the differences can be very marked.

Those for whom A-day has already made a difference to behaviour are typically the highest earners, as these are people who are putting in the highest contributions to their pensions or who know that their pensions are at or approaching the lifetime allowance. The range of differences it has made includes the following:

- One respondent who had had a pension fund substantially over the Lifetime Allowance, and who had been considering whether or not to begin taking his pension, had started to take it in order to avoid the charges. He had done this partly because he wanted to start taking his pension, and partly on the advice of his agent.
- Actively monitoring the size of the overall fund, with a view to reducing pension contributions if necessary, to avoid any lifetime allowance charge as a result of exceeding the Lifetime Allowance. They will make a final lump sum payment to their pension fund to bring it to the LTA, and then cease contributing. Crucially, respondents do not feel they will stop investing – they will simply put their investments somewhere other than in a pension (for example property).

"I suspect I will end up making one more lump sum payment into a pension fund when I know when I'm going to retire. And I'll sacrifice a last bonus and I will pay my £225k and do whatever I need to do to you know maximise the allowances."

(Male, pension holder – wealthy)

"I like to work out, it's almost like scoring a try in rugby and sliding from over the line; you've got to work out the slide. So even when you get to 1.2 or something you stop contributing, you've got to slide it in. You know, you don't want to go over the 1.8."

(Male, pension holder – wealthy)

- Reducing the size of the largest lump sum contributions to keep within the annual limit.
- Increasing contributions to take advantage of the increased tax relief thresholds.

"They have to be useful for me because they allow me to maximise the amount that I want to invest in a pension personally."

(Female, pension holder – wealthy)

- Opening or more actively managing SIPPs.
- Opening up an extra pension to take advantage of the spouse's ability to save as much as their annual salary. In one case, a respondent had opened up an extra pension for his wife and planned to put some of his bonuses in, in order to take advantage of her allowances rather than his going over the annual cap.

"In respect of my wife... she's got stakeholder pensions and she's got similar circumstances to me... She's in an occupational plan but also we've taken out a stakeholder arrangement because she's not capped (near the cap). Not in sight of being capped (reaching the cap). ... I will continue to make sure my wife uses her limits to the full as well."

(Male, pension holder – wealthy)

It is the Lifetime Allowance, rather than the annual limits, that appears to be making the most difference to people's behaviour. Although some changes in behaviour around the annual allowances are observable (for example opening up pensions for spouses, ensuring that the annual limit is kept to), respondents are focussing most of their effort on staying within the Lifetime Allowance. As many of the wealthy respondents work in a financial capacity, some are able to give a wider perspective gained from observing their clients, which generally supports this picture.

"It has changed behaviour because people like me put less in (their pension plans)... it has changed behaviour (for) very, very wealthy people. We have clients who, you know, would put in several million into a pension plan; would have done so before but now they can't. So it isn't that £215 or £225 thousand annual allowance that is stopping it but it's the £1.5 million cap...that's stopping it."

(Male, pension holder – wealthy)

Pension holders who are in the wealthy sample, but who are not in the highest earning groups (i.e. their earnings are between £100,000 and £500,000 per year) are more likely to claim that they will put more into their pensions in the future than they are to say they are already putting more into their pensions than before the A-day changes.

One respondent believes that overall it is likely that he is contributing slightly less to his pension as a result of A-day. This is because prior to A-day he calculated what his annual maximum contributions eligible for tax relief would be, and topped up the difference between this and his actual contributions on an annual basis. As the limit to his contributions has increased to an unattainable level (as he cannot afford to put in the equivalent of his salary) he does not make this annual calculation or contribution any more. However, this effect appears relatively unusual and is not referred to by anyone else in the sample.

6.3.1 Non contributions related A-day changes

- Taking 25% as a tax free lump sum⁵

Those who had made any changes at all as a result of A-day both demonstrated a high degree of financial literacy and were wealthy (see section on method for definition). This meant that they were both unlikely to want to reduce the value of their pension fund by that amount and unlikely to have a pressing need for the money that they couldn't meet from other sources such as their pay.

- Removal of tax obstacles to flexible retirement

The wealthy sample in general intended to retire early (indeed one had just retired at 40 years of age) and, as such, this change provided no incentive to change plans. However, some envisaged themselves continuing to work on a consultancy basis, though this could not be attributed to this A-day change. Instead it was thought to be an established pattern of behaviour for people in their position.

6.4 Reasons A-day has not influenced behaviour to a greater extent

The reasons A-day has not influenced behaviour to a greater extent are as follows:

- Lack of awareness that the changes have happened (at its highest among the general public sample, although also existing to some extent in the wealthy sample – although this sample is generally good at managing money and keeping abreast of changes, this is not universal).
- Not wanting a pension – as discussed in Section 4.3, the reasons for not having a pension are generally a function of not having enough money to put into one, not trusting them as a product, preferring to manage their own funds, or having more lucrative investments (or a combination). These people do not feel that A-day addresses these fundamental reasons for not wanting a pension.
- Those who already hold a pension may not want to increase their contributions as, with a finite amount of money to invest, they may want to make alternative investments alongside their pension. In particular, respondents are keen to invest in the property market in order to benefit from the rise in the market. Although some higher earners do this full-time, property is an extremely popular second investment for those who already feel they have good pension provision.

⁵ If the particular scheme allows.

- The view that the Lifetime Allowance and the annual limits are unlikely to apply to them – the general public (including many higher earners and several of those in the wealthy sample) can on the whole only envisage making contributions equal to their salary in exceptional circumstances, such as a Lottery win. The limits are more relevant to those whose earnings come largely in the form of bonuses, as these may be many times in excess of their annual basic salary. It is therefore easier for these people to pay a contribution equal to their salary: because their actual earnings exceed it. These people were without exception found within the wealthy sample.
- Although people may not feel the limits apply to them, the A-day changes have still presented them with the opportunity to increase their pension contributions up to these limits. However, many feel that they are already saving as much as they can. Section 4.4 shows how pensions should be seen as part of a complex and often conflicting set of priorities, rather than in isolation. People often know that they should be paying as much as possible in, but in practice other things interfere.
- Finally, the A-day changes may not have made much difference to pensions in practice. Many people were not using their existing annual contribution limits, and so the fact that these have been increased has not affected them – often contributions are limited to the 5% or so required to get the matching employer contribution. Similarly, many pension holders, particularly those working in the public sector, point out that they were already able to draw a lump sum pre-A-day. For these people, these particular A-day changes have not represented a change to the terms and conditions of their pension (apart from changes to the limits) and so they have not changed their behaviour.
- Non-pension holders who are attracted by such A-day changes as the ability to take a greater lump sum, and who say this might encourage them to start a pension or to contribute more, may say this more as a result of their lack of knowledge rather than as a result of restrictions being lifted. If the only thing that had been preventing them from starting a pension was not being able to take a lump sum, there were several pension schemes in existence prior to A-day that would have allowed them to do so.
- Both the wealthy and general public samples are generally more likely to claim that A-day is likely to influence their behaviour in the future, than that it has already influenced it. The wealthy sample in particular is likely to say that they will try to increase contributions in the future, even if they are not already putting more into their pensions than they were before the A-day changes. This may in part be linked to age – many of this sample are in their forties, an age where people often feel both that they have their greatest financial responsibilities with regard to children and mortgages, and that they have not yet reached their peak earning power.

