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Pension tax relief: awareness, understanding and saving behaviours

Findings from quantitative and qualitative research

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Glossary

Automatic enrolment	A new law introduced in 2012 has required employers to automatically enrol their eligible workers into a workplace pension scheme, if they are not already in one. After an employer automatically enrols their workers into a workplace pension scheme, every worker can stay in or choose to opt out of the scheme if they wish to.
Defined benefit pension	These are workplace pensions that give someone an income based on their salary, length of service and a calculation made under the rules of their pension scheme. Final salary or career average pension schemes are types of defined benefit pensions. With these, the employer guarantees a certain amount each year when an individual retires.
Defined contribution pension	These pensions, sometimes known as "money purchase" schemes, are based on how much money has been paid into an individual's pension pot. The size of the pension pot comes from the money an individual (and their employer, in the case of defined contribution workplace pensions) have saved into it over the years, plus any investment returns the money may have earned.
Pension pot	This is the total value of an individual's pension fund, comprising their own contributions, any contributions their employer has made, the Government's contribution through tax relief and any gains made through investing these contributions.
Personal pension	These are types of defined contribution pensions set up by an individual or through an adviser (i.e. not through an employer).
Pension tax relief	This is the tax relief that is applied on pension contributions made by individuals and employers during an individual's working life. Tax relief for basic rate taxpayers is 20p for every 80p an individual saves. In other words, the Government tops the pension savings of basic rate taxpayers by 25%. For higher rate taxpayers, tax relief is 40p for every 60p saved, which amounts approximately to a 67% Government top-up. When individuals come to withdrawing their pension, these withdrawals are taxed as income.[1]
Workplace pension	These are pensions arranged through an employer, and where the employer contributes to the size of the pension pot alongside the employee. If an individual leaves their job, these become personal pensions which someone can either continue to contribute towards, or can consolidate with another workplace pension scheme at a new employer.

[1] In practice, there are two mechanisms for delivering pension tax relief: either pension contributions are made from net pay and topped up by the Government, or contributions are paid into a pension before tax is deducted.

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Key findings

These are the key findings from a survey of 703 British adults aged 16–55.

Many people are not especially aware of the tax system in place for pensions.

- Four in ten (41%) adults aged 16–55 correctly believe that the Government tops up people's pension contributions through tax relief. A quarter (26%) think the Government provides no top-up, and a third (33%) do not know.
- When those with pensions who are aware of pension tax relief are asked how much the Government has topped up their contributions to date, the mean response is by around 8 per cent for basic rate taxpayers (vs. 25% in reality) and 18 per cent for higher or additional rate taxpayers (around 67% in reality).[2]
- Improving awareness of the Government top-up may encourage more people to save into a pension.
- Among those with pension savings who are aware of pension tax relief, six in ten (57%) consider it to have been an important factor in their decision to invest in a pension.
- Among those currently unaware of pension tax relief, two-thirds (66%) say they would be encouraged, at least by a little, to start or increase their pension saving if they heard that pension contributions were tax-free.

Given their lack of awareness, most people are open to change, although they would not necessarily save more under either of the alternative systems explored in this research (either a flat rate Government top-up to contributions set at 30%, or people being able to withdraw their retirement income tax-free alongside a lower Government top-up of 20%).

- Six in ten (59%) say that either alternative is better than the existing system. When comparing one alternative system against the other, the picture is more mixed, with over four in ten (45%) saying no tax on retirement (and a lower top-up) is better and three in ten (28%) saying the flat rate system is better.
- Three in ten (28%) think the flat rate system would make them increase the amount they personally save for retirement, and one-third (34%) think this of the tax-free retirement option. In both cases, the majority (64% and 58% respectively) think these different systems would make no difference to the amount they save.

Under any system, there is an appetite for better information to help people understand how much they need to save to be able to have the kind of retirement they envisage.

- Among those who have pensions and remember receiving pension statements, six in ten (62%) think it would be very useful to have their statements tell them what they need to save to live comfortably, and five in ten (53%) think it would be very useful to know how much their retirement income would rise from paying an extra £20 a month.
- Having information on how much people of a similar age and income save on average is deemed less useful, with only two in ten (20%) rating it very useful.

[2] The Government contribution for basic rate taxpayers is 20p for every 80p an individual saves, which amounts to a 25% top-up. For higher rate taxpayers, it is 40p for every 60p saved, which amounts to a 66.6% top-up.

Executive summary

HM Revenue & Customs commissioned Ipsos MORI to conduct research with individuals and employers on pension tax relief. It explored awareness, understanding and attitudes with regards to the pension tax system, and individuals' and employers' reactions to alternative systems.

The research was both qualitative and quantitative. This included discussion groups with individuals and in-depth interviews undertaken with small and medium employers[3], as well as a representative telephone survey of 703 British adults aged 16–55.

Awareness of the pension tax system

The Government's contribution to people's pension pots through tax relief is not widely understood, particularly relative to other aspects of the pension system. While nine in ten adults (90%) correctly believe that employers contribute to workplace pensions alongside employees, just four in ten (41%) think the Government contributes through tax relief.

Overall awareness of the Government contribution was no different from the average for those in or out of work, or for those not currently in pension schemes. Those specifically with non-workplace (i.e. personal) pensions were more aware (58%) of the Government contribution, which may reflect the older age profile of this subgroup.

The discussion groups also indicate the extent of lack of awareness about pensions in general for some people. This was reflected in participants' very broad questions about how pensions worked – for example asking what would happen to their pension if they moved jobs. Pension tax relief was also an area that several participants had not considered in great detail before, which suggests that some people are likely to approach this topic without a well-defined viewpoint, and in need of basic information to understand the options.

The survey finds that many adults have not heard much about the mechanics of pension tax relief. Half (51%) have heard about relief rates varying based on incomes. Two-fifths (41%) have heard of the annual limit on tax-free contributions, and one-third (33%) have heard of the lifetime limit.

The range of measures in the survey show that women, those aged under 30 and basic rate taxpayers all tend to be less aware of the pension tax system than the average adult. This reflects other survey findings showing that these subgroups are also less likely than the average to have pensions, and less engaged than average with their own pension arrangements even when they do have them.

Perceived importance of pension tax relief

Of those who are aware of it, six in ten (57%) consider tax relief to have been an important factor in their decision to invest in a pension. However, tax considerations appear to be significantly less important when compared to the employer contribution. A third (34%) of those with workplace pensions say the employer contribution was the most important factor in their decision, whereas under a fifth (17%) of those with any kind of pension (either workplace or personal) say the Government contribution was most important.

[3] This comprised employers with up to 249 employees.

One potential reason for this is that the level of tax relief on offer tends to be substantially underestimated. When those with pensions who are aware of pension tax relief are asked how much the Government has topped up their contributions the average response is by around 8 per cent for basic rate taxpayers (vs. 25% in reality) and 18 per cent for higher or additional rate taxpayers (around 67% in reality).[4] This suggests that neither group considers tax relief to be an especially major benefit at present. Overall, there is a significant correlation between the perceived importance of tax relief and the perceived level of the Government top-up.

Moreover, among those not currently aware of pension tax relief, two-thirds (67%) say that having tax-free pension contributions (and paying tax on retirement) – i.e. if they realised what they already would get under the existing system – would encourage them to start saving, or save more into a pension, at least a little. Therefore, improving awareness of pension tax relief and addressing misconceptions about the level of tax relief being provided might help increase saving.

The qualitative findings highlight both the potential power and possible limitations of improved awareness. On one hand, participants highlighted that a 25% top-up felt very substantial. On the other hand, some participants felt that knowing the level of tax relief on offer still did not help them in knowing the figure they would get in retirement, which was their ultimate concern – so understanding the impact of pension tax relief on eventual retirement incomes might increase its effectiveness. Participants also raised various other barriers to pension saving which fell outside the pension tax system specifically, including having competing demands on their incomes (e.g. to buy a house). Some also had strong perceptions that pensions were a poor or inflexible way to save compared to, for example, investing in property or in ISAs.

Appetite for more information

There is a clear appetite for more information to help people anchor their saving. Among those who have pensions and remember receiving pension statements, over four-fifths (85%) think it would be useful to have their statements tell them how much they need to save to live comfortably, and a similar proportion (84%) think it would be useful to know how much more they would receive in retirement from paying an extra £20 a month. Across these and other measures, the appetite for more information was strongest among young people aged under 34 – for example, three-quarters (75%, vs. 62% overall) say more information on how much they need to save to live comfortably would be *very* useful.

