

Engagement Pathways in Workplace Pensions

Executive Summary



Dr. Hayley James



Dr. Hayley James is a researcher at The University of Manchester Institute for Collaborative Research on Ageing (MICRA). Her Thesis examined the impact of automatic enrolment into workplace pensions on individual decision making, based on qualitative research methodology. Hayley has a background in Economic Anthropology, having previously completed research on community currencies in London. Her research interests concern anthropological and sociological perspectives on money and value, ageing and the lifecourse.

The PPI funds and supports a number of PhD students researching into areas of distinct policy relevant to pensions in the UK. Hayley has been working with the PPI during her studies.

The Pensions Policy Institute (PPI)

The PPI is an educational, independent research organisation with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI's aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue or reform solution but works to make the pensions and retirement policy debate better informed.

The PPI is funded by donations, grants and benefits-in-kind from a range of organisations, as well as being commissioned for research projects.

Pensions affect everyone. But too few people understand them and what is needed for the provision of an adequate retirement income. The PPI wants to change that. We believe that better information and understanding will lead to a better policy framework and a better provision of retirement income for all. The PPI aims to be an authoritative voice on policy on pensions and the provision of retirement income in the UK.

The PPI has specific objectives to:

- Provide relevant and accessible information on the extent and nature of retirement provision
- Contribute fact-based analysis and commentary to the policy-making process
- Extend and encourage research and debate on policy on pensions and retirement provision
- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

We believe that the PPI is unique in the study of pensions and retirement provision, as it is:

- Independent, with no political bias or vested interest
- Led by experts focused on pensions and retirement provision
- Considering the whole pension framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies.

Executive summary

Falling private pension saving rates in the UK have led to concerns regarding the adequacy of provision for later life. The automatic enrolment policy was introduced in 2012 to encourage private pension saving by automatically enrolling employees into workplace pension schemes. Automatic enrolment has led to more people participating in workplace pensions; yet, most of those newly enrolled are saving at the minimum default contribution rates, which are unlikely to deliver adequacy in later life, and members do not appear to be engaging with financial incentives offered for greater contributions in the way expected.

This report outlines the findings from qualitative research which aimed at understanding how individuals make decisions following automatic enrolment, including opting out, sticking to defaults or increasing contributions. The findings suggest that there are a variety of approaches to pension saving and identifies a typology of decision-making.

The typology highlights four approaches to pension decisions, which are threshold adults, protectionist savers, market investors and sceptical speculators. These groups engage with workplace pension saving in very different ways. The research demonstrated how people adjust their approach over time, suggesting pathways of engagement in workplace pension saving.

These pension approaches represent specific challenges for policy and industry, in recognising and responding to the complex and varied nature of engagement with pension saving. The steps on the pathway necessitate specific forms of intervention in order to support and encourage engagement. The table (over the page) summarises the policy tools and key messages suggested for each approach.



However, these pathways also raise important considerations.

- The market investors, who were the most engaged group, seemed to have specific knowledge, access, social and economic capital, which suggests that it is unlikely that this approach could be followed by everyone. There is a concern about to what extent we can expect people to engage in pension saving and what this means for adequacy in later life.
- The research highlights the gendered nature of pension decision-making which may serve to reinforce the disadvantages women face in pension systems that do not take account of their real-life experiences, e.g. career breaks and lower pay.
- It also highlights underlying issues around trust in workplace pensions, particularly (but not exclusively) through the sceptical speculator group. It is likely that this issue runs deeper than questions of engagement addressed in this report, and this necessitates action from the government to repair and rebuild this confidence to encourage pension saving.