6.5 Other factors that might encourage saving in pensions

When asked what else might encourage them to save in pensions, or to increase their contributions, respondents named a variety of factors, which can be grouped more widely as follows:

- Factors concerning the flexibility of pensions

Additional flexibility that pension holders and non-pension holders may want from their pensions includes the facility to pass on a pension to dependants, so that if people die soon after retirement the benefit of their saving is not lost.

- Access to impartial advice (for the general public sample)

Non-pension holders in particular do not know where they could go for impartial advice about whether or not to start a pension (whereas pension holders tended to have access to advice through their scheme, agent or HR department). In particular, they want to get tailored advice on whether it is worth starting a pension (and the returns they might get) if:

- They are older;
 - They are self-employed;
 - They have smaller amounts to contribute (for example £50 per month or less).
- Increasing awareness of pensions and the need to save in them

Respondents suggest measures designed around “normalising” pensions and familiarising people with them from a young age.

- Financial factors such as having the resources to spare

The main financial factor that would encourage non-pension holders to start contributions, and pension holders to contribute more, is having the money to do this while they meet their other priorities.

7. Conclusions

People are generally aware of the need to save for retirement, but differ in whether they believe they can afford to do this, and whether they believe a pension is the best way of doing so. Attitudes to pensions vary widely with such factors as personal and family history, level of financial sophistication, attitude to risk and other priorities.

Pension provision is driven by the interplay between attitudes, resources and priorities: the individual's opinion of future planning in general and pension schemes in particular, combined with the financial opportunities they have to make contributions and the priority they give to doing so (or to spending money on other things) combine to produce the overall likelihood that an individual will start a pension or maximise their contributions.

This combination of personal and attitudinal factors has much more of an influence than do more marginal factors such as tax relief. While tax relief certainly has some bearing on the level of contributions made, it plays much more of a role among higher earners (influenced both by greater financial literacy and the higher 40% rate of relief). Tax relief plays a secondary role to the personal and attitudinal factors outlined in the main report: therefore, while it may move pension contributions a few places up the list of priorities, it cannot overcome entrenched mistrust of pensions or free up money for someone to make contributions when they are living a "hand to mouth" existence.

Knowledge about pensions is much higher among higher earners, as is awareness of A-day. People in both samples are more likely to say that A-day may change their behaviour in the future (typically when they have more money) than that it has already changed their behaviour. Behavioural changes to date (in the sample interviewed) are confined to the highest earners, even within the wealthy sample as a whole.

For those who are not aware of A-day, being given examples of the changes can sometimes result in them saying that this would potentially bring about a change in their behaviour. However, where this is the case, it often seems to be as much a result of being given information about pensions in general rather than about the A-day changes, as many of the elements of A-day that people find attractive have already been available for some time in at least some pensions. Widening behavioural changes may be a question of increasing information, but not necessarily just about the changes. To bring in those who are unaware of A-day (and who may know very little about pensions) the information would need to be positioned as information about the existing pension system.

A-day has begun to make a difference among the highest earners. More time may be needed for the information to filter through to the general public, and more work needed before they realise that A-day

represents a considerable simplification of the previous system. When the general public are informed about A-day changes such as increasing the limit on how much can be put into a pension to the amount of the annual salary (effectively meaning that most people can contribute as much as they like), people react positively, believing that the rule is sensible and easy to understand. They are also positive about moves towards increasing what pension schemes can offer, especially the ability to take a 25% lump sum on retirement and to work part-time while taking some of the pension. This last change was thought to be especially important given the increasing emphasis on the need, and people's own desire, to work for longer.

Informing the general public about the rules on pensions, and especially that pensions may be more flexible than they thought, is therefore key: both among those who had previous knowledge about pensions (because they need to be informed that the rules have changed) and those who have never known much about pensions (as these people are less likely to have a pension and may be under incorrect assumptions about the conditions). However, information alone is unlikely to be enough: it needs to be combined with communications that work on people's sense of priorities and attitudes if behaviour is to change more generally.

Appendices

Appendix A Achieved sample

The achieved sample had slightly more pension holders than non-pension holders in it. This was because respondents did not necessarily remember that they had a pension scheme (or, on occasion, that they were still contributing to one) until the interview was well underway and their memory had been prompted by the interviewer. The table below displays the target sample, with the achieved sample in brackets next to it.

Wider public sample

PENSION STATUS pension holders = 30 (33) non pension holders = 30 (27)	Holder: Currently saving in a pension scheme	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years (11)
	Total = 15 (17)	
	Holder: Not currently contributing in a pension scheme	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years (10)
	Total = 15 (16)	
	Non-holding: with retirement savings	At least 7 to have been saving for at least 15 years (7)
	Total = 15 (11)	
	Non-holder: no retirement savings	
	Total = 15 (16)	

The following demographic quotas were also applied across the pension status groups (again, the table below displays the target sample, with the achieved sample in brackets next to it)

Age	30-39	At least 10 (11)	Across pension status group
	39-49	At least 20 (22)	
	50-59	At least 20 (19)	
	60-69	At least 10 (8)	
Employment status	Working – employed	At least 40 (43)	Across pension status group
	Working – self-employed	At least 5 (6)	
	Other (no quota)	(11)	
Family status	No children	At least 10 (15)	Across pension status group
	With children	At least 15 (24)	
	Post-children	At least 15 (21)	
Socio-economic group	AB	At least 15 (16)	Across pension status group
Disability	With disability	3 (7)	
BME	From BME groups	5 (3)	

Wealthy booster sample

The following quotas were achieved for the wealthy booster sample. In this case, it was very difficult to find wealthy individuals who were not pension holders. This was despite HMRC drawing a further batch of sample and Opinion Leader conducting a second mailout, optout procedure and round of recruitment. As described in the main report, pensions were strongly associated with the wealthy sample because of both financial literacy and because they were often offered as an automatic benefit of the kinds of job done by the wealthy sample.

	Total
Pension holder	10 (16)
Non pension holder	10 (4)
Total	20



HM Revenue & Customs
Tax Policy & Products
Analysis: Capital & Savings

100 Parliament Street
London SW1A 2BQ

Tel
Internet site

www.hmrc.gov.uk

Date <<DATE>>
Our Ref ID NUMBER

Dear NAME

Research to explore views on pensions tax

I am writing to ask for your help with an important piece of research. HM Revenue and Customs (HMRC) have asked Opinion Leader, an independent research agency, to explore people's views on pensions tax in light of recent changes and how these changes can affect behaviour.

You participated in a survey last year on attitudes to pensions. At the time you agreed that you were happy to be contacted again for further research into this issue. We will be conducting interviews with a range of people, **whether or not they currently pay into a pension**. You do not have to know about pensions to take part. Nor do you need to have a pension or to have held one in the past. The research would involve a discussion lasting around an hour with an Opinion Leader researcher, which would take place at your home, or wherever is most convenient for you.

Please note that we are interested in your views for the purposes of research only. All information will be kept confidential: Opinion Leader will not share any information you give in the interview with HMRC or anyone else. Your views will not be attributed to you personally.

Someone from Opinion Leader may telephone you over the next couple of weeks to ask whether you would be willing to take part in the research. I hope you will decide to take part in this important study. If you do *not* wish to take part, please return the slip at the bottom of this letter and send to **Opinion Leader, FREEPOST WC5691, London WC1B 4BR** (you do not need a stamp) by **DATE – 2 weeks**, and your name will be removed from the list. Alternatively, contact Sarah Knock at Opinion Leader on 020 7861 3285 or email sknock@opinionleader.co.uk. If you would like to speak to someone at HMRC about the research, please call Judith Heller on 020 7147 3078.

