Is State Pension knowledge too low for informed financial decisions?

This Briefing Note looks at social attitudes about the State Pension and discusses why people might feel the way they do and what attitudes might mean for behaviour going forward.

The NatCen Panel is a probability-based research panel in Great Britain open to be used by the social research community. It currently consists of approximately 6,000 panellists aged 18+ recruited from the British Social Attitudes survey. Panellists are invited to take part in surveys online or on the phone approximately once every one to two months.

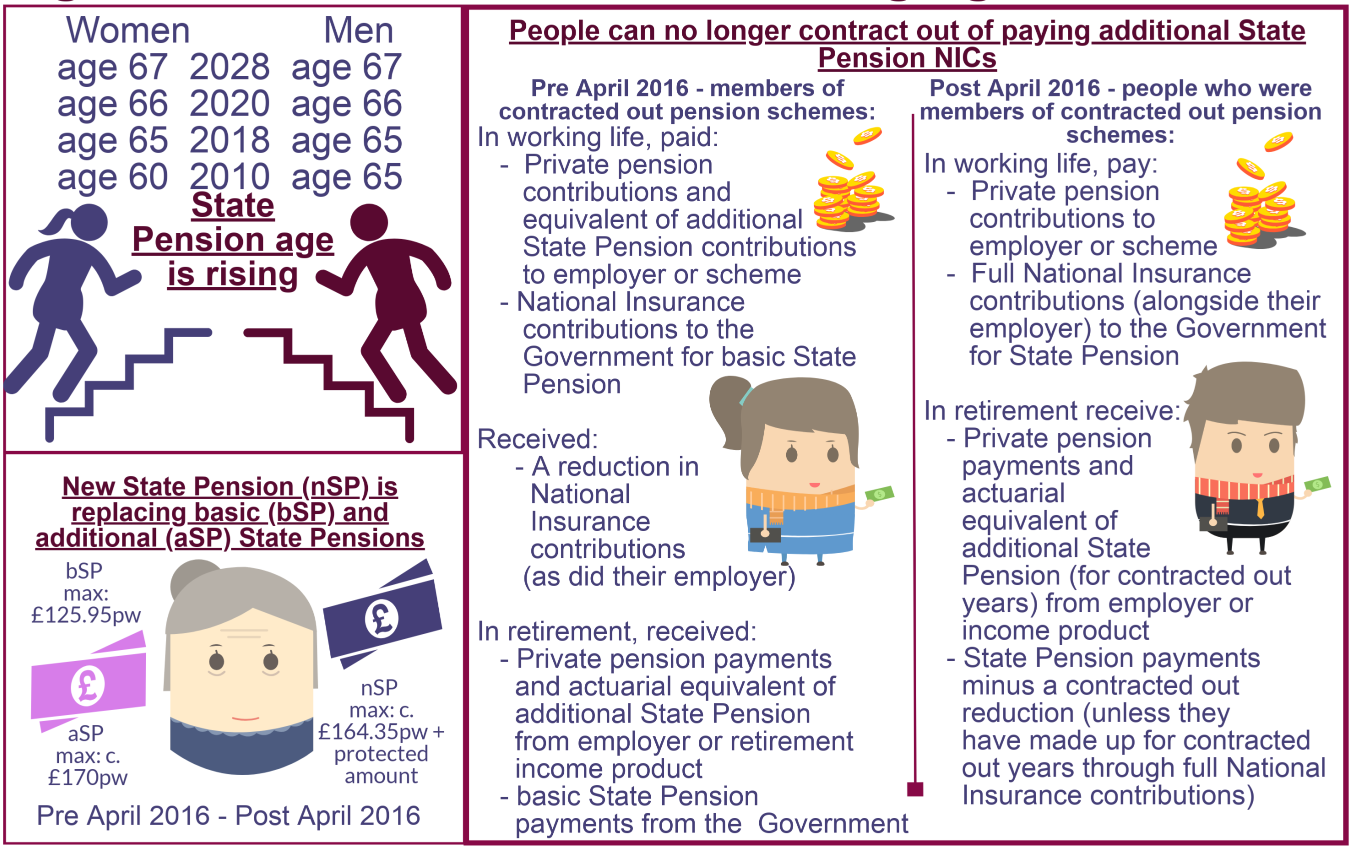
The data on attitudes in this Briefing Note is drawn from the November 2017 NatCen Panel survey data in which a few extra pension questions were asked.

