SUMMARY OF EMERGING RESEARCH FINDINGS

INDIVIDUALS' ATTITUDES AND LIKELY REACTIONS TO THE PERSONAL ACCOUNT REFORMS 2007: A QUANTITATIVE SURVEY

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Summary

Emerging findings from a nationally representative survey of individuals' attitudes and likely behaviour in response to automatic enrolment into a qualifying workplace pension scheme, a minimum employer contribution and the setting up of a new personal accounts scheme, show:

- There is considerable public support for the reforms:
    - The majority of people (64%) found the idea of automatic enrolment attractive.
    - Most people (91%) found the idea of an employer contribution attractive.
- Seven in ten (69%) people likely to be eligible for automatic enrolment under the Government's proposals said that, if enrolled into personal accounts, they would be likely to remain in the scheme. Just over two in ten (22%) said they would be likely to opt out.
- The employer contribution and the ease of saving are key reasons for people saying they would participate if they were enrolled into personal accounts.

This note presents some of the key findings that are starting to emerge from this survey. Analysis is continuing, and it is currently anticipated that a full report of findings will be published in 2008.

Background to the research

This research forms part of a wider programme of research and analysis to inform the Government's proposals to encourage and enable more people to save for their retirement.

This survey was designed to gather evidence on public attitudes to key aspects of the pension reforms, such as automatic enrolment, and to provide estimates of the likely behaviour of individuals if they were automatically enrolled into a personal account[1].

This programme of research includes a parallel nationally representative survey of employers' attitudes and likely reactions to the personal account reforms[2].

Methodology

This research is being carried out by Ipsos MORI on behalf of the Department for Work and Pensions (DWP). It involves a nationally representative quantitative survey of individuals in Great Britain who would be eligible for automatic enrolment under the Government's proposals[3]. Face-to-face interviews were carried out with 754 individuals in their own homes, between July and September 2007.

In view of the complexity and unfamiliarity of the topic, an extensive initial development and piloting phase was carried out. This phase informed the design and wording of the questionnaire and the detailed and tailored information about automatic enrolment, contribution levels etc. that was provided during the interview. This was to ensure that respondents were able to give informed responses on likely behaviour.

Emerging findings

This note presents some of the findings that are starting to emerge from this research. Analysis of the findings is ongoing, and it is currently anticipated that a full report of findings will be published in 2008.

Support for the reforms

- The majority of people (64%) found the idea of automatic enrolment attractive.

- More than seven in ten people (72%) found the idea of automated individual contributions attractive.

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[1] Employers with a pension scheme meeting qualifying tests will have a choice over whether to enrol eligible employees into their own pension scheme or the new personal account pension scheme. However, to make it easier for people to relate to, this survey mainly focused on the situation whereby people would be automatically enrolled into personal accounts, as the people surveyed were not members of a workplace pension scheme and might not have had access to an employer scheme.
[2] Grant C, Fitzpatrick A, Sinclair P and Donovan JL, forthcoming in 2008, *Employers' attitudes and likely reactions to the personal account reforms 2007: Report of a quantitative survey.* A summary of key findings emerging from this survey can be found at http://www.dwp.gov.uk/pensionsreform/factsheets.asp
[3] Specifically, the survey interviewed employees aged between 22 and state pension age who were earning at least £5,000 per year from a single job in the private sector, and did not have a pension that their employer contributed to.

- Most people (91%) found the idea of an employer contribution attractive.

Participation levels

- Seven in ten people (69%) said that, if enrolled into personal accounts they would 'definitely' or 'probably' stay in the scheme.

- Just over two in ten (22%) said that, if enrolled into personal accounts, they would 'definitely' or 'probably' opt out, and 10% said 'it depends' or that they did not know what they would do.

- Those aged 50-64 were significantly more likely to say they would opt out than those aged under-40.