Your opinions are highly valued and I would like to thank you in advance for your time in participating in this study.

Yours sincerely,

Judith Heller
Senior Research Officer
HMRC

If you do not wish to be considered for this study, please return this slip to:

OPINION LEADER RESEARCH
FREEPOST WC 5691
LONDON
WC1B 4BR

Please note that I would prefer not to be contacted about participating in this study.

Name (please print): _____

Signature: _____

Date: _____

Reference number



HM Revenue & Customs
Tax Policy & Products
Analysis: Capital & Savings
Room
100 Parliament Street
London
SW1A 2BQ

Tel
Internet site

www.hmrc.gov.uk

Date <<DATE>>
Our Ref ID NUMBER

Dear [title] [surname]

Research to explore views on pensions tax

I would like to ask for your help with an important piece of research being conducted on behalf of HM Revenue and Customs (HMRC). The aim of the study is to explore people's views on pensions tax in light of recent changes and how these changes can affect behaviour, and we would very much value your input.

We are contacting you because your name was drawn randomly from a selection of Self Assessment records, as someone who might be eligible to take part in this research. It does not matter whether or not you currently pay into a pension, or whether you know about pensions or not. Nor do you need to have a pension or to have held one in the past – we are interested to hear what you have to say.

We have commissioned an independent research organisation, Opinion Leader(OL) to undertake the research on behalf of HMRC. The research would involve a discussion lasting around an hour with an OL researcher. Should you take part, please note that **everything you tell OL will be treated in complete confidence; no information that could identify you will be passed on to HMRC or anyone else. Your views will not be attributed to you personally.**

If you are willing to take part in the research, you do not need to take any further action. OL may contact you in the next few weeks to set up an appointment to meet with a senior member of their research team, at a time and place convenient to you.

If you have any queries in relation to the research contact Susie Macpherson at Opinion Leader on 020 7861 3218 or email smacpherson@opinionleader.co.uk. Alternatively, if you do **not** want to take part in the research, then please return the slip at the bottom of this letter to **Opinion Leader, FREEPOST WC5691, London WC1B 4BR** (you do not need a stamp) by Friday 27th April 2007, and your name will be removed from the list.

Should you wish to speak to me directly about the research please call 020 7147 3078; or if you prefer, you can write to me at the address provided above.

I do hope you will be able to take part. I thank you in advance for your help.

Yours sincerely,

Judith Heller
Senior Research Officer
HMRC

If you do not wish to be considered for this study, please return this slip to:

OPINION LEADER RESEARCH
FREEPOST WC 5691
LONDON
WC1B 4BR

Please note that I would prefer not to be contacted about participating in this study.

Name (please print): _____

Signature: _____

Date: _____

Reference number:

Appendix D Recruitment questionnaire – General Public

RECRUITMENT QUESTIONNAIRE 1: To be used with all respondents other than the “Wealthy” sample

RECRUITER INSTRUCTIONS

Before calling, please fill in enter and note the ID number of the person you are calling. This can be found on the sample list.

Please stick to the following main quotas:

PENSION STATUS pension holders = 30 non pension holders = 30	Holder: Currently saving in a pension scheme 15	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years
	Holder: Not currently contributing in a pension scheme 15	At least 7 to have been saving in a pension scheme (not necessarily the same one) for at least 15 years
	Non-holder: with retirement savings 15	At least 7 to have been saving for at least 15 years
	Non-holder: no retirement savings 15	

In addition to this, please recruit the following specification across the main quotas outlined above:

Age	30-39	At least 10	To be recruited across pension status group
	40-49	At least 20	
	50-59	At least 20	
	60-69	At least 10	
Employment status	Working – employed	At least 40	To be recruited across pension status group
	Working – self-employed	At least 5	
Family status	No children	At least 10	To be recruited across pension status group and include a good mixture of single people and couples
	With children	At least 15	
	Post-children	At least 15	
Socio-economic group	AB	At least 15	To be recruited across pension status group, if possible
Ethnicity	White	Max 55	
	BME	At least 5	
With disability	Yes	At least 3	
	No	Max 57	

CALL SCRIPT/ QUESTIONNAIRE

Good morning/ afternoon/ evening. I am ____ from Opinion Leader, and we are conducting a research project on behalf of the HM Revenue and Customs.

You should have received a letter from us in the last 2 weeks telling you a little bit about the research. We are hoping to carry out discussions with people about saving for retirement. We are interested in speaking to those who do not save for retirement and those who do, as well as both those who know a lot about pensions and those who don't know very much at all. The research would be very informal and would be carried out face-to-face.

The discussion would last around an hour, and the researcher would come to your home or another place that suits you. In accordance with the Market Research Society's Code of Conduct everything you say would be kept completely confidential and none of the information people share with us during the

interviews will be reported back to HM Revenue and Customs in a way in which their identity would be revealed.

If you were to take part, Opinion Leader Research would give you £40 in cash at the end of the interview, to thank you for your time.

We need to check that we are speaking to the right people to take part in this research by asking some quick questions about you first. This is for the purpose of research only and any information given to us about you as an individual or your family is treated as strictly confidential and will not be passed to HMRC. If there are things you want to talk to HM Revenue and Customs about after our conversation, I can give you their helpline number when we have finished. It should only take a few minutes.

Q1 Do you or any members of your immediate family work in any of the following areas, either in a paid or unpaid capacity?

A	Journalism/the media	1	THANK AND CLOSE
B	Advertising	2	
C	Public relations (PR)	3	
D	Market Research	4	
E	HM Revenue & Customs	5	
F	Department of Work and Pensions	6	
G	Pensions companies		
H	No, none of these	7	CONTINUE
I	Don't know	8	

Q2. Can I just check whether you currently have a pension or not? *Check quotas and continue*

Yes	
No	

***IF YES, CONTINUE TO Q3
IF NO, GO TO Q6***

HOLDERS

Q3. And are you currently contributing to it, or have you stopped? (INTERVIEWER – CODE ANYTHING OTHER THAN CURRENTLY CONTRIBUTING AS NOT CURRENTLY CONTRIBUTING, INCLUDING DON'T KNOW) *Check quotas and continue*

Currently contributing regularly (e.g. once a month or from pay packet)	Currently contributing quota GO TO Q4	
Currently contributing irregularly (e.g. when I can)		
Have stopped contributing to one of my pensions but am still contributing to other pension(s)		
Stopped contributing permanently	Not currently contributing quota GO TO Q5	
Stopped contributing for the moment but am going to start again		
Don't know		

Q4. CURRENTLY CONTRIBUTING QUOTA For how many years have you been saving in a pension IN TOTAL? This doesn't just mean the pension(s) you are currently contributing to, I mean the total number of years you have been saving in any pension. *Check quotas and continue*

More than 15 years	
Less than 15 years	

NOW GO TO Q8

Q5. NOT CURRENTLY CONTRIBUTING QUOTA And thinking about the time when you were contributing to your pension, how many years did you make contributions for? *Check quotas and continue*

More than 15 years	
Less than 15 years	

NOW GO TO Q8

NON-HOLDERS

Q6. You've said that you don't currently hold a pension. Are you saving in any other way for retirement? *Check quotas and continue*

Yes	
No	

IF YES, CONTINUE TO Q7

IF NO, GO TO Q8

Q7. And for how many years have you been making those savings? *Check quotas and continue*

More than 15 years	
Less than 15 years	

NOW CONTINUE TO Q8

THIS SECTION TO BE ASKED TO ALL – BOTH HOLDERS AND NON-HOLDERS

Q8. ASK ALL What is your age? *Check quotas and continue*

30-39	
40-49	
50-59	
60-69	

Q9. ASK ALL And are you currently employed or self-employed? *Check quotas and continue*

Employed	
Self-employed	

Q10. ASK ALL Which of the following best describes you and your household? *Check quotas and continue*

I do not have any children	
I have children who live with me	
I have children but they have left home	

Q11. ASK ALL Could you tell me what the occupation of the chief income earner in your household is? *Check quotas and continue*

Write in.....