Introduction

There are several changes occurring to State Pensions (Figure 1):

- The age at which people can first start to receive State Pension income is rising for both men and women, though women have seen faster increases than men.
- The basic State Pension (bSP) and additional State Pension have also recently been replaced with the new State Pension (nSP) which changes the level of State Pension that people will accrue in future; some will receive less than they might have under the old system (for example, those who spend most of their life employed and earn above minimum levels) and some will receive more (for example, the self-employed). There are transitional arrangements in place for those who have entitlements under both the old and the new system and

Figure 1:The State Pension is changing



have reached State Pension age after April 2016. These will remain in place until people no longer reach SPa with higher entitlements under the old system.

- The introduction of the nSP necessitated the end of people being able to "contract out" of paying National Insurance Contributions (NIcs) towards additional State Pension. Contracting out was originally introduced in order to ensure that those saving privately for an earnings-related pension were not also contributing to a State earnings-related pension. However, the nSP is flat-rate and therefore offers no earnings-related portion from which people can contract out. The end of contracting out affects the amount of NIcs those who were contracted out pay and the amount of nSP they receive.

Though one of the ultimate aims of the nSP is to make the State Pension system simpler to understand, knowledge and understanding of the how the system works is low and many people have little understanding of how the move to the nSP or related transitional arrangements will affect them.

State Pension changes will affect people going forward and it is important to gauge people's understanding of the changes. It is also useful to understand people's perceptions of the role that the State, employers and individuals should play in providing their own retirement income, as that indicates general attitudes towards Government policies and how people think responsibilities should be balanced in the future.

Summary of conclusions

The main findings are summarised below:

- Understanding of the State Pension is low
- Only a quarter of people know their State Pension age
- Those in lower Socio Economic Classes (SECs) are more likely to think they will never retire
- There is a relatively even spread in belief as to whether Government, employers or individuals should hold the main responsibility for funding retirement income
- People are more likely to believe that State Pension entitlement should be based on contributions rather than need

Understanding of the State Pension is low

Some understanding of how much income people might receive from the State Pension is an important element of financial planning. As it indicates how much additional income people might need to save for in order to top State Pension income up to a level of adequacy in retirement.

Self assessed knowledge of State Pensions is low; only 12% of people believe that they have a good knowledge of State Pensions and a further 30% report a reasonable, general knowledge but a lack of understanding of details. 58% report patchy or no knowledge of State Pensions.

Self-assessed knowledge of the State Pension increases by age with 17% of 18-29 year olds self-assessing as having a reasonable to good knowledge of the State Pension, compared to 64% of those aged 60-69 and 68% of those aged 70 and over (Table 1).

Table 1: reasonable to good knowledge of the State Pension, by age

Age	Proportion of age group
18-29	17%
30-39	32%
40-49	33%
50-59	45%
60-69	64%
70+	68%

The correlation between self-assessed knowledge and age may be related to financial capability rising as people age[1] and the State Pension becoming more relevant to people as they approach SPa.

People might need to know about State Pensions at younger ages in order to plan for retirement
People will generally need to start saving at sufficient levels prior to age 60 in order to achieve adequate incomes in retirement.

However, more than half of people do not have a good knowledge of the State Pension until after age 60. A lack of knowledge and understanding of the State Pension at younger ages may hinder financial planning for retirement, though many other factors such as low financial capability, perceived unaffordability of saving and behavioural barriers can also lead to sub-optimal decision-making by younger people.[2]

State Pension knowledge may increase in future as a result of a simpler system and the Pensions Dashboard, due to be launched in 2019, which will allow people to view their State and private pension savings all in one place.

Only a quarter of people know their State Pension age
As well as having some idea of how much income one may receive from the State Pension, it is also important to have an idea of when one will be eligible to claim their State Pension, (at their SPa), in order to make informed decisions about financial planning for retirement.

SPa is currently rising for women, from age 60 in 2010 to reach age 65, men's SPa, by November 2018. Men and women's SPa will then rise together to reach age 66 by 2020, age 67 by 2028 and age 68 potentially in the 2030s or 2040s.

The movement of SPa makes it harder for people to keep track of their own SPas, unless they look it up based on the year of their birth (though the DWP does issue letters to people from time to time, informing them of their SPa, particularly if it has undergone significant changes or is within a few years).