Of course, getting across this kind of information may require a range of communications approaches. A sizable minority of those with pensions tend not to engage with pension statements, with four in ten saying they either do not remember receiving annual statements (31%), or do not read them (10%). Two in ten (21%) do not know how much of their own income they contributed to their pension last month. The qualitative research also highlights the importance of informal networks such as friends and parents, and trusted websites in decision-making around pensions, suggesting these kinds of channels could help to reach those who are typically more disengaged from pension saving.

Considering alternative systems

Two alternative pension tax systems were considered alongside the existing system in this research, with the following simplified descriptions used in the survey:

[4] The Government contribution for basic rate taxpayers is 20p for every 80p an individual saves, which amounts to a 25% top-up. For higher rate taxpayers, it is 40p for every 60p saved, which amounts to a 66.6% top-up.

- Existing system: the Government currently tops up pension contributions made by basic rate taxpayers by 25%. For higher rate taxpayers, the Government top-up is around 65%.[5]
- System A: both basic rate taxpayers and higher rate taxpayers get the same amount of Government top-up, set at 30% (a flat rate).
- System B: when someone retires, the pension they receive each year is tax free. At the same time, the Government would still top up people's pension contributions, but the amount of top-up would decrease to 20% for everyone.[6]

When comparing all three possible systems against each other, a third (32%) most prefer no tax on retirement and a lower top-up, two in ten (20%) most prefer the flat rate option, and nine per cent most prefer the existing system (with others not being able to give a clear preference for one system above both other choices). A range of measures in the survey suggests that the openness to alternative systems was somewhat greater among women than men.

Both alternative systems are seen as simplifying the pension tax system on balance. Just under half (47%) think the flat rate system is simpler than the existing system, and half (50%) think that the tax-free retirement model is simpler. Only one in ten think either that the flat rate system (10%) or that tax-free retirement (11%) are more complicated. This came across in the qualitative research too, especially for the tax-free retirement option – individuals said it made expectations for retirement clearer and employers felt it was a simpler message to sell than trying to explain the existing tax relief.

However, the qualitative research also demonstrates how initial positive reactions to alternative systems may give way to more muted or negative responses on reflection. After deliberating the options, participants who were initially positive towards alternatives often concluded that a flat rate was unfair to higher rate taxpayers specifically, and anti-aspirational generally, as it was seen to penalise career progression. Similarly, while the principle of tax-free retirement was treated more favourably in discussions, participants were often sceptical at the end of the groups about whether such a change would be permanent under future governments. Other participants were also concerned that some people would lose out financially under this option if they ended up with smaller pots to invest during their working lives.

Three in ten (28%) think the flat rate system would make them increase the amount they personally save for retirement, and one-third (34%) think this of the tax-free retirement option. However, these systems would not necessarily change actual saving behaviour in many cases. In both cases, the majority (64% and 58% respectively) think these systems would make no difference to the amount they save. This reflects that, in each case, around two-thirds say the flat rate system (64%) or tax-free retirement (65%) would not change the perceived affordability of pension saving.

In interviews, small and medium employers also typically indicated they would maintain the same level of commitments for their employees regardless of changes, though they recognised that larger organisations might start to contribute less if they received less tax relief, as the financial repercussions of such changes might be higher for them.

[5] The full description of the existing system in the survey also laid out the other broad elements of the pension system (in addition to the Government top-up): People save into a pension pot before they retire. In most workplace pensions the employer also contributes to the pension. Any returns that a person's pension fund earns before they retire are not taxed. When someone retires, the pension they receive is treated like income and taxed, but they can withdraw up to 25% of their pension tax-free as a lump sum. In practice, not all pensions tax relief works by the government topping up contributions out of net pay – sometimes it works by simply paying contributions in before tax is deducted.

[6] The 20% top-up rate was chosen for this research alone to test the attractiveness of tax-free retirement even if the initial top-up on contributions was lower. It should not be interpreted as Government policy.

Conclusions

This research shows that much of the public lacks awareness of the pension tax system and considerably undervalues the existing Government contribution to pension pots. In this context they are open to alternative systems, particularly if they feel they can better understand how these systems work. Of course, these initial preferences may fall away as people become better informed, with the qualitative research finding that views of alternative systems often become more muted and contested once people reflect on the relative merits of system already in place, including features of which they presently lack awareness.

Moreover, in their preferences, people are not solely interested in choosing a pension tax system which makes them financially better off – they are also interested in simplicity and clarity and would not necessarily save more under alternative systems. The findings highlight that people ultimately want to better link the amount they save to what they will receive in retirement, and therefore would support any system seen to simplify this, as well as any further information that can help them to better anchor pension saving, i.e. understand how much they need to save to be able to have the kind of retirement they envisage. Yet better information provision will be challenging, as many in key subgroups do not engage regularly with their own pension arrangements, and therefore informal information sources should not be overlooked.

Finally, it should be noted that raising awareness of the existing pension tax system or even adopting an alternative one may not, in isolation, address other significant barriers to pension saving. The impact of any communications or changes will be set against competing demands on people's incomes, as well as some people's perceptions of pensions relative to other ways of saving, including investing in property or in other savings products such as ISAs.

1 Introduction

This report details the findings from quantitative and qualitative research with individuals and employers on pension tax relief. The research was commissioned by HM Revenue & Customs and carried out by Ipsos MORI.

1.1 Background and objectives

In the existing pension tax system, the pension contributions someone makes during their working life are tax-free, referred to as tax relief on pension contributions. When they come to withdrawing their pension, these withdrawals are taxed as income. Pension tax relief is intended to be a strong and simple incentive for people to save for their retirement.

Over the last decade there have been major changes to the pensions landscape. Increases in life expectancy mean people are spending significantly more time in retirement, increasing the amount they need to save during their working lives. The policy of automatic enrolment into workplace pensions also means that new people are being introduced to pension saving for the first time. At the same time, many private sector employers have closed their defined benefit workplace pension schemes and set up defined contribution schemes, where employees engage more directly with how much they pay into their pension pot. Given these shifts, there is increasing pressure to ensure that the pension tax system enables and encourages people to save enough for retirement, and is sustainable in the face of increasing costs.

In light of this, this research aims to:

- explore individuals' awareness, understanding and attitudes with regards to the pension tax system
- determine the most effective ways to describe pension tax relief to individuals
- understand individuals' and employers' preferences for alternative systems, overall and for key subgroups
- understand how individuals and employers might respond to alternative systems.

1.2 Methodology

The research was both qualitative and quantitative, with the qualitative strands also being used to inform the survey development. The strands to the research were as follows (with more details in a separately published Technical Report):[7]

- In total, eight face-to-face discussion groups with individuals aged 16–55 were carried out in four different locations. These included a mix of basic rate taxpayers and higher rate taxpayers, as well as those with defined benefit pensions, with defined contribution pensions or without pensions.

- A further 22 in-depth interviews with small and medium employers[8] were carried out by telephone. This included both organisations that had a pension scheme and those that did not, from a range of sectors (encompassing office-based and non-office-based staff).[9]

[7] All reports can be found on the gov.uk website at: https://www.gov.uk/government/publications?keywords=&publication_filter_option=research-and-analysis&topics%5B%5D=all&departments%5B%5D=hm-revenue-customs&official_document_status=all&world_locations%5B%5D=all&from_date=&to_date=

[8] This comprised employers with up to 249 employees. Specifically, the chosen participants were the individuals in the business in charge of senior decision-making around the business's pension scheme or, if there was no current scheme, the policy of automatic enrolment.

[9] All qualitative fieldwork (with individuals and employers) was undertaken across October 2015.

- A telephone survey of 703 British adults aged 16–55 was undertaken. The survey data have been weighted to be representative of the population.[10]

1.3 Interpretation of findings

How to interpret the survey data

It should be remembered that final data from the survey are based on a sample, rather than the entire population. Percentage results are therefore subject to margins of error, which vary with the size of the sample and the percentage figure concerned. The margins of error associated with the overall sample in this survey are c.3–5 percentage points, but these will be higher for subgroup findings (see the appendix for a detailed guide to statistical reliability).

Across individual survey findings, subgroup differences have been highlighted only where statistically significant (at the 95% level of confidence).[11] The subgroups considered to be especially important to this topic were gender, age, type of pension and taxpayer status, so these are emphasised throughout.

Where responses are correlated with age, the report typically compares the youngest and oldest age groups in the data (i.e. 16–29 and 45–55) to illustrate this. For certain questions there were too few cases in the 16–29 age group, so in those instances subgroup analysis has been expanded to look at those aged 16–34.

The survey data also enable findings to be broken down by people's attitudes to finance and retirement. Results were analysed for the following three attitudinal subgroups:

- people who think they need to increase the amount they save for retirement (61% of all adults aged 16–55), though no statistically significant differences were found for this subgroup on key questions
- people who say saving for retirement is not a financial priority for them at present (33% of all adults)
- people who do not feel confident when dealing with finances (24% of all adults).