CODE

AB	
C2DE	

Q12. ASK ALL And how would you describe your ethnicity? *Check quotas and continue*

Black African	
Black Caribbean	
Black British	
Black other	
Indian	
Pakistani	
Chinese	
Asian Other	
White British	
White other	

Q13. ASK ALL Do you have a disability? *Check quotas and continue*

Yes	
No	

RECORD GENDER

Male	
Female	

<i>NAME(S):</i>	
<i>ADDRESS:</i>	
<i>TEL NOS:</i>	
<i>APPOINTMENT DETAILS:</i>	

IF RESPONDENT FITS RECRUITMENT CRITERIA:

If it is OK with you, we would like to carry out a discussion with you about saving for retirement. The discussion will be between you and someone from Opinion Leader. It will be carried out in the strictest confidence and we will not pass any information to HMRC which could identify you individually.

IF PARTICIPANT AGREES:

The discussion can take place in your home or another place of your choice;

RECORD DETAILS OF INTERVIEW LOCATION

Home address (as above)	
Other (please enter details)	

We will send you a letter to confirm the time and details of the interview. Thank you for agreeing to participate and we look forward to meeting you. I would just like to remind you again that any that any information given to us in this phone call about you as an individual or your family is treated as strictly confidential and will not be passed to HMRC.

Appendix E Recruitment questionnaire: Wealthy Sample

RECRUITMENT QUESTIONNAIRE 2: To be used with the “Wealthy” sample

RECRUITER INSTRUCTIONS

Before calling, please fill in enter and note the ID number of the person you are calling. This can be found on the sample list.

Please stick to the following main quotas:

PENSION STATUS	Holder 10
	Non-holder 10

CALL SCRIPT/ QUESTIONNAIRE

Good morning/ afternoon/ evening. I am ____ from Opinion Leader, and we are conducting a research project on behalf of the HM Revenue and Customs.

You should have received a letter from HMRC in the last 2 weeks, explaining that they randomly selected your name from their records and telling you a little bit about the research. We are hoping to carry out discussions about people on the topic of pensions and tax. We will be conducting interviews with a range of people, **whether or not they currently pay into a pension**. You do not have to know about pensions to take part. Nor do you need to have a pension or to have held one in the past – we are interested in your views and would value your input either way. The research would involve a discussion lasting around an hour with an Opinion Leader researcher, which would take place at a place and time convenient to you.

The discussion would last around an hour, and the researcher would come to your home or another place that suits you. In accordance with the Market Research Society’s Code of Conduct everything you say would be kept completely confidential and none of the information people share with us during the interviews will be reported back to HM Revenue and Customs in a way in which their identity would be revealed.

If you were to take part, Opinion Leader Research would give you £50 in cash at the end of the interview, or donate it to a charity of your choice, to thank you for your time.

We need to check that we are speaking to the right people to take part in this research by asking some quick questions about you first. This is for the purpose of research only and any information given to us about you as an individual is treated as strictly confidential and will not be passed to HMRC. If there are things you want to talk to HM Revenue and Customs about after our conversation, I can give you their helpline number when we have finished. It should only take a few minutes.

Q1 Do you or any members of your immediate family work in any of the following areas, either in a paid or unpaid capacity?

A	Journalism/the media	1	THANK AND CLOSE
B	Advertising	2	
C	Public relations (PR)	3	
D	Market Research	4	
E	HM Revenue & Customs	5	
F	Department of Work and Pensions	6	
G	Pensions companies		
H	No, none of these	7	CONTINUE
I	Don't know	8	

Q2. Can I just check whether you have a pension or not, whether or not you are currently making any contributions to it? *Check quotas and continue*

Yes	
No	

***IF YES, RECRUIT AS PENSION HOLDER
IF NO, RECRUIT AS NON-HOLDER***

RECORD GENDER

Male	
Female	

NAME(S):	
ADDRESS:	
TEL NOS:	
APPOINTMENT DETAILS:	

IF RESPONDENT FITS RECRUITMENT CRITERIA:

If it is OK with you, we would like to carry out a discussion with you about saving for retirement. The discussion will be between you and someone from Opinion Leader. It will be carried out in the strictest confidence and we will not pass any information to HMRC which could identify you individually.

IF PARTICIPANT AGREES:

The discussion can take place in your home or another place of your choice;

RECORD DETAILS OF INTERVIEW LOCATION

Home address (as above)	
Other (please enter details	

We will send you a letter to confirm the time and details of the interview. Thank you for agreeing to participate and we look forward to meeting you. I would just like to remind you again that any that any information given to us in this phone call about you as an individual or your family is treated as strictly confidential and will not be passed to HMRC.



HMRC

Pensions Tax Simplification - Discussion guide

As part of a wider evaluation of simplified pensions taxation regulations, HMRC would like to carry out qualitative work to provide a greater understanding of the public's knowledge of the recent measures to simplify pensions tax and the impact on saving for an income in retirement. The research will:

- Explore retirement saving habits - long and short term pension savings and other retirement savings and investment behaviour
- Explore awareness and understanding of tax relief available on pensions
- Assess levels of knowledge, awareness and understanding of the new pensions tax simplification regime and perceived impact upon future pensions savings behaviour
- Understand the reasons for saving or not saving enough for retirement (i.e., pensions versus other savings and investments versus not saving at all)
- Explore what might encourage people to take out a pension (or make extra contributions) or other retirement saving or investments
- Explore how people gain their knowledge and information about pension tax and any misconceptions

1. Introduction and warm up

- Introduce OLR and background/aims of the project
- Reassure about confidentiality and get permission to record the interview
- Participant introduction
 - Where they live
 - Where they work
 - Living situation – whether living with a partner, children etc.

2. General attitudes towards and behaviour around savings and investments

- What are their views on saving
 - Probe on ANY type of savings that they have been making *NB: pensions, shares, property are forms of savings, so are cash savings (bank accounts, cash ISA etc). stocks and shares ISAs gilts and other interest-bearing investments, shares/unit trusts, pensions, property,*
 - Reasons for those savings (what are they saving for)
 - What influenced starting to save
 - Reasons for not saving (if they do not save)
 - Good/bad things about it
 - How do savings compare to other forms of investment, like pensions, buying shares, property, etc.

- Do they save themselves – why/not
 - **Researcher note:** *Probe on the extent to which saving/non-saving behaviour is driven by attitudes vs. circumstances –e.g. are people saving or not saving because of their financial circumstances or because of their beliefs and priorities?*
- What do they think other people of a similar age/ in similar circumstances do about saving? How does this compare to their own behaviour?