Table 1 Participation levels analysed by age group

	Definitely opt out	Probably opt out	Probably stay in	Definitely stay in	It depends / Don't know
ALL	**11%**	**11%**	**45%**	**24%**	**10%**
Age 20-29	5%	9%	49%	26%	11%
Age 30-39	9%	8%	50%	26%	7%
Age 40-49	9%	12%	44%	25%	10%
Age 50-64	21%	14%	34%	19%	12%

Base: All respondents

Reasons for remaining in the scheme or opting out[4]

- Those who said they were likely to remain in the scheme if enrolled into personal accounts said that this was because:
  - They needed to start saving for retirement (49%)
  - The scheme seemed like an easy way to save (31%)
  - They wanted their employer to contribute to their pension (31%)

- Those who said they would be likely to opt out said this was because:
  - They would rather save in a different way, other than in a pension (27%)
  - They already had a personal pension (16%)
  - They were too old to start saving (16%)
  - They couldn't afford to save (16%)

[4] Respondents were able to give more than one reason, and their answers were unprompted. The following section shows key responses that were given by at least 10% of respondents.

- They were concerned about the return on investments/ potentially losing their money (12%).

Contributions

- Of the people who said they might remain in the scheme if enrolled into personal accounts, just under half (46%) said they were likely to contribute above the minimum level on a regular basis[5]. Of these:
  - More than half (54%) said they would make contributions of 5% or 6%
  - Around two in ten (21%) said they would make contributions of between 7-9%
  - A further two in ten (19%) said they would make contributions of between 10-20%.
- Thirteen per cent of those who said they might remain in the scheme said they would like to pay in the occasional additional lump-sum rather than making higher regular contributions.
- Analysis indicates that overall, only a small minority (6%) of those who said they would stay in personal accounts might be likely to exceed the £3,600 annual limit on contributions[6]. This analysis excludes those who said they might like to pay in the occasional additional lump-sum. This figure should be treated as indicative only.

Investment choice

- Of those who said they were likely to remain the scheme if enrolled into personal accounts, the majority (68%) said they would choose how to invest their money. However, other research on investment behaviour shows that, in practice, inertia means that the majority of pension scheme members end up in a default fund[7].
- Of those who said they would choose how their money is invested around seven in ten (68%) said that the level of return was the most important issue for them. However, a significant minority (23%) said they were interested in ethical investment options regardless of the level of return.

Attitudes to investment risk

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[5] Respondents were told that those who take part in the scheme will be required to save a minimum of 4% of whatever they earn between around £5,000 and £33,500.

[6] This preliminary figure was revised from 3% to 6% on 28.08.08 in light of further data analysis.

[7] Cronqvist & Thaler, 2004, *Design choices in privatized social-security systems: Learning from the Swedish experience* Papers and Proceedings of the 116th Annual Meeting of the American Economic Association

The survey included a question designed to enable calculation of each respondent's attitude to investment risk based on a standard measure of "constant relative risk aversion" (CRRA). This technique has been developed by economists and is used in the financial industry to identify risk preferences in relation to financial products.

This question asked respondents to imagine a situation in which:

- they had a sum of money to invest for their retirement;
- they were offered an investment opportunity with "a well-known bank" where there was an equal chance of doubling their money or losing a third of the amount invested;
- they could invest all, some, or none of their money in the investment opportunity described and;
- any money not invested in this opportunity would be placed in a savings account giving a 3% yearly return.

The proportion of their money they decided to invest was then used to calculate their 'risk attitude' (CRRA) score. People who were not willing to invest any of their money, or only a very small proportion of their money, in the investment opportunity were classified as being "risk averse". Those willing to invest larger amounts of money were classified as being "risk loving".

- Based on their response to this scenario:
    - Over four in ten respondents (44%) were classified as 'risk averse' i.e. they were not keen on risking substantial amounts of their money for the potential of a higher return.
    - About two in ten (17%) were classified as being very mildly risk averse.
    - Almost three in ten (29%) were classified as being 'risk loving'.