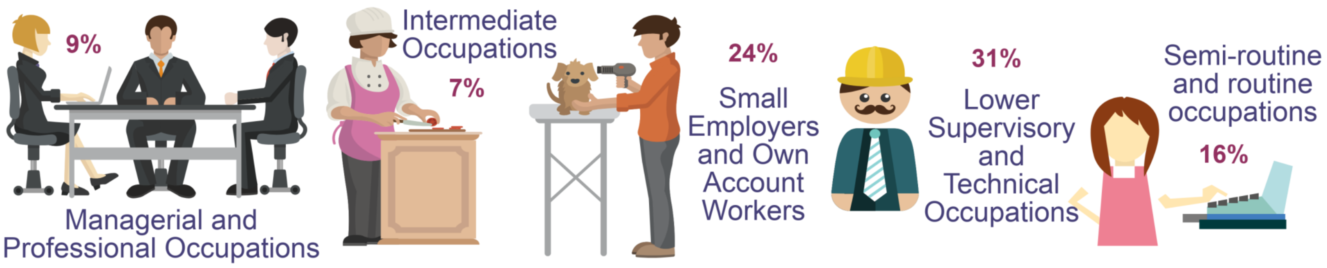
Of the 89% of people who expect to receive a State Pension: only around 26% of people expect to receive their State Pension at their actual SPa, 40% expect their SPa to be lower than their actual SPa, and 34% expect their SPa to be higher.

The majority of people miscalculate their SPa by three years or less, with 35% of people who expect to receive a State Pension expecting their SPa to occur within three years prior to their actual SPa and 26% expecting it to occur within three years after.

Those in lower Socio Economic Classes (SECs) are more likely to think they will never retire
14% of unretired people expect to never retire, but there are wide variations within this group. 9% of those in the highest SEC expect never to retire, compared to 31% of those in the second lowest SEC and 16% in the lowest SEC (Figure 2).

Those in lower Socio Economic classes are likely to have lower incomes and may think they won't be able to retire due to financial necessity. However, people in lower SEC jobs (such as manual and routine occupations) are more likely to need to stop working early due to health problems or caring needs.[3] Some of those who expect never

Figure 2: those in lower socioeconomic classes are more likely to think they will never retire
Proportion of people who believe that they will never retire by socio-economic class



to retire may therefore make insufficient financial preparations for retirement.

Description of socio-economic classes:
- Highest—Managerial and Professional Occupations
- Second highest—Intermediate Occupations
- Middle—Small Employers and Own Account Workers
- Second lowest—Lower Supervisory and Technical Occupations
- Lowest—Semi-routine and Routine Occupations

Responsibility for funding retirement income is shared between Government, employers and individuals

Responsibility for private pension saving is increasingly being shifted onto individuals as the provision of Defined Benefit pensions are declining and people are no longer able to accrue entitlement to an earnings-related State Pension.

Many people will be saving through automatic enrolment pensions in future, though minimum contributions of 8% of band earnings (from April 2019, with the lower band being dropped in the mid-2020s) may not allow people to accrue sufficient savings to provide themselves with an adequate income in retirement, particularly if people do not save regularly.[4]

Attitudes regarding who is ultimately responsible for retirement saving may indicate how much responsibility people intend to take for ensuring that they have sufficient retirement income, and therefore the NatCen panel was used to find out more about people's attitudes to responsibility.

Responsibility for funding retirement is currently shared between the Government, individuals and employers.

The State provides the largest proportion of people's retirement income:
- In 2016/17, 43% of pensioners income, on average, came from State Pensions and benefits,
- 34%, on average, came from a combination of employers and individuals through private pension income and,
- The remaining 24% of income came from individuals through a combination of earnings and other savings and investments.[5]

As people age, the proportion of income they receive from the State increases. Among pensioner households where the head is 75 or over, 55% of income came on average from State Pensions and 35% from private pensions.[6]

Declining levels of Defined Benefit provision in the private sector (88% of schemes were closed to new members in 2017) mean that fewer people will reach SPa with private pension savings in future and are therefore, likely to receive a lower proportion of income from private pensions unless they contribute significant amounts to a Defined Contribution pension.[7]

For those reaching SPa with lower levels of private pension saving, the proportion of income received from the State Pension will be higher.