3. Thoughts around retirement

- Have they started thinking about retirement
 - What have they been thinking/ for how long?
 - What prompted them to start thinking about retirement
- Imagine they are about to retire. What would they like to be doing
- What do they think they actually will be doing?
- Explore with them the gap between what they would like and what they think is actually in store
- Explore the extent to which they have the potential to make an impact. What makes them say this?
 - **Researcher note:** *The aim here is to establish how far retirement is registering on their radar and how far this has begun to affect their behaviour*

4. General attitudes towards and behaviour around retirement planning

Pensions

- What do they think about pensions
 - Good /bad things about them
- Do they have a pension at present – can they talk us through which ones they have
 - Types⁶:
 - Occupational/Group personal (and is this a final salary or a money purchase/defined contribution pension?) *Occupational and group personal pensions are arranged by an employer. The employer probably makes contributions but does not necessarily do so. Final salary pensions are based on the amount of salary the holder receives and the length of service, whereas a money purchase/defined contribution pension pays out depending on the amount of money that has been put in and how the investments perform.*
 - Private/individual personal *Individual personal pensions are pensions that the holder has arranged with a pension provider, where their employer is not involved in any way.*
 - SIPP's *A self-invested personal pension is a type of individual personal pension where the individual has a lot more input selecting which investments the pension fund makes and which provides wider choices for those investments.*

– ⁶ The main types of pension are occupational final salary, occupational money purchase (aka defined contribution) and personal schemes under the new regime. Non-occupational are commonly known as personal pensions and Stakeholders and SIPP's are types of these.

– Stakeholder pensions were not part of the simplification project, although a respondent may still have one of these

Interviewer note: please use a blank sheet to draw a timeline of the respondent's adult life (since 18) for this session to aid recall

If they do have a pension – can they talk us through exactly when they started saving for each

- Reasoning behind starting first pension
 - Probe on: what influenced the decision to begin it at all; what influenced them to save in that particular scheme (e.g. employer contributions)
 - Extent to which it was influenced by being able to get tax relief on earnings paid into a pension
- Reasoning behind starting each subsequent pension
 - Probe on: what influenced the decision to begin it at all; what influenced them to save in that particular scheme
 - Extent to which it was influenced by being able to get tax relief on earnings paid into a pension
- And which do they currently still contribute to? Reasons for contributing/lapsing contributions to each. Probe on
 - Personal circumstances, e.g. need for money for other things
 - Personal priorities, i.e. retirement becoming less important in comparison to other things

If they don't have a pension Why not

- Is there anything that might encourage them to start one
- *Whether or not respondent has a pension* How do they think their pension saving behaviour compares to
 - Other people of a similar age
 - Other people in similar financial/family circumstances

Probe on the extent to which behaviour around pensions is driven by attitudes vs. circumstances – e.g. are people saving or not saving because of their financial circumstances (including partner's savings) or because of their beliefs and priorities?

5. Other investments

- *Whether or not respondent has a pension* Do they have anything else that they hope to use to fund their retirement – probe on
 - Private residence (*The house respondent lives in*)
 - Other Savings (whether or not designated for retirement)
 - A stake in a company
 - Buy-to-let or other property investments
 - Any other investments
 - ***Researcher note: if participant has to be probed on the investments they intend to use to fund their retirement, it is unlikely that these have actually been planned as retirement***

investments. Therefore probe about exactly how likely it is that these will be used to fund retirement.

- How far do they anticipate this will meet their needs in retirement

6. Understanding of the current pensions system and pensions tax

- Where do they get information from about the rules governing their pensions?
- Thinking now about tax and pensions, are you aware of any special rules with regards to pensions and tax?
- And are any of these rules relatively new?
- *If yes, what was the previous pensions tax system like? In what ways does it differ from now?*
- Do you know how many schemes you are allowed to save into *(as many as you want)*
- Do you know how much you are allowed to save into your pension every year *(as much as you want, although there is a limit to the amount on which you are allowed to get tax relief – see next bullet)*
- Do you know how much you are allowed to get tax relief on every year? *(up to 100% of your UK earnings up to £225,000 if a UK taxpayer; tax relief on amounts up to £3600 per tax year if you are a non-taxpayer. You don't get any tax relief on contributions made after you are 75)*
- Do you know when you are allowed to start taking your pension? When you are allowed to take your pension *(Currently 50 although this is changing and by April 6 2010. it will be 55. Many schemes have a higher limit. You have to start taking your pension by the age of 75. You are now also allowed to take some of your pension while you carry on working)*
- Do you know whether you will be taxed on contributions you make to your pension (and the rate at which this applies) *(No – they aren't taxed on any contributions they make to their pension, and in fact they will get tax relief – worth 22% or 40% depending on their tax bracket – on any contributions up to £225,000/year. The pension scheme will normally deal with tax relief at 22%. For higher rate taxpayers, they may need to claim the rest of the relief to 40% direct from HMRC, unless their employer administers their contributions.)*
- Are you aware of any recent changes (within the last year or so) to how tax is applied to pensions savings?
 - Awareness of the term "A-Day"
 - What were the rules under the previous pensions tax system
 - What are the main changes that have been made? *(Simpler rules, more choice and flexibility. Effectively means most people can save as much as they like, when they like into their pension and still get tax relief)*
- Source of any information on these rules

7. Information about A-day changes

- *Read out: There have been several changes made, which all came into effect on 6th April 2006. These rules apply to everyone, no matter what type of scheme they are in or when they joined it. However, some pension schemes may set slightly different rules for themselves.*

Show card with main changes on

The main changes are...

- *There is now one set of tax rules for everyone, whether they are in a personal or occupational pension*
- *You can pay more towards your retirement while still gaining the tax advantages*
 - *There is no limit on the amount you can put into your pension*
 - *You can save in more than one pension scheme at the same time (for example in both a personal and an occupational pension)*
 - *There are limits to the amount of tax relief you can get. You can get tax relief on 100% of your earnings or £225,000 a year (whichever is lower) if you are a UK taxpayer, and tax relief on up to £3,600 worth of contributions if you are not a taxpayer*
 - *Everyone, not just those in personal pensions, can take a tax-free lump sum of up to 25% of your pension when you retire (although not all schemes will allow this)*
 - *You are allowed to take flexible retirement, for example working part-time while you take half your pension (if your scheme allows you to)*
 - *People with pension savings or potential pension savings of over £1.5 million at 6 April 2006 can apply to HMRC to ensure they are exempt from the lifetime allowance charge on the value of investments held at that date.*
- *What do they think to these changes*
 - *Good things*
 - *Bad things*
- *Hearts and minds exercise:*
- *Show and fill in relevant hearts and minds sheets*
 - *One set of rules for everyone, whether they are in an occupational or private pension*
 - *You can pay more towards your retirement while still gaining tax advantages*
 - *Everyone can now take a tax-free lump sum of up to 25% of the pension pot*

8. Extent to which A-day changes have made a difference to them

- *Have the A-day changes made any differences to how they view their pension*
- *Show timeline since April 2006*
 - *What have they done in terms of pensions saving within this time*
 - *What have they thought about in terms of pensions saving within this time*
 - *Have they made any decisions within this time*
 - *And how far have these been influenced by*
 - *A-day changes*
 - *Financial circumstances*
 - *Other circumstances*
 - *Their attitudes towards pensions (refer back)*
- *Show timeline for next year – April 2008*
 - *Do they expect there to be any changes to their pensions saving within this time*