Engagement level	Starting off	Increasing participation	Building trust	Increasing engagement
Who	Threshold adults	Protectionist savers	Sceptical speculators	Market investors
Policy tools	<ul style="list-style-type: none"> • Automatic enrolment into workplace pensions. • Default contribution levels and investment schemes which are clearly explained. • Recognition and support for challenges. • Notifications based on establishment goals, e.g. having children. 	<ul style="list-style-type: none"> • Matched contributions from employer above default levels. • Default investment schemes which are clearly explained. • Use of shared platforms, such as events or FAQs, to clarify key points of understanding. 	<ul style="list-style-type: none"> • Detailed information on scheme, including charges, likely returns and trustees. • Tools including comparisons and calculators. • Opportunities to access guidance across savings portfolio. • Avenues for providing feedback to employer and provider. 	<ul style="list-style-type: none"> • Matched contributions from employer above default levels. • Investment options supported by jargon-free information. • Online tools, such as comparisons and calculators. • Access to guidance across savings portfolio.
Key messages	<ul style="list-style-type: none"> • Pension saving is important, but we understand the complex financial decisions you face. • We've provided standard options to get you started. • When you feel able to contribute more to your pension, here's where you can find more information [link to overview of employer matching schemes]. 	<ul style="list-style-type: none"> • Our employer matching is there to help you build your retirement savings faster. • We've provided a standard investment option which means you don't have to get into the detail of this. • If you do want to understand more about your pension and what it is invested in, you can find more information here [link to detailed information]. 	<ul style="list-style-type: none"> • We understand that pension saving might not feel like the right thing for you. • You may prefer other forms of saving and investment at the moment. • We've provided some information to help you understand the benefits of pension saving [link to info and tools] • We'd love to hear your feedback! 	<ul style="list-style-type: none"> • We know that you want control over how your pension is invested, so we offer a number of options for this. • To help you make decisions about your pension, we've also provided some tools to calculate what you might need for later life and compare across different investments.

Research methodology

The research aimed to consider the complex and contextual ways in which individuals approach decisions about their pension after automatic enrolment. This approach was necessary to provide a deeper understanding of why people respond to automatic enrolment in the ways they do and the nuances of personal decisions within and between the trends identified through existing quantitative research.

The research used in-depth qualitative interviews with 42 employees drawn from three case-study companies who had already implemented automatic enrolment into workplace pensions. The three companies were all large employers in different industries, and all offered an additional employer matching contribution about the minimum levels. The companies had experienced low opt-out rates beneath the average of 10%, which is common amongst large employers.⁴ Participants were full-time workers with stable jobs. This provided an opportunity to explore the variety of ways in which people make decisions about their pension in the vanguard of workplace pension saving.

Participants were recruited through the use of a short questionnaire which asked some basic questions about pension scheme membership and whether the employee would be interested in participating in an interview on the topic. This method was successful in recruiting participants and also enabled participants to be selected and prioritised to ensure maximum variation from within the sample.⁵

Each participant undertook a first interview which lasted between 30 and 90 minutes, covering topics included previous pension membership, current financial decisions and thoughts on retirement. These interviews took place face-to-face (usually at or near the place of work) or by telephone between November 2016 and October 2017. A small number of second interviews were conducted with participants to validate and review the findings, specifically the typology that is presented in this report.

Summary of participants

There were 26 female and 16 male participants. Participants were aged from 20 to 49 years old, with incomes ranging from £10,000 per annum to over £60,000 per annum, but the vast majority of participants earned over £20,000 per annum. This means that, compared to the national averages presented in the Financial Conduct Authority (FCA) report *Understanding Financial Lives of UK Adults* (2017), participants in this research were amongst the higher earners in their peer groups, and had higher pension saving rates. Despite these differences, the participants reflected similar themes in terms of their financial needs as the peer groups identified in the report.⁶

Organisation	Number of participants
Company A	13
Company B	18
Company C	5
Other**	6
TOTAL	42

** Six participants were not employees of the three case studies companies at the time of interview, but were recruited through networks of employees

Gender	Number of participants
Female	26
Male	16

Age	Number of participants
20-29 years	20
30-39 years	17
40-49 years	5

Income p.a.	Number of participants
£10,000-£19,999	4
£20,000-£29,999	12
£30,000-£39,999	7
£40,000-£49,999	6
£50,000-£59,999	4
Over £60,000	9

4. Department for Work and Pensions. (2018). Workplace Pension Participation and Savings Trends of Eligible Employees Official Statistics: 2007 to 2017; Department for Work and Pensions. (2017a). Automatic enrolment review 2017: Analytical Report; Department for Work and Pensions. (2017b).
5. James, H., Price, D., & Buffel, T. (2018). *Understanding Pension Decisions: Recruiting and Sampling Participants in Private Sector Organizations*. London: SAGE.
6. Financial Conduct Authority. (2017). *Understanding the financial lives of UK adults: findings from the FCA's Financial Lives Survey 2017*.