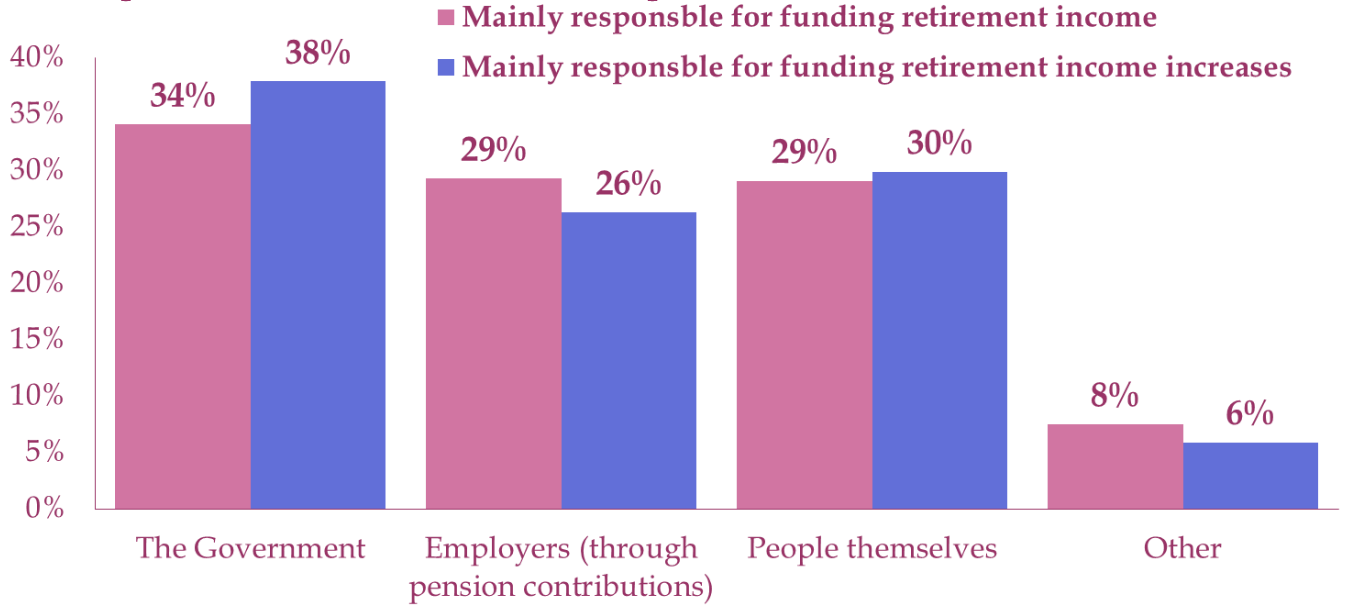
The majority of people believe that responsibility for funding retirement lies with the Government or employers rather than themselves

34% of people believe the Government should hold the main responsibility for funding overall retirement income (State and private pension), 29% believe the main responsibility should lie with employers and 29% believe main responsibility should lie with the individual (Chart 1). This reflects, to some degree, the average proportions of income people receive from different sources in retirement as outlined on the previous page.

Those with lower incomes are more likely to think the Government should have the main responsibility for funding retirement income; 45% of those in households with incomes below £1,200 per month believe the Government should be mainly responsible for funding retirement income, compared to 25% of those in households with incomes of £3,701 per month or more.

Chart 1: People are more likely to think that the Government should be mainly responsible for funding retirement income and retirement income increases

Proportion of people who believe that different entities should be responsible for funding retirement income and funding retirement increases



Those with higher incomes are more likely to believe that employers or individuals should have the main responsibility for funding retirement income

The higher a person's household income is, the more likely they are to think that employers or individuals should be mainly responsible for funding retirement income; 29% of those with the highest incomes believe that employers should have the main responsibility, compared to 26% of those with the lowest, and 37% of those with highest incomes believe the main responsibility should lie with the individual, compared to 22% of those with the lowest incomes (Table 2).

Those on the highest incomes generally pay higher taxes and therefore might feel more strongly about the amount they contribute through NICs towards State benefits and the State Pension.

Those on the lowest incomes are more likely to depend on State Pension and benefits in retirement and this may contribute to their belief.

Those with higher knowledge of State Pensions are more likely to think that the individuals should be mainly responsible for funding retirement income

The higher people's self-assessed knowledge of State Pensions is, the more likely they are to think that individuals should have the main responsibility for funding retirement income.

There are correlations between self-assessed knowledge and income; 51% of those with the highest incomes have a reasonable to good knowledge of State Pensions compared to 33% of those with the lowest incomes.

Those with higher incomes are more likely to have a higher education and therefore may have more experience of and better understanding of personal finance and private and State pensions.