- And how far will this be because of
 - A-day changes
 - Financial circumstances
 - Other circumstances
 - Their attitudes towards pensions (refer back)
- *Show timeline for next 10 years – April 2018*
 - Do they expect there to be any changes to their pensions saving within this time
 - And how far will this be because of
 - A-day changes
 - Financial circumstances
 - Other circumstances
 - Their attitudes towards pensions (refer back)

9. Summing up

- What are their views on the A-day changes
- Anything they think works better
- Anything they think works less well
- How far they think it has influenced their own behaviour so far
- How far they think it will influence their own behaviour in the future
- Is there anything else that would encourage them to start/increase pension contributions
- Anything else they would like to cover

THANKS AND CLOSE



HMRC

Pensions Tax Simplification - Discussion guide

As part of a wider evaluation of simplified pensions taxation regulations, HMRC would like to carry out qualitative work to provide a greater understanding of the public's knowledge of the recent measures to simplify pensions tax and the impact on saving for an income in retirement. The research will:

- Explore retirement saving habits - long and short term pension savings and other retirement savings and investment behaviour
- Explore awareness and understanding of tax relief available on pensions
- Assess levels of knowledge, awareness and understanding of the new pensions tax simplification regime and perceived impact upon future pensions savings behaviour
- Understand the reasons for saving or not saving enough for retirement (i.e., pensions versus other savings and investments versus not saving at all)
- Explore what might encourage people to take out a pension (or make extra contributions) or other retirement saving or investments
- Explore how people gain their knowledge and information about pension tax and any misconceptions

1. Introduction and warm up

- Introduce OLR and background/aims of the project
- Reassure about confidentiality and get permission to record the interview
- Participant introduction
 - Where they live
 - Where they work
 - Living situation – whether living with a partner, children etc.

Interviewer note: If participant wants to know how their name was selected, it has been done randomly from HMRC records

2. General attitudes towards and behaviour around savings and investments

- What are their views on saving
 - Probe on ANY type of savings that they have been making *NB: pensions, shares, property are forms of savings, so are cash savings (bank accounts, cash ISA etc). stocks and shares ISAs gilts and other interest-bearing investments, shares/unit trusts, pensions, property,*
 - Balance of savings portfolio (how divided between different types of investment)
 - Reasons for this

- Reasons for those savings (what are they saving for)
- What influenced starting to save
- Is their savings behaviour ad hoc, or is it part of an overall strategy
 - Reasons for any strategy they are adopting
- Reasons for not saving (if they do not save)
- Good/bad things about savings
- How do cash savings compare to other forms of investment, like pensions, buying shares, property, etc.
- What do they think other people of a similar age/ in similar circumstances do about saving? How does this compare to their own behaviour?
- Extent to which they take professional advice on savings
 - Sources used (e.g. agent – accountant or tax accountant; broker; IFA, etc.)
 - What advice is taken on (amounts, balance of portfolio, etc.)

3. Thoughts around retirement

- Have they started thinking about retirement
 - What have they been thinking/ for how long?
 - What prompted them to start thinking about retirement
 - Age they want to retire
- Imagine they are about to retire. What would they like to be doing
- What do they think they actually will be doing?
- Explore with them the gap between what they would like and what they think is actually in store
- Explore the extent to which they have the potential to make an impact. What makes them say this?
 - *Researcher note: The aim here is to establish how far retirement is registering on their radar and how far this has begun to affect their behaviour*
- If they have an agent -
 - Does their agent have a view on these plans
 - How does this fit with plans

4. General attitudes towards and behaviour around retirement planning

Pensions

- What do they think about pensions
 - Good /bad things about them
- Do they have a pension at present – can they talk us through which ones they have
 - Types⁷:
 - Occupational/Group personal (and is this a final salary or a money purchase/defined contribution pension?) *Occupational and group personal pensions are arranged by an*

– ⁷ The main types of pension are occupational final salary, occupational money purchase (aka defined contribution) and personal schemes under the new regime. Non-occupational are commonly known as personal pensions and Stakeholders and SIPP are types of these.

– Stakeholder pensions were not part of the simplification project, although a respondent may still have one of these

employer. The employer probably makes contributions but does not necessarily do so. Final salary pensions are based on the amount of salary the holder receives and the length of service, whereas a money purchase/defined contribution pension pays out depending on the amount of money that has been put in and how the investments perform.

- Private/individual personal Individual personal pensions are pensions that the holder has arranged with a pension provider, where their employer is not involved in any way.
- SIPP's A self-invested personal pension is a type of individual personal pension where the individual has a lot more input selecting which investments the pension fund makes and which provides wider choices for those investments.

Interviewer note: please use a blank sheet to draw a timeline of the respondent's adult life (since 18) for this session to aid recall

If they do have a pension – can they talk us through exactly when they started saving for each

- Amount they save – both actual amount and amount compared to their income

- Does it exceed £225k p.a. (*threshold above which tax relief doesn't apply*)

(Researcher note This is a difficult issue for high earners in final salary schemes. For those in such schemes it isn't the amount of money they actually put in, but the increase in their benefits promised over the year that counts.

For example, in year 1, if you are in a scheme that pays 1/40 for each year of service you have, and you earn £100,000 after ten years of service: your promised pension is 10/40 x £100,000, which would mean you would have a pension of £25,000/year. This is valued at 10 times this for Annual Allowance purposes, i.e. 10 x £25,000 = £250,000.

In year 2, your salary might have risen to (for example) £125,000. You would have done an extra year's service, so your promised benefits would be 11/40 x £125,000 = £34,375 which are valued at £34,375 x 10 = £343,750. Your increase in benefits would have been £97,375, which is £343,750 minus the original £250,000. £97,375 would therefore be the amount of your pension "savings" in that scheme. This shows that it is easy for people not actually to contribute much, but still be near or over the annual allowance of £225k)

Are they likely to exceed the lifetime allowance (do they know/expect it will exceed £1.6 million)

(Researcher note: this is the current lifetime allowance, which will continue to rise annually as follows: 2006-07 - £1.5m - (at A day); 2007-08 - £1.6m; 2008-09 - £1.65m; 2009-10 - £1.7m; 2010-11 - £1.8m)

- If it will/they expect it will, are they saving in other ways to avoid this?
- Reasoning behind starting first pension
 - Probe on: what influenced the decision to begin it at all; what influenced them to save in that particular scheme (e.g. employer contributions)
 - Extent to which it was influenced by being able to get tax relief on earnings paid into a pension
- Reasoning behind starting each subsequent pension

- Probe on: what influenced the decision to begin it at all; what influenced them to save in that particular scheme
 - Extent to which it was influenced by being able to get tax relief on earnings paid into a pension
 - And which do they currently still contribute to? Reasons for contributing/lapsing contributions to each. Probe on
 - Personal circumstances, e.g. need for money for other things
 - Personal priorities, i.e. retirement becoming less important in comparison to other things
 - If they don't have a pension*** Why not
 - Is there anything that might encourage them to start one
 - *Whether or not respondent has a pension* How do they think their pension saving behaviour compares to
 - Other people of a similar age
 - Other people in similar financial/family circumstances
- Probe on the extent to which behaviour around pensions is driven by attitudes vs. circumstances – e.g. are people saving or not saving because of their financial circumstances (including partner's savings) or because of their beliefs and priorities?