Finally, where figures in charts do not add to 100% this is due to rounding of percentages or because the questions allow more than one response.

How to interpret the qualitative data

The qualitative findings offer more nuanced insights into how individuals and employers are likely to react under alternative pension tax systems beyond the spontaneous reactions measured in the survey. Wider inferences can also be drawn as to why people favour certain systems. However, these findings are not intended to be statistically representative.

Verbatim quotes are used to illustrate common themes. Where the quote is reflective of a particular subgroup (e.g. basic rate taxpayers) this is noted underneath the quote.

[10] This included those with and without pensions (to explore how alternative systems would motivate different groups to start saving or save more), as well as taxpayers and non-taxpayers (who might become taxpayers at a later date, or choose to invest in personal pensions). Fieldwork was undertaken from 13 January to 17 February 2016.

[11] Subgroup differences highlighted are either those that emerge consistently across multiple questions or evidence a particular hypothesis (i.e. not every single statistically significant finding has been commented on).

1.4 Acknowledgements

Ipsos MORI thanks the members of the public and the employers who participated in the research. We would also like to thank Sonia Carrera and Saira Khan from HM Revenue & Customs for their input throughout the research process.

2 Awareness of the pension tax system

Previous Department for Work and Pensions research on attitudes to pensions has highlighted how lack of awareness around pensions is a common reason for people not saving into a pension scheme. Alongside this, the same survey found that Government contribution to pension pots were less well recognised than other aspects of the pension system, which could weaken the incentive of pension tax relief.[12]

This chapter covers how much people know and have heard about different elements of pension tax relief, relative to other elements of the pensions system (e.g. employer contributions). It also covers how engaged people are with their own pensions and where they typically hear about pensions.

2.1 Factual knowledge of the pension system

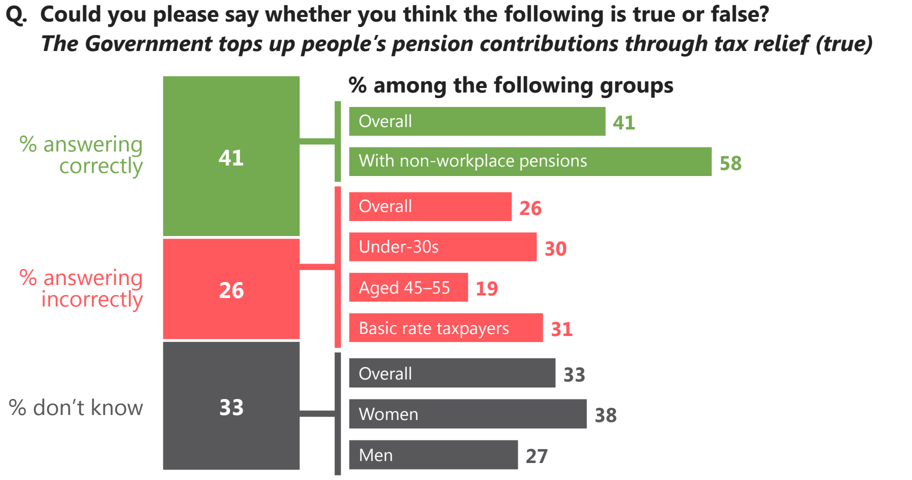
Knowledge of pension tax relief

As Figure 2.1 outlines, pension tax relief is not a widely known aspect of the pension system, with a quarter (26%) incorrectly thinking that there is no Government contribution via tax relief, and a third (33%) saying they do not know. These findings are consistent across those who have workplace pensions and those who do not have any pension pots, as well as those in and out of work.

Those with non-workplace (i.e. personal) pensions specifically *are* more aware than average. This is a niche group, who tend to be older (56% are aged 45–55, whereas this age group makes up just 29% of the overall population aged 16–55) and more likely than those with workplace pensions to remember receiving annual statements (81% vs. 67%). With this in mind, their greater awareness of pension tax relief possibly reflects their greater engagement with pensions generally.

Figure 2.1 also highlights that there is more misunderstanding about this aspect of pensions among younger people aged under 30 and among basic rate taxpayers. Women are also less likely to be aware of pension tax relief than men.

Figure 2.1: Whether people think the Government tops up peoples' pension contributions or not



Bases: 703 British adults aged 16–55; 377 women; 326 men; 133 under-30s; 274 aged 45–55; 376 basic rate taxpayers; 126 with non-workplace pensions

[12] TNS BMRB (2012) Attitudes to Pensions: The 2012 Survey, Department for Work and Pensions Research Report 813, available at: https://www.gov.uk/government/publications/attitudes-to-pensions-the-2012-survey-rr813

The discussion groups also indicate the extent of lack of awareness about pensions in general for some people. This was reflected in participants' very broad questions about how pensions worked, and when and how they could access their pots – for example asking what would happen to their pension if they moved jobs, or asking if pensions gave a fixed income each year in retirement.

Pension tax relief was also an area that several participants had not considered in great detail before. This suggests that some people are likely to approach this topic without a well-defined viewpoint, and in need of basic information to understand the options.

"It's on my HR payroll work, when you pay your pension and you're contributing, isn't there a tax-free bit on that or something?"
Individuals discussion group participant (basic rate taxpayer)

While participants in the higher rate taxpayer groups were often aware of news stories around pensions and recent changes in pensions policy, this did not always translate into knowledge and understanding of tax relief on contributions.

All I know is I've put in an amount of money, and the organisation I work for puts in multiple times that, but how they come to that figure, no idea, or whether it's taxed or whether it's tax free.
Individuals discussion group participant (higher rate taxpayer)

"You get tax relief on your pension contributions don't you, and if you're a higher taxpayer that could be 40% or if you're a standard rate taxpayer it could be 25%, but I don't really think about it."
Individuals discussion group participant (higher rate taxpayer)

Knowledge of other aspects of the pension system

Relative to the lack of awareness of tax relief on contributions, other key elements of the system such as employer contributions and the fact that retirement income is taxed are more widely understood. Nine in ten (90%) correctly identify that employers contribute to workplace pensions alongside employees, and this does not differ considerably by gender, age or taxpayer status. Even among those not in work, eight in ten (83%) recognised this. While not covered in this research, communications tracking surveys for the Department for Work and Pensions have suggested that the widespread understanding of this element is partly due to the ongoing Government communications campaign around automatic enrolment, which has emphasised the employer contribution as a key reason for having a workplace pension.[13]

On balance, more people correctly think that retirement income is subject to tax than think (incorrectly) that it is not (59% vs. 19%). Nonetheless, a quarter (23%) do not know if retirement income is taxed, which suggested that there is a lack of understanding about the pension tax system more broadly, i.e. not just tax relief on contributions.

Younger people aged under 30 are more likely to say they do not know how retirement income is taxed than people aged 45–55 (28% vs. 12%), perhaps simply reflecting their greater distance from retirement. Basic rate taxpayers are also less aware of whether tax is paid on retirement (24% do not know, vs. 10% of higher or additional rate taxpayers). Again, this does suggest a broader lack of awareness of the whole pension tax system among these two subgroups.

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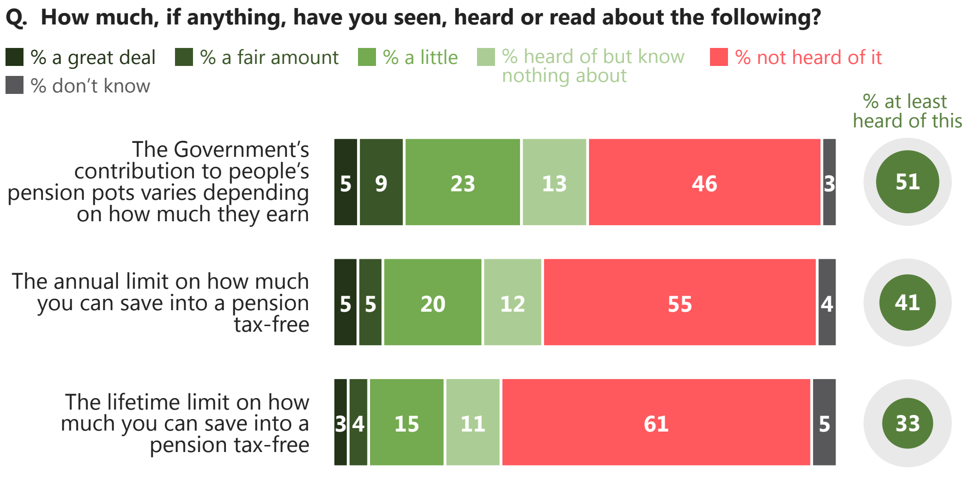
[13] The Automatic enrolment evaluation report 2013 (Department for Work and Pensions Research Report 854, available at https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013) notes that the employer contribution is the most commonly mentioned beneficial feature of being in a workplace pension scheme in surveys of working age individuals.