Table 2: Belief in who should be mainly responsible for funding people's income in retirement by household income level

Household income level	Government	Employer	People themselves	other
Less than £1,200 pm	**45%**	**26%**	**22%**	6%
£1,201 - 2,200 pm	36%	28%	27%	8%
£2,201 - 3,700 pm	30%	35%	28%	7%
£3,701 or more pm	**25%**	**29%**	**37%**	9%
All	**34%**	**30%**	**29%**	8%

If it was decided that retirement incomes should be increased, people are more likely to believe the Government should be mainly responsible for providing these increases. 34% of people believe the Government should be mainly responsible for funding retirement income increases, while 38% believe the Government should be responsible for funding any retirement income increases.

This may result from a recognition that further contributions would be difficult for employers and employees to make.

People are more likely to believe that State Pension entitlement should be based on contributions rather than need

Over half of people, 58%, believe that State Pension entitlement should be based solely on contributions paid through NICs, regardless of need. 42% believe that State Pension entitlement should be based on need even if this means that some people who have not always worked might receive more income from the system (for example, by qualifying for Pension Credit and Housing Benefit on top of their State Pension income) than someone who has worked their whole life.

Women and men are almost equally likely to believe that State Pension entitlement should be based solely on contributions but women with children are more likely to believe that State Pension entitlement should be based on need (rather than contributions) than women without children:

- 47% of women with children believe that entitlement should be based on need, compared to
- 39% of those without children.

Conversely, men with children are more likely to believe that contributions should determine entitlement than men without children:

- 37% of men with children believe that contributions should be based on need, compared to
- 43% of men without children.

These results may reflect different roles in partnerships, where women with children are more likely to receive credits toward State Pension while taking time out to care.[8]

Those with lower incomes are more likely to believe that State Pension entitlement should be based on need rather than contributions. Those on lower incomes are more likely to struggle to make the required years of contributions required for a full State Pension (35 years in 2018/19) and will be more dependent on an entitlement based on need.

Conclusions

The State Pension is undergoing changes:

- State Pension age is rising in stages,
- The two-tier flat and earnings-related State Pension has been replaced by a single-tier flat-rate pension and,
- As a result of the changes to State Pension, pension scheme members can no longer contract out of paying National Insurance contributions towards additional State Pension.

In order to make informed decisions about financial planning for retirement, people will need to know how much they might receive from the State Pension and when they might be eligible to claim it. However, knowledge and understanding of the State Pension is very low; only 12% of people have a good self-assessed understanding of the State Pension and only 26% of people expect to receive their State Pension at their actual State Pension age.

Around 14% of people expect never to retire at all, which may mean they are making insufficient financial plans for retirement and might need to rely on state benefits in retirement and experience a lower standard of living than they had during working life.

Alongside changes to the State Pension, responsibility for funding retirement is moving away from Government and employers to individuals, as a result of:

- The abolition of the earnings-related additional State Pension and,
- The decline in Defined Benefit provision within the private sector.

People are more likely to think that the Government should be mainly responsible for funding retirement income, though they are almost as likely to think that the main responsibility should lie with employers or individuals. This fairly even spread reflects to some degree the actual position, where the Government provides the largest proportion of retirement income and individuals and employers provide the rest through private pension income and additional savings and investments. However, as responsibility for retirement income is shifting more on to the individual, there may arise a disconnect between attitudes towards proportional responsibility and the amount that people will in practice need to save in order to achieve an adequate retirement income.

Those on lower incomes, who are more likely to rely on the State in retirement, are more likely to think that the Government should have the main responsibility. Those with higher incomes, who may pay more contributions to both State and private pensions during their lifetime, are more likely to think responsibility should lie with the individual.

More people believe that State Pension entitlement should be based on contributions rather than needs, though those who are more likely to take time out to care are more likely to believe State Pension entitlement should be based on need.

Overall, State Pension knowledge and understanding is lower than it needs to be in order to allow people to make informed financial decisions about preparing for retirement.

The spread is fairly even regarding whether Government, employers or individuals should bear the main responsibility for retirement funding.

1,2,3 Pensions Policy Institute (2017) *Consumer engagement: the role of policy through the lifecourse*
4 Pensions Policy Institute (2013) *What level of pension contribution is needed to obtain an adequate retirement income?*
5, 6 Department for Work and Pensions (2018) *Pensioners' incomes series: An analysis of trends in Pensioner Incomes: 1994/95 to 2016/17*
7 Pension Protection Fund (2017) *The Purple Book: DB Pensions Universe Risk Profile 2017*
8 Pensions Policy Institute (2017)
The Wellbeing, Health, Retirement and the Lifecourse project

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