5. Other investments

- *Whether or not respondent has a pension* Do they have anything else that they hope to use to fund their retirement – probe on
 - Private residence (*The house respondent lives in*)
 - Other Savings (whether or not designated for retirement)
 - A stake in a company
 - Buy-to-let or other property investments
 - Any other investments
 - ***Researcher note:*** *if participant has to be probed on the investments they intend to use to fund their retirement, it is unlikely that these have actually been planned as retirement investments. Therefore probe about exactly how likely it is that these will be used to fund retirement.*
 - *Probe on whether these were always intended as retirement investments or whether they have become retirement investments as people have got older*
- Extent of investment in these
 - And whether ad hoc or part of a defined savings strategy/influenced by strategic investment thinking
- How far do they anticipate this will meet their needs in retirement

6. Understanding of the current pensions system and pensions tax

- Where do they get information from about the rules governing their pensions?

- Thinking now about tax and pensions, are you aware of any special rules with regards to pensions and tax?
- And are any of these rules relatively new?
- *If yes, what was the previous pensions tax system like? In what ways does it differ from now?*
- Do you know how many schemes you are allowed to save into *(as many as you want)*
- Do you know how much you are allowed to save into your pension every year *(as much as you want, although there is a limit to the amount on which you are allowed to get tax relief – see next bullet)*
- Do you know how much you are allowed to get tax relief on every year? *(up to 100% of your UK earnings up to £225,000 (for 07/08) if a UK taxpayer; tax relief on amounts up to £3600 per tax year if you are a non-taxpayer. You don't get any tax relief on contributions made after you are 75)*
- Do you know when you are allowed to start taking your pension? When you are allowed to take your pension *(Currently 50 although this is changing and by April 6 2010. it will be 55. Many schemes have a higher limit. You have to start taking your pension by the age of 75. You are now also allowed to take some of your pension while you carry on working)*
- Do you know whether you will be taxed on contributions you make to your pension (and the rate at which this applies) *(No – they aren't taxed on any contributions they make to their pension, and in fact they will get tax relief – worth 22% or 40% depending on their tax bracket – on any contributions/pensions input up to up to 100% of your UK earnings up to £225,000/year. The pension scheme will normally deal with tax relief at 22%. For higher rate taxpayers, they may need to claim the rest of the relief to 40% direct from HMRC, unless their employer administers their contributions.)*
- Do they know why the government provides tax relief on pension savings *(Researcher note: To provide a secure income in retirement for that individual and their dependants)*
- Are you aware of any recent changes (within the last year or so) to how tax is applied to pensions savings?
 - Awareness of the term "A-Day"
 - What were the rules under the previous pensions tax system
 - What are the main changes that have been made? *(Simpler rules, more choice and flexibility. Effectively means most people can save as much as they like, when they like into their pension and still get tax relief) (Researcher note - High earners may be concerned with some things we don't allow, e.g. residential property to be put into their pension schemes, and also being forced to take a pension by age 75 and not letting them pass their pension on as a lump sum to their children)*
- Source of any information on these rules
 - Probe on information received from agent, information received from scheme, own awareness
 - Balance of these
 - Were any of the changes more difficult than others to understand

7. Information about A-day changes

- *Read out: There have been several changes made, which all came into effect on 6th April 2006. These rules apply to everyone, no matter what type of scheme they are in or when they joined it. However, some pension schemes may set slightly different rules for themselves.*

Show card with main changes on

The main changes are...

- *There is now one set of tax rules for everyone, whether they are in a personal or occupational pension*
- *You can pay more towards your retirement while still gaining the tax advantages*
 - *There is no limit on the amount you can put into your pension*
 - *You can save in more than one pension scheme at the same time (for example in both a personal and an occupational pension)*
 - *There are limits to the amount of tax relief you can get. You can get tax relief on 100% of your earnings or £225,000 a year (whichever is lower) if you are a UK taxpayer, and tax relief on up to £3,600 worth of contributions if you are not a taxpayer*
 - *Everyone, not just those in personal pensions, can take a tax-free lump sum of up to 25% of your pension when you retire (although not all schemes will allow this)*
 - *You are allowed to take flexible retirement, for example working part-time while you take half your pension (if your scheme allows you to)*
 - *People with pension savings of over the lifetime allowance (£1.5 million at 6 April 2006, £1.6 million this year; £1.65m in 2008-09; £1.7m in 2009-10 and £1.8m in 2010-11) or potential pension savings that will be over the lifetime allowance if they make no further contributions can apply to HMRC to ensure they are exempt from the lifetime allowance charge on the value of investments held at that date.*
- *What do they think to these changes*
 - *Good things*
 - *Bad things*
- *Views on amount of tax relief they can get*
- *Views on £225k annual threshold above which tax relief does not apply*
 - *Does this/will this apply to them*
- *Views on the lifetime allowance above which tax relief will be repaid*
 - *Does this/will this apply to them*
 - *Have they applied for exemption if they had promised benefits of over the lifetime allowance at A-day, or if they believe that their benefits will be over the lifetime allowance when they take them, even if they don't make any more contributions*
- *When do they plan to take their pension? (before they retire, when they retire, after they retire, as late as possible)*
- *Hearts and minds exercise:*
- *Show and fill in relevant hearts and minds sheets*
 - *One set of rules for everyone, whether they are in an occupational or private pension*

- You can pay more towards your retirement while still gaining tax advantages
- Everyone can now take a tax-free lump sum of up to 25% of the pension pot

9. Extent to which A-day changes have made a difference to them

- Have the A-day changes made any differences to how they view their pension
- *Show timeline since April 2006*
 - What have they done in terms of pensions saving within this time
 - What have they thought about in terms of pensions saving within this time
 - Have they made any decisions within this time
 - And how far have these been influenced by
 - A-day changes
 - Financial circumstances
 - Other circumstances
 - Their attitudes towards pensions (refer back)
- *Show timeline for next year – April 2008*
 - Do they expect there to be any changes to their pensions saving within this time
 - And how far will this be because of
 - A-day changes
 - Financial circumstances
 - Other circumstances
 - Their attitudes towards pensions (refer back)
- *Show timeline for next 10 years – April 2018*
 - Do they expect there to be any changes to their pensions saving within this time
 - And how far will this be because of
 - A-day changes
 - Financial circumstances
 - Other circumstances
 - Their attitudes towards pensions (refer back)

9. Summing up

- What are their views on the A-day changes
- Anything they think works better
- Anything they think works less well
- How far they think it has influenced their own behaviour so far
- How far they think it will influence their own behaviour in the future
- Is there anything else that would encourage them to start/increase pension contributions
- Anything else they would like to cover

THANKS AND CLOSE

One set of rules for everyone, whether they are in an occupational or private pension

HMRC

What I'm feeling?

What I'm saying?

What I'm doing ?