For basic rate taxpayers, part of this relative lack of awareness might come from having less access to better information and advice sources (see section 2.5).

2.2 How much people have heard about elements of pension tax relief

Most adults have not heard much detail, if anything at all, about the mechanics of pension tax relief – these data are displayed in Figure 2.2. Under a fifth (14%) feel they have heard *at least a fair amount* about relief rates varying based on incomes, and half (49%) say they have heard nothing at all about this, or do not know what they have heard. Three-fifths (59%) have never heard of the annual limit on tax-free contributions or do not know, and two-thirds (66%) have never heard of the lifetime limit or do not know.

Figure 2.2: How much people have heard around the mechanics of pension tax relief



Base: 703 British adults aged 16–55

Younger people aged under 30 are typically less aware of all three of these elements of the pension tax system. Just two-fifths (41%, vs. 58% of 45–55 year-olds) recall hearing anything at all about the variable rate of Government contributions.

Higher or additional rate taxpayers are more likely than basic rate taxpayers to have heard a great deal about the variable rate (26% vs. 14%). Those on higher incomes are also more aware of the annual limit (62% of higher or additional rate taxpayers have heard of this, vs. 42% of basic rate taxpayers) and lifetime limit (53% vs. 33%) for tax-free pension contributions. This may once more reflect their general higher engagement with pensions, but for the two latter measures it could also reflect that those on higher incomes are much more likely to reach these limits.

In a similar vein, those out of work – who are less likely to have pensions – are typically less likely to have heard anything about all these three elements. For instance, two-fifths (38%, vs. 51% overall) have heard something about the rate of Government contributions varying based on earnings.

In the discussion groups, participants were generally not concerned with the idea of having a variable rate of tax relief for different taxpayer groups and did not consider this to be unfair. As a reflection of this, after being presented with the key elements of the pension tax system (including the variable rate), participants typically did not mention the variable rate in the spontaneous discussions that followed – they instead focused more on the fact that retirement income is taxed.

"I'm a higher rate tax payer. Why should I have to pay more because I'm working hard and earning more?"
Individuals discussion group participant (discussing variable rate of tax relief on contributions)

The system I think seems fair all round. If you earn money, the Government are putting money in."
Individuals discussion group participant (discussing pension tax system)

"I get taxed on my earnings, then to get taxed again in retirement, I don't think it's right."
Individuals discussion group participant (discussing retirement income in pension tax system)

2.3 Perceptions of the level of Government top-up

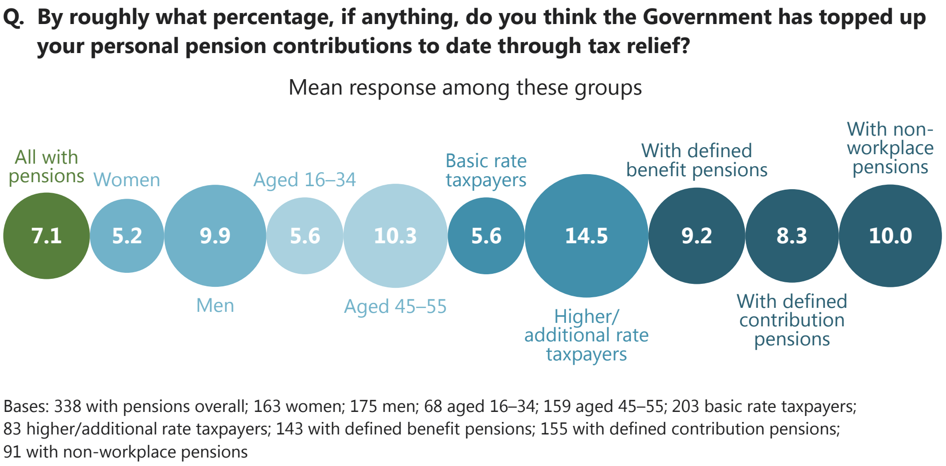
Under the system in place, the Government tops up basic rate taxpayers' pension contributions by 25% and higher rate taxpayers' contributions by around 67%.[14] It is also possible that some people associate tax relief amounts with the basic tax rate (20%) and higher tax rate (40%), and these percentages would be an equally accurate way of considering the Government top-up.

Regardless of which set of figures is used, it is clear that the public currently tends to substantially underestimate the level of tax relief on offer, as Figure 2.3 shows. When those with pensions are asked how much the Government has topped up their contributions to date, the mean response is by around 6 per cent for basic rate taxpayers (vs. 25% in reality) and 15 per cent for higher or additional rate taxpayers (around 67% in reality). This suggests that neither group considers tax relief to be an especially major contribution at present.

While all subgroups tend to undervalue pension tax relief, regardless of pension type or taxpayer status, it is worth noting that women tend to give lower mean responses than men.

Among those who were aware of pension tax relief before taking part in the survey, the mean response is still around 8 per cent for basic rate taxpayers and 18 per cent for higher or additional rate taxpayers. Among those with non-workplace (personal) pensions, the mean response is around 10 per cent. With these two subgroups being among the most engaged with the pension tax system, this serves to underline the extent of misperceptions.

Figure 2.3: Perceived level of Government top-up for pension contributions



It could be suggested that people are aligning their responses with the level of employer contributions they receive (since awareness of the employer contribution tends to be higher). However, the survey finds no evidence of this, with no significant correlation between the percentage of employer contribution people say they receive and the percentage of

[14] The Government contribution for basic rate taxpayers is 20p for every 80p an individual saves, which amounts to a 25% top-up. For higher rate taxpayers, it is 40p for every 60p saved, which amounts to a 66.6% top-up.

Government top-up they think they have received. In other words, the Government contribution is generally considered to be a low number, regardless of the other numbers that feature in people's pension arrangements.

2.4 Engagement with pension contributions and statements

Awareness of personal and employer pension contributions

The survey shows that people are generally more aware of how much of their own salary goes into their pension pot and how much their employer contributes than they are of the Government contribution. However, it is worth noting that a sizable minority of those with pension pots do not appear to retain any of these figures, highlighting that many people do not engage in detail with their own pension arrangements. Among those with pensions:

- Two in ten (21%) do not know how much of their own income they contributed to their pension last month.
- A further two in ten (20%) do know their own percentage contribution, but do not know how much their employer contributed to their pension last month.
- Three in ten (30%) do not know how much the Government has contributed to their pension to date.

This is an important barrier to bear in mind when it comes to communicating the significance of pension tax relief.

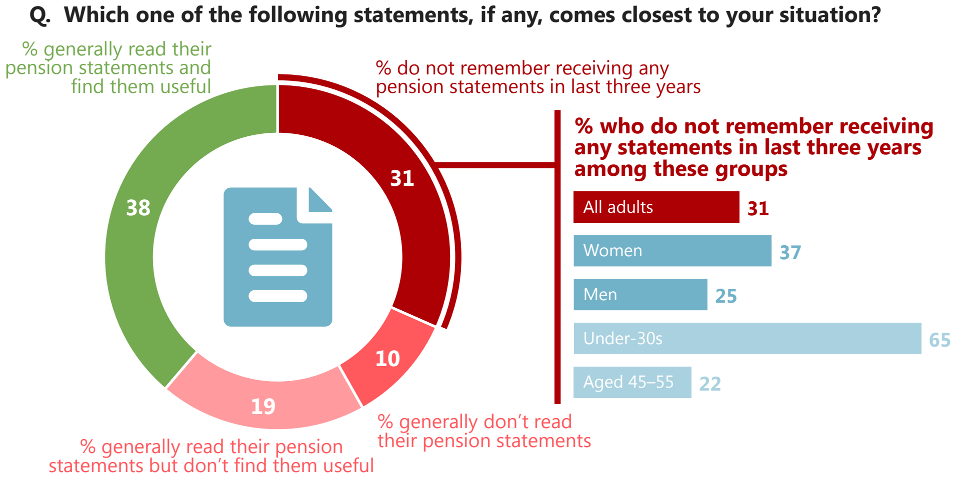
Almost twice as many women as men were unable to say how much of their own salary they had contributed to their pension last month (27% vs. 14%). Outside of this gender difference, there are no standout differences that identify a particular segment of the population as being less aware of their own pension arrangements.