Findings

The research identified four distinct pension decision-making approaches, which are the threshold adults, protectionist savers, market investors and sceptical speculators. These approaches can be understood as ideal types, meaning that participants did not necessarily fit neatly into one box but tended to be inclined to one type more than the others. The participants in each approach group did not seem to be connected on observable socio-demographic determinants, such as age or income (although there were some trends in this regard). Instead, the participants were connected how they understood their pension and how it connected to their everyday life. This will be illustrated by considering the subjective life position, decision-making rationale, risk perspective and pathway for each group.

Subjective life position

- This refers to how individuals considered their status and position in life. The pension approach connected to this broader context, which can change over time.
- Socio-demographic factors such as age and income were relevant but as subjective influence on the subjective life position. For example, income was evaluated in light of previous and future earning potential.
- The subjective life position was also influenced by considerations of adulthood, gendered familial roles such as breadwinning and caring, and personal characteristics.

Decision-making rationale

- This refers to how individuals justified their pension decision.
- Participants drew on multiple forms of social and cultural rationale when making decisions about their pension.
- There were two rationales that were most common amongst participants. These were the market rationale focussed on maximising returns and the moral rationale considered what is the correct thing to do.

Risk perspective

- This refers to how individuals considered and responded to the risks involved with preparing for later life.
- Participants did not consider risk to be objective and their perspectives on risk were subjective interpretations.
- There were four risk perspectives demonstrated by participants from each approach group, which are fatalism, collectivism, individualism and hierarchicalism. These will be illustrated for each group.

Pathway

- This describes how approaches to pension decisions can change over time. This was often connected to changes in the subjective life position.
- Participants described how they had previously approached workplace pensions, as well as what they thought they would do in the future.
- This suggested two distinct pathways to engagement, summarised in the diagram below.



Figure 1: Engagement pathways in workplace pensions

These pension approaches represent specific challenges for policy and industry, in recognising and responding to the complex and varied nature of engagement with pension saving. The steps on the pathway necessitate specific forms of intervention in order to support and encourage engagement.⁷ This report will discuss each of these pension decision-making approaches in turn, with reference to the subjective life position, decision-making rationale, risk perspective and pathways related to that approach.

Chapter one will consider the threshold adults. These were younger people who limited their pension participation in order to focus on establishing themselves in adulthood. They were starting off their engagement with pensions after being nudged into pension saving. They also need to be supported to deal with the other complex challenges they face before they feel ready to engage with pension saving.

Chapter two will consider the protectionist savers. These were people who had chosen to increase their pension contributions and felt the pension was the right way to provide for their retirement but did not want to make any further decisions about it. They were increasing their participation based on matched contributions, default investment schemes and clear, simple explanations.

Chapter three will consider the sceptical speculators. They limited their workplace pension participation because they felt the pension system would not deliver what they needed for later life, and preferred alternative forms of saving and investing. In order to engage more with pension saving, they needed to build their trust in pensions and feel that they can play an active role.

Chapter four will consider the market investors. They had also chosen to increase their pension contributions, although it was one element of an extensive saving and investing portfolio. They were increasing their engagement and needed detailed, jargon free information and tools to support them in making active decisions about their pension.

7. PPI. (2017a). Consumer engagement: barriers and biases.

Published by
PENSIONS POLICY INSTITUTE

PPI

www.pensionspolicyinstitute.org.uk

ISBN 978-1-906284-80-0