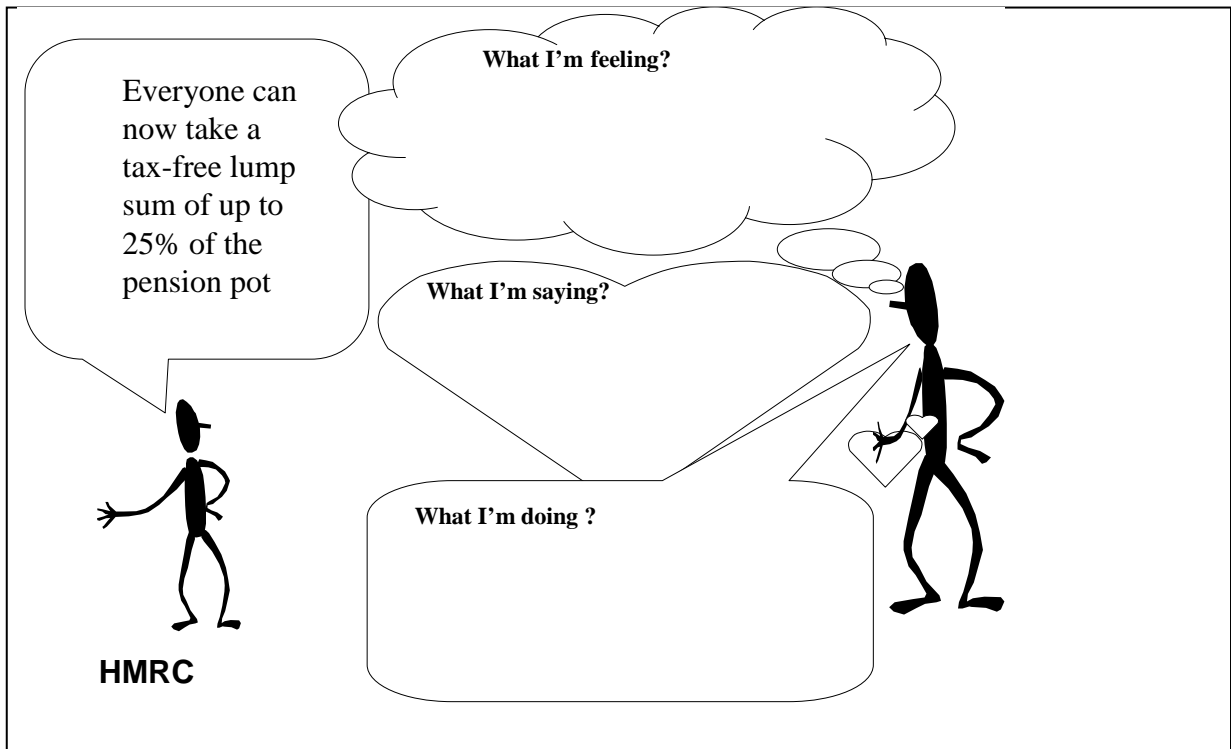
You can pay more towards your retirement while still gaining tax advantages

HMRC

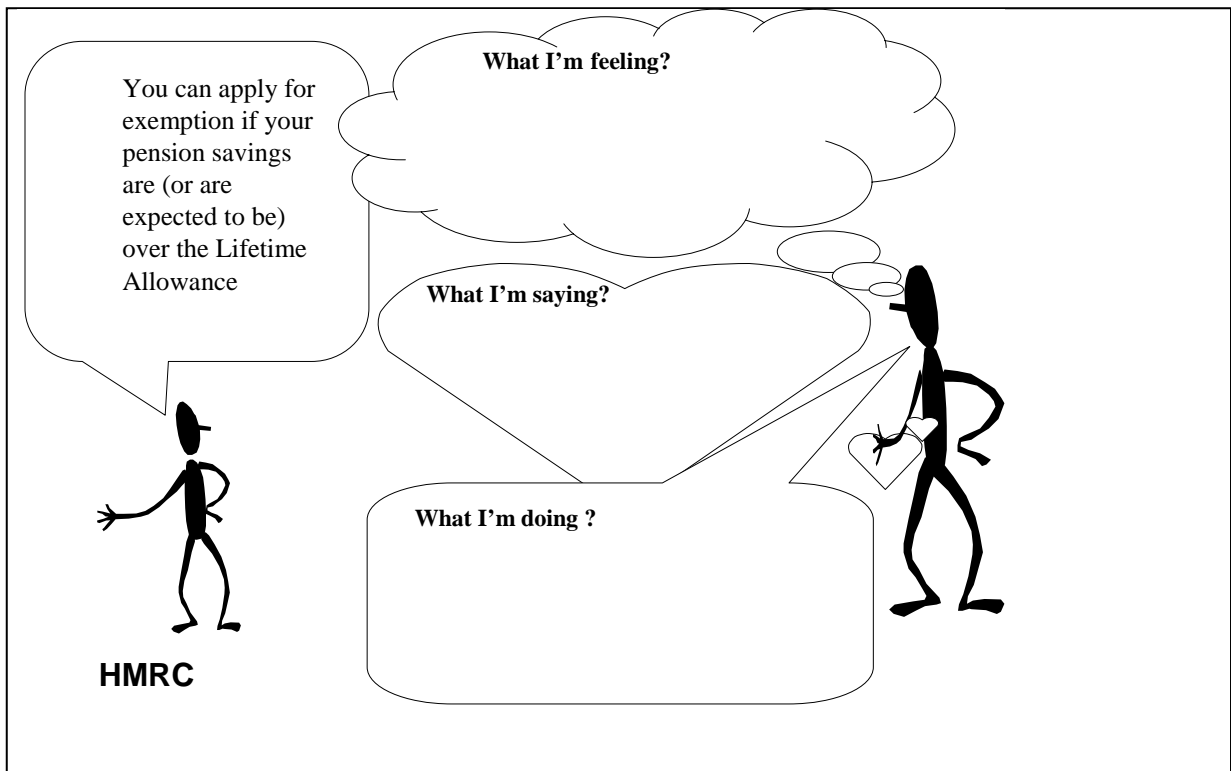
What I'm feeling?

What I'm saying?

What I'm doing ?



(Wealthy sample only)



Main A-day changes

- There is now one set of tax rules for everyone, whether they are in a personal or occupational pension

- You can pay more towards your retirement while still gaining the tax advantages.
- There is no limit on the amount you can put into your pension
- There are limits to the amount of tax relief you can get. You can get tax relief on 100% of your earnings or £215,000 a year (whichever is lower) if you are a UK taxpayer, and tax relief on up to £3,600 worth of contributions if you are not a taxpayer

- You can save in more than one pension scheme at the same time (for example in both a personal and an occupational pension)

- Everyone, not just those in personal pensions, can take a tax-free lump sum of up to 25% of your pension when you retire (although not all schemes will allow this)

- You are allowed to take flexible retirement, for example working part-time while you take half your pension (if your scheme allows you to)

- People with pension savings or potential pension savings of over £1.5 million at 6 April 2006 can apply to HMRC to ensure they are exempt from the lifetime allowance charge on the value of investments held at that date

Appendix J Occupational pension information handout

Occupational Pension Scheme

A pension scheme established by an employer or employers so as to provide benefits to or in respect of any or all of the employees of that employer or employers, or any other employer. These can be final salary or money purchase.

Personal Pension

A type of defined contribution scheme. Provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions.

Defined Benefit (DB) Scheme (or called Final Salary)

An occupational pension scheme that provides benefits based on accrual rate, pensionable service and pensionable salary.

Defined Contribution (DC) Scheme (or called Money Purchase)

A scheme that provides retirement benefits based on the build up of a 'pot' of money, accumulated through the investment of contributions paid by both the employee and the employer.

Stakeholder Pension Scheme

A type of personal pension plan, offering a low-cost and flexible alternative and which must comply with requirements laid down in legislation.

Self-Invested Pension Plan (SIPP)

A type of personal pension plan that gives an individual more investment control.

Small Self-Administered Scheme (SSAS)

An occupational pension scheme, usually for small businesses, that gives members more investment control.

Group Personal Pension Plan (GPP)

A collection of insurance plans provided by an employer to its staff