Reading pension statements

Of those who have pensions, two-fifths say they either do not remember receiving a statement in the last three years (31%) or generally do not read them (10%). As Figure 2.4 shows, engagement with pension statements appears to be lower among women and young people aged under 30, which highlights the difficulty of better informing these groups through formal pension communications. The gender difference chimes with previous Department for Work and Pensions survey research that has shown that women are more likely to agree that "dealing with pensions scares me" and more likely to have avoided thinking about retirement.[15]

[15] TNS BMRB (2012) Attitudes to Pensions: The 2012 Survey, Department for Work and Pensions Research Report 813, available at: https://www.gov.uk/government/publications/attitudes-to-pensions-the-2012-survey-rr813

Figure 2.4: Engagement with pension statements among those with pensions



Bases: 485 with pensions overall; 257 women; 228 men; 43 under-30s; 223 aged 45–55

Within the two-thirds who do remember receiving statements, women are more likely to say they do not find them useful (33%, vs. 28% on average), as are those who do not feel confident with their finances generally (46%). Also among those who remember receiving statements, higher or additional rate taxpayers (70%) and older adults aged 45–55 (64%) are more likely than the average (56%) to have found them useful. This may reflect a need for better information among women, younger people and basic rate taxpayers especially, which is covered again in more detail in section 4.4.

Qualitative findings reflect the range of interaction people had with their pension statements. Various participants discussed how they did not clearly understand their statements so tended to ignore them. They also discussed the difficulty of bringing together multiple statements in an understandable way, where they had more than one pension pot.

A common theme across groups was that participants wanted a clearer picture of how their contributions and the resulting size of their pension pot translated into the amount they would get during retirement. They felt that statements from pension providers needed to offer clearer information about this, with specific figures.

"I get a statement saying I've got, I don't know, whatever it is in the pot, transfer value, but I don't know what that means. They don't actually tell you what you're going to get at a certain age."
Individuals discussion group participant

"I just filed the statements away. It's something where I went to see what it is and I don't really open it. I just put it in a drawer."
Individuals discussion group participant

Other participants who did engage with their statements served to highlight the wide-ranging standards of communication from pension providers. One participant mentioned getting very useful statements and an app that helped them plan for retirement. Another mentioned that it would be more useful if figures for the Government contribution and the overall pension pot were included on payslips, so people would see this breakdown more frequently.

"I've got an app where I can put a figure in at any time and work out, 'If I retire on this date, what would I get? If I retire on that date, what would I get?'"
Individuals discussion group participant

"My pension provider gives me three examples each year, if the rate is this, that or whatever. None of them are very good though."
Individuals discussion group participant

The specific additions to pension statements that would interest people are covered in section 4.4.

2.5 Information sources

The qualitative research also highlights the importance of informal networks, such as friends and parents as information sources around pensions. Many participants said they were encouraged to join a pension scheme by their parents and would tell their own children the same thing.

"I started my pension years ago because of advice from my father and I've passed that advice onto my sons."
Individuals discussion group participant

"If I know a friend who's done it, I would probably take their advice. I know some of my friends have been talking about pensions, but to be honest they couldn't tell their left from their right."
Individuals discussion group participant

Participants also highlighted employers as a common source of information, though their perceived usefulness seemed to vary considerably depending on the approach and resources of the workplace in question. Some in the higher rate taxpayer groups reported financial advisors coming into their workplace to talk about pensions.

However, there was a general sense from those in lower-wage jobs that they were less likely than others to receive advice from their employer and made less use of financial advisors. Some participants in the basic rate taxpayer groups said they would like to talk to a financial advisor but felt priced out of this market.

"If we want advice we've got to pay for it to sort out our pensions. Well if they haven't got £20 to put in their pension pot, they're not going to have £200 to pay financial advisor money."
Individuals discussion group participant (basic rate taxpayer)

In these cases, some participants also mentioned using websites (including mentions of the Government's Money Advice Service and the non-Government Money Saving Expert respectively) to find the information they wanted.

3 Perceived importance of tax relief

This chapter looks at the factors behind people's decisions to invest in a pension and how big a part tax relief played in this. The chapter also explores whether pension tax relief could be a more effective incentive if better promoted to those who are currently unaware of it, and offers insights on how to frame communication around pension tax relief.

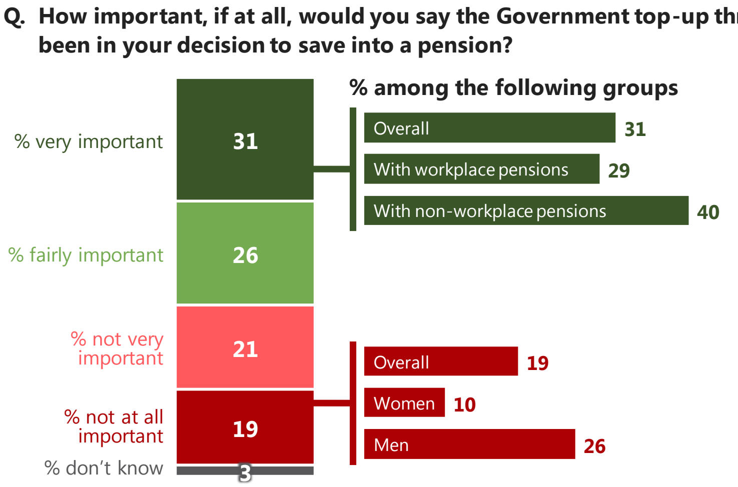
3.1 Importance of pension tax relief in decisions to invest

Among those with pension savings who are aware of pension tax relief, six in ten (57%) consider it to have been an important factor in their decision to invest in a pension. It should be noted that, given relatively low awareness of pension tax relief, this actually represents just a quarter (24%) of all those who have pensions. This suggests that at present it is not acting as an especially strong incentive for people to invest.

As Figure 3.1 shows, among those who are aware of it, men typically judge pension tax relief to be a less important factor in their decision to invest in a pension than women.

Tax relief does seem to have been a stronger incentive for those with non-workplace (i.e. personal) pensions. This may again reflect that the people investing in personal pensions are a fairly niche group who tend to be older than average and more engaged with their pension arrangements.

Figure 3.1: Importance of pension tax relief in decisions to invest in a pension (among those aware of pension tax relief)



Bases: 214 with pensions and aware of pension tax relief overall; 179 with workplace pensions; 72 with non-workplace pensions; 121 men; 93 women

It is worth noting that the perceived importance of tax relief is not significantly correlated in this survey with the percentage of income people contribute to their pensions. This indicates that tax relief is perhaps not currently incentivising people to save more than they otherwise would. For instance, the survey finds that higher or additional rate taxpayers, who are more aware of pension tax relief than basic rate taxpayers, do not tend to save a significantly higher proportion of their income into a pension than basic rate taxpayers.[16]

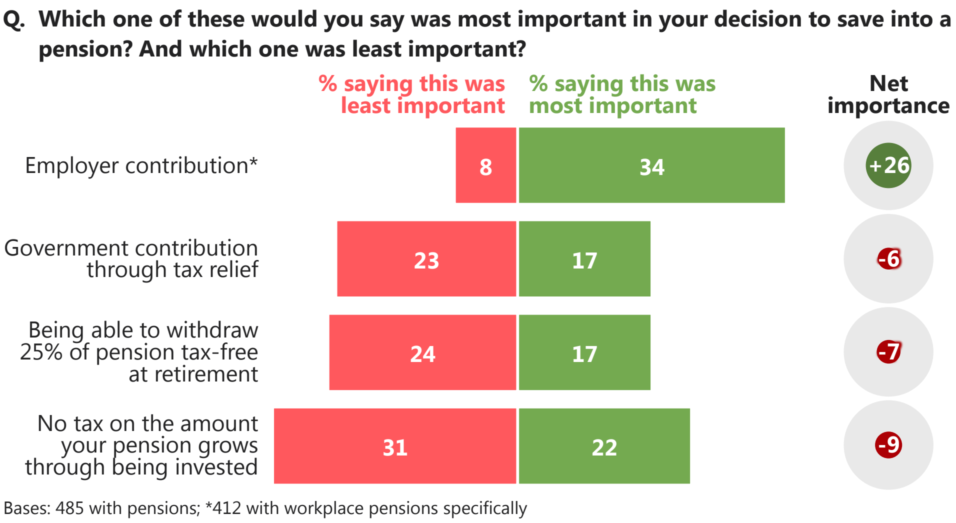
Part of what may make people think pension tax relief is not especially important is the fact that they undervalue the amount of tax relief on offer (see section 2.3). This is evidenced by the fact that there is a statistically significant correlation[17] between the perceived importance of tax relief and the proportion by which people think the Government tops up people's pension contributions – in other words, those who tend to think the percentage of Government top-up is high also tend to say tax relief was important in their decision to invest.

3.2 Importance of other factors in decisions to invest

Of course, tax relief on pension contributions is not the only incentive offered for investing in a pension. Figure 3.2 illustrates that, among those who have pensions, various major elements of the pension tax system are all considered less important relative to the employer contribution in decisions to invest.

Again this potentially reflects the balance of awareness, since people are much more aware of the employer contribution. However, even when looking at results exclusively among those who are aware of pension tax relief (before taking part in the survey) results are not significantly different to those in Figure 3.2 and the employer contribution is still considered to be relatively more important than the Government contribution. This may again reflect that even those who are aware still underestimate the level of Government contribution.

Figure 3.2: Most and least important factors in decisions to invest in a pension



Pension tax relief appears to be more important for higher or additional rate taxpayers, possibly reflecting that they are more engaged generally with pensions (as evidenced in chapter 2), or the fact that they receive a higher rate of tax relief. Higher or additional rate taxpayers are more likely than basic rate taxpayers to cite the Government contribution as most important in their decision to invest (24% vs. 14%). Basic rate taxpayers are, by contrast more likely to see the tax-free lump sum on retirement as most important (23%, vs. 12% of higher or additional rate taxpayers). The employer contribution tends to be equally important for both subgroups.

[16] The survey finds that, among those with pensions, basic rate taxpayers (n=232) save on average 5.7% of their income into a pension, and higher or additional rate taxpayers (n=91) save an average of 6.3% of their income. The difference is not statistically significant, although sample sizes are small.

[17] The correlation coefficient is 0.19 when excluding "don't know" responses at both questions.

The qualitative research also suggests that the employer contribution can be a clearer feature for people to grasp. Group participants said that the idea of employers matching individuals' contributions was an unambiguous concept because it was essentially doubling the size of the pension pot. By contrast, they thought that tax relief on contributions was a more complex concept, with some participants taking a while to understand how tax relief translated into the Government adding to people's own contributions, as opposed to simply not taking money from these individual contributions.

"I've just learnt that the contributions aren't taxed, but then for every pound of the pension the Government have put in 20p. I just don't understand why they have put in. So they're giving you an extra 20p?"
Individuals discussion group participant

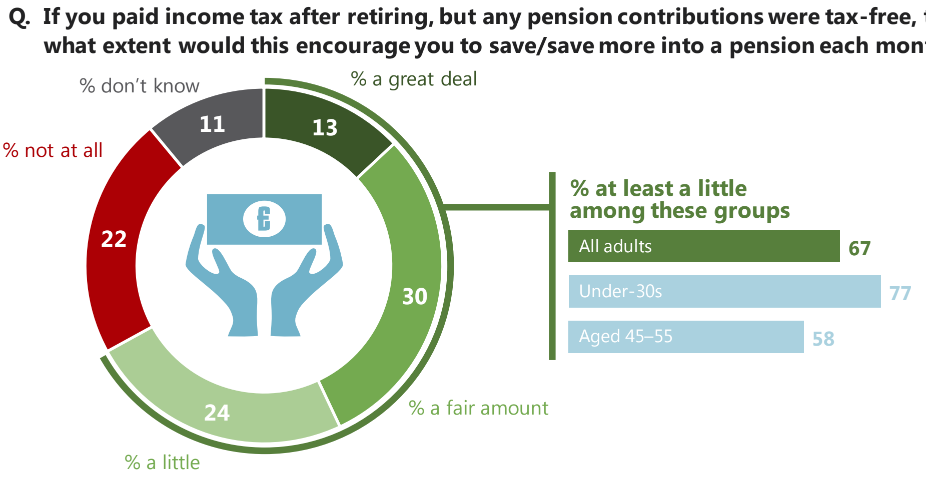
"The employer contribution's fixed. You can see what it is. You get the tangible bits, but the tax relief, that takes a few moments to grasp."
Individuals discussion group participant

3.3 Could pension tax relief be a more effective incentive?

Potential importance of pension tax relief among those not aware of it

While tax relief may not always be the most important incentive to save into a pension, improving awareness of it might help to increase saving without necessarily moving to an alternative system. Figure 3.3 shows that among those currently unaware of pension tax relief, two-thirds (66%) say they would be encouraged, at least by a little, to start or increase their pension saving if they heard that pension contributions were tax-free, i.e. if they were aware of how the existing system works. As can be seen, this appears to be especially of interest to younger people aged under 30.

Figure 3.3: Whether people are incentivised to save if made aware of tax-free pension contributions



Bases: 412 not aware of pension tax relief; 80 under-30s; 134 aged 45–55

Once again, it is worth noting that this incentive, even if better promoted, might work more strongly on the more affluent. Higher or additional rate taxpayers (who are currently unaware of pension tax relief) are more likely to say they would be encouraged a great deal to save if they knew pension contributions were tax-free (24%, vs. 12% of basic rate taxpayers).

Those who do not feel confident dealing with finances are also more likely than the average adult to say they would be encouraged a great deal if they knew that pension contributions were tax-free (21%, vs. 13% overall).

Those on defined benefit schemes might be less moved by this incentive. Among those not aware of pension tax relief a third (32%, vs. 22% overall) of those with defined benefit pensions say they would not at all be encouraged to save more if they found out that pension contributions were tax-free. In the discussion groups, there were two insights from participants with defined benefit pensions that might help to explain this. Firstly, these participants were typically more content with their pension pot being able to provide them with a comfortable retirement, so they felt less need to consider the different elements that went into the pot, such as tax relief on contributions. Alongside this, some of these participants also felt a lack of control over the value of their pension pot, which they felt was ultimately at the guarantee of their employer and not something that they could influence.

More broadly, while the overall findings in Figure 3.3 suggest that raising awareness of existing pension tax relief may encourage saving, the qualitative research finds that there are other strong barriers to saving, such as the perceived absence of relevant and personalised information on retirement income. Some group participants felt that knowing the level of tax relief on offer still did not help them to understand the figure they would get in retirement, which was their ultimate concern. Therefore, communications about pension tax relief might be more effective if they could show or emphasise the impact that pension tax relief has on people's retirement incomes.

"I could save more in my pension pot than I do. The reason I don't is because I don't know what I'm getting at the other end."
Individuals discussion group participant

Effective communication of pension tax relief

The qualitative findings also suggest that the way pension tax relief is framed may affect how it is perceived. Group participants were presented with a variety of different ways of describing the amounts of tax relief on offer. In discussions, a broad consensus was that percentage amounts felt bigger than pence amounts (i.e. 25% vs. 25p), even while acknowledging that some people might struggle with percentage calculations. As a reason behind this, one participant noted that the percentages would compare very favourably with the interest rates advertised on savings accounts.

"25p wouldn't buy you a stick of gum. 25% sounds meaty."
Individuals discussion group participant

Participants typically felt that concise explanations that made straight-up claims were better than long ones that might explain the nuance and caveats. This was because they were seen to be simpler and clearer.

"I like the line, 'this applies to everyone'. It's less ambiguous."
Individuals discussion group participant

Another common theme was that any Government communications around pension tax relief should remain serious in tone and not necessarily take a more frivolous tone to catch people's attention. This came across when a "buy 4, get 1 free" message was presented and discussed. Participants felt very strongly that the tone of this message did not reflect the seriousness of retirement saving. They also said it felt like a gimmick, which they expected more from supermarket advertising than from Government communications.

4 Alternative systems

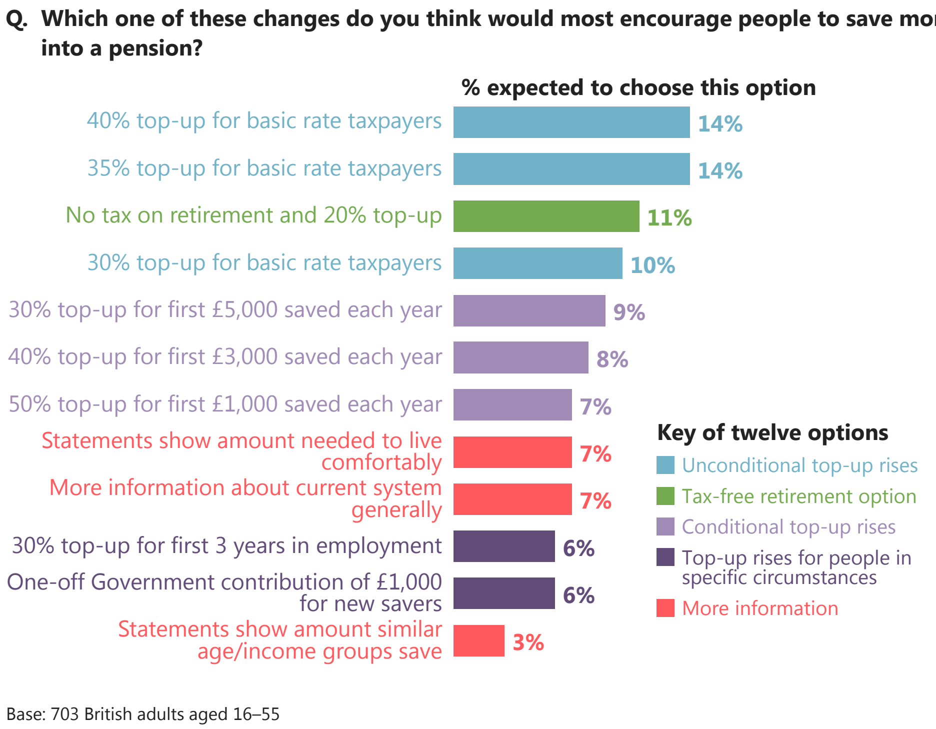
This chapter explores the reaction to alternative systems of pension taxation, both among individuals and employers. It also looks at the appetite among individuals for having more specific information on their pension statements.

4.1 What would encourage saving?

In order to understand the relative preference for different features that might be part of an alternative system, statistical modelling of the survey data was undertaken.[18] The model analyses data from several survey questions to estimate which of 12 potential changes people think would be most likely to encourage others to start saving, or to save more, into a pension. This was done without respondents having to rank all 12 options at once. The results are shown in Figure 4.1. For example, the model estimates that 14 per cent of adults aged 16–55 would pick increasing the Government top-up for basic rate taxpayers to 40% (from the existing 25%) as the option most likely to encourage saving.

In all, this analysis gives a sense of the rank order and extent of people's preferences for certain kinds of features. If all 12 options were equally preferred, it would be expected that an equal proportion of the total sample (i.e. around eight per cent) would pick each option.[19] While there are more and less popular choices, there is no single option scoring substantially higher than eight per cent and the percentage differences between options are very small (and therefore not suitable for statistical significance testing). This suggests that there is not necessarily an undisputed frontrunner among all 12 options. However, the rank order still provides various insights.

Figure 4.1: Changes that are perceived to most encourage people to save more



[18] MaxDiff modelling was undertaken. Respondents were presented with three successive questions. Each question set included three potential features for the pensions tax system (out of a long list of 12), and respondents were asked, for each set, which option they thought would most encourage people to save, or save more into a pension, and which would least encourage this. Further details are in the separately published Technical Report.

[19] This is calculated as 100% divided by 12. In Figure 4.1, the displayed percentage scores sum to just over 100% due to rounding.

As might be expected, Figure 4.1 shows that unconditional financial incentives centred on increasing the Government contribution (from the existing 25% for basic rate taxpayers) tend to be most preferred. However, lowering the Government contribution and bringing in tax-free retirement income is also one of the most popular options. This highlights that, when it comes to pension saving, people could be willing to accept lower financial incentives today if there were changes to incentives in later life.

Conditional top-up rises that are offered for an initial fixed amount saved each year are more popular than top-up rises offered to specific groups of people such as those in their first job (who would tend to be younger) and new savers. The qualitative work offers insight here, with some participants in the groups and employer interviews expressing a dislike for changes seen to discriminate against certain groups. This applied broadly to the proposed flat rate system (discussed in section 4.2) which was sometimes seen to be unfair towards higher rate taxpayers. Also, while individuals and employers liked the idea of encouraging young people specifically to save more, some employers pointed out that incentives based on age might discriminate against those moving through life stages more slowly.

"You can't go, 'people leave university, they go to work and within five years, they're looking to take their first mortgage'. They need to have that ability to make that choice to save more at different times."
Employer interview

In terms of the three options focused on providing people with more information, the idea of pension statements showing the amount that people of a similar age and income save is the least popular measure. However, further survey data does show that many people are interested in getting this kind of information (see section 4.4). Bearing this in mind, this potential change to the pension system could still be effective in nudging people's behaviour if people perceive the messages to be credible – and previous Department for Work and Pensions research has indeed found that social norms, i.e. the perception that *people like me* are in a pension scheme, are associated with people saving into pensions.[20]

Subgroup analysis

The same statistical modelling was also carried out on key subgroups. Differences in the rank order for the overall model and the models for specific subgroups provide insights on what subgroups consider to be more important changes to the pension tax system.[21]

- Young people aged 16–34[22] rank both receiving more information about pensions generally and having pension statements show amounts needed to live comfortably more highly than the average adult, which highlights the particular appetite among this group for more information. They also rank the top-up rises for specific groups more highly than the average, which may reflect that these changes are most likely to benefit a younger age group.

- As might be expected, those without a pension rate having more information about the pension system generally much higher.

- Women rank the tax-free retirement and 20% top-up option more highly than men. This ties in with aforementioned gender differences suggesting that women are more keen than men for the system to change.

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[20] Ipsos MORI (2014) Pensions portfolio: communications tracking research, Department for Work and Pensions, available at: https://www.gov.uk/government/publications/pensions-portfolio-automatic-enrolment-communications-tracking-research-june-2014

[21] As this subgroup analysis has been carried out on relatively small sample sizes, the rank order differences have not been tested for statistical significance. However, this does not diminish the indicative insights that can be gained by looking at general patterns in the subgroup models.

[22] Sample sizes in the under-30s age group were too small for analysis on these measures.

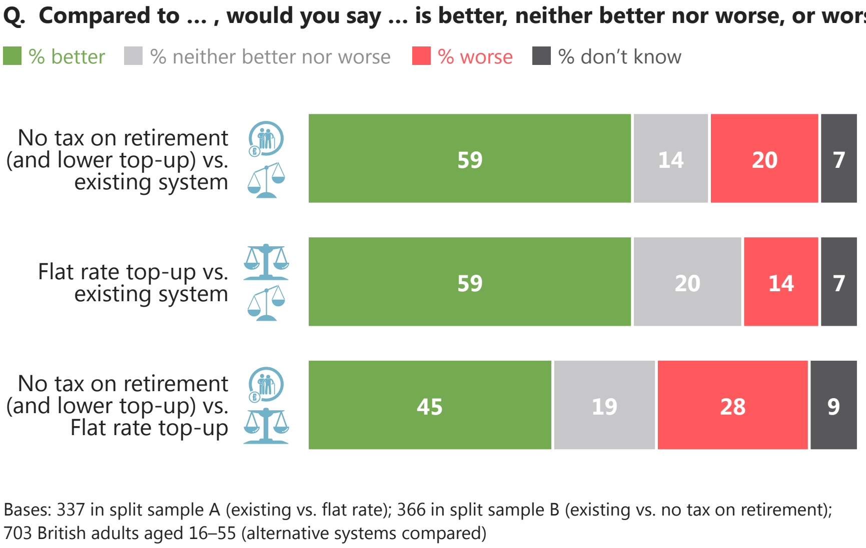
4.2 Preferences for alternative systems

Both the qualitative and quantitative research strands explored preferences for the existing system alongside two alternative systems. Participants received simplified descriptions of each system, focusing on the key elements of pension tax relief. The descriptions used in the qualitative research were then refined as follows for the survey, based on the feedback participants gave on how to best convey pension tax relief (see section 3.3) – the intention was to make each option as clear and concise as possible:

- Existing system: the Government currently tops up pension contributions made by basic rate taxpayers by 25%. For higher rate taxpayers, the Government top-up is around 65%.[23]
- System A: both basic rate taxpayers and higher rate taxpayers get the same amount of Government top-up, set at 30% (a flat rate).
- System B: when someone retires, the pension they receive each year is tax free. At the same time, the Government would still top up people's pension contributions, but the amount of top-up would decrease to 20% for everyone.

When asked which they think is better or worse, six in ten (59%) say that either alternative system is better than the existing one. When comparing one alternative against the other, the picture is more mixed, with just over four in ten (45%) saying no tax on retirement (and a lower top-up) is better and three in ten (28%) saying the flat rate system is better. This is illustrated in Figure 4.2.[24]

Figure 4.2: Overall comparison of existing and alternative pension tax systems



[23] The full description of the existing system in the survey also laid out the other broad elements of the pension system (in addition to the Government top-up): People save into a pension pot before they retire. In most workplace pensions the employer also contributes to the pension. Any returns that a person's pension fund earns before they retire are not taxed. When someone retires, the pension they receive is treated like income and taxed, but they can withdraw up to 25% of their pension tax-free as a lump sum.

[24] The graphical icons used in Figure 4.2 and throughout this chapter are only for aiding comprehension of the charts (i.e. they were not shown to respondents alongside the descriptions used).

Preferences by demographic and attitudinal subgroup

Merging the data presented in Figure 4.2 allows the relative strength of preference for each option to be estimated. This shows that a third (32%) think the no tax on retirement (and lower top-up) option is better than the current system *and* better than the flat rate system. Two in ten (20%) place the flat rate system above both others, while nine per cent favour the existing system above both alternatives.

Across all key subgroups, this balance of opinion is the same, with the no tax on retirement (and lower top-up) option being most preferred and the existing system being least preferred. However, there are significant differences that show certain groups as more strongly favouring alternative systems than others.

- Those with non-workplace (personal) pensions are more likely favour no tax on retirement and a lower top-up (52%, vs. 32% of those with workplace pensions). This possibly reflects the older age profile of this group, but nonetheless underlines the openness to alternatives, even among those who are relatively knowledgeable about the existing system.

- As might be expected, higher or additional rate taxpayers are more likely to make the flat rate system their least preferred option (22%, vs. 11% of basic rate taxpayers and 10% of non-taxpayers).

- Men are also more likely to say the flat rate system is their least preferred option (16%, vs. 8% of women). This might also reflect the differences by income, with more men than women in the higher tax bands.

Analysis by attitudinal subgroups finds that those who do not feel confident dealing with finances (2%) and those who agree they need to increase the amount they save each year for retirement (6%) are less likely than the average (9%) to rate the existing system at the top – in other words, people with these attitudes tend to show greater preference for alternatives, suggesting they do not feel as well served by the existing system.

Reasons behind preferences

As Figure 4.4 indicates, most people do not consider either alternative as making saving into a pension more affordable, but people do widely consider both alternatives to be simpler than the system in place. This highlights the importance people attach to simplicity and clarity when it comes to deciding which system they prefer.

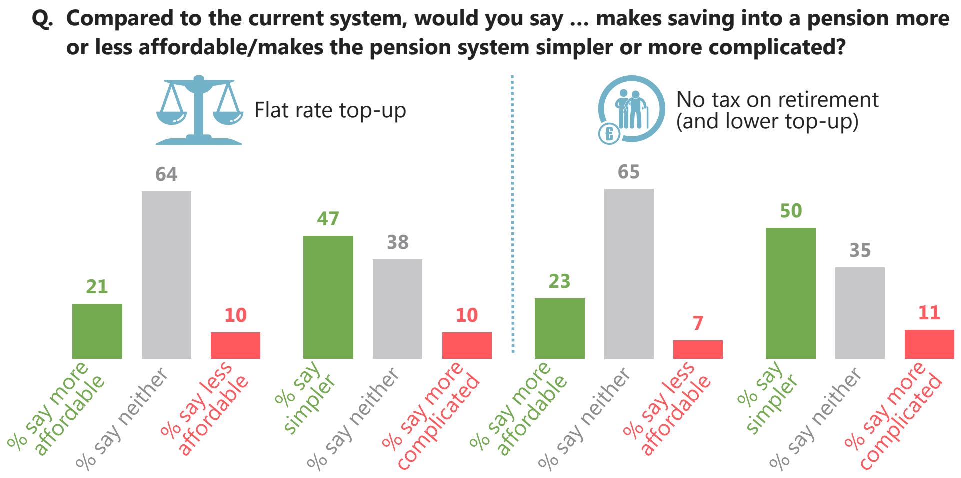
Even those who were aware of pension tax relief before taking part in the survey think on balance that the flat rate system (47%, the same as all aged 16–55) and the tax-free retirement and lower top-up model (45%, not significantly different from the average) are each simpler than the existing system.

In the qualitative research, while perceived simplicity was not a common theme for discussions around the flat rate option, it was frequently raised by individuals and employers when discussing the tax-free retirement (and lower top-up) option. Group participants said this system would make it easier to understand the figure you would get in retirement, which was for many the main piece of information they wanted to know and felt was currently missing. Employers also mentioned that tax-free retirement would be an easy message to sell to their employees, again because they felt this would create a clearer link between the size of the pension pot and the amount people would actually get on retiring, rather than involving an additional calculation to translate tax relief on contributions into retirement income.

"It doesn't matter if you're a lower or higher taxpayer. It's much easier for you to calculate your future, how long you're going to be paid and how much you're going to pay in each month."
Individuals discussion group participant (discussing no tax on retirement and lower top-up)

"It's easier to understand, easier to explain. People in my industry are not looking to see the pot grow. Not paying tax at the end, if they're going to pay in, that's going to be a bigger incentive to them."
Employer interview (discussing no tax on retirement and lower top-up)

Figure 4.3: Perceived impact of alternative systems on the affordability of pensions and simplicity of the pension system



Bases: 337 in split sample A (current vs. flat rate); 366 in split sample B (current vs. no tax on retirement)

Young people aged under 30 are especially likely to think of no tax on retirement (and a lower top-up) as a simpler system (66%, vs. 41% of 45–55 year-olds). For younger people the perceived simplicity of removing tax on retirement income (with a lower top-up) might be an especially good selling point.

As might be expected, higher or additional rate taxpayers have greater concerns about the affordability of saving under a flat rate top-up, with a quarter (24%) saying it would make saving less affordable (vs. 4% of basic rate taxpayers). However, the majority of higher or additional rate taxpayers still feel it would make no difference to affordability (59%, in line with the average). On the flipside it is worth acknowledging that basic rate taxpayers do not strongly feel that the flat rate system would make saving more affordable, even though they would benefit financially (68% say it would make no difference to affordability, not significantly different from the average) – possible reasons behind this are explored more in the next section.

There are also differences for attitudinal subgroups that suggest that a flat rate system could receive a slightly more muted reaction, even though it is still preferred on balance to the existing system. Those who say saving for retirement is not a financial priority for them right now are more likely to say the flat rate system makes saving into a pension less affordable (17%, vs. 10% on average). People who feel less confident dealing with finances are more likely to say that this option would make the pension system more complicated (22%, vs. 10% on average).

Initial versus considered reactions

It is important to note that the survey captures people's initial reactions to potential alternative systems, rather than their considered thoughts. The qualitative research shows that in some cases initial positive reactions to proposed alternatives can give way to more muted or negative responses on reflection and discussion with others. Moreover, participants' initial reactions were often quickly shaped by others in the group who claimed to be more knowledgeable about pensions. This is especially significant for an issue like pension tax relief, which many participants, even the more knowledgeable ones, admitted they had never thought about before. This is therefore a topic area where people's opinions on any pension tax system could be swayed by positively or negatively-framed coverage in news or media.

In terms of the flat rate system, while individuals and employers initially reflected on it potentially being appealing for other low earners, a frequent conclusion of discussion was that it could equally be unfair to higher rate taxpayers. Participants often concluded that it was anti-aspirational generally, as it was seen to penalise career progression – this was even the case among some basic rate taxpayers in the groups, reflecting that they did not necessarily want to see themselves in the basic rate tax band for the rest of their lives. Some employers also stressed that a 5p change in top-up would not feel substantive to employees who were not particularly engaged with financial matters to begin with.

"I don't think it's fair on higher rate taxpayers because they've done better than me, worked harder and maybe gotten more qualifications."
Individuals discussion group participant (basic rate taxpayer discussing flat rate system)

"You're not meant to be discouraging people. You're meant to be encouraging people to better themselves, better their careers, their earning capability."
Employer interview (discussing flat rate system)

"The guys on the basic rate would be like, 'yeah, we're gaining, it might only be 5p but we're gaining'."
Employer interview (discussing flat rate system)

The principle of tax-free retirement (even with a lower top-up) was typically treated more favourably in the groups than the flat rate system. However, in discussions, participants were frequently sceptical about whether such a change would be permanent under future governments. This also reflected a more general scepticism around the permanence of pension policy changes, particularly among younger participants. For example, some younger participants mentioned that they thought the State Pension would have changed again or might not exist by the time they retired.

"My biggest concern is that it will change, or won't be safeguarded."
Individuals discussion group participant (discussing no tax on retirement and lower top-up)

"What if another government come in and they change it all? What if they have to pay for the NHS, say?"
Individuals discussion group participant (discussing no tax on retirement and lower top-up)

Some participants had additional concerns about the possibility of a lower Government top-up. They felt that some people would lose out financially if they ended up with smaller pots to invest during their working lives (even though, under the system described to them, this would not necessarily be the case for all taxpayers). Others also raised the notion that people often would have lower incomes in retirement than in working life, so having tax relief on contributions could be financially more valuable to some people. Nonetheless, it is worth noting that this type of financial calculation was not a factor for everyone, since participants typically discussed the incentives on offer in less sophisticated terms, and still had difficulty conceptualising what different tax systems meant for how much they would get in retirement.

"The compound interest on the saving isn't taxed, so the more money you have, for the longer, you'll' get the interest – it will work out to be more in the current system."
Individuals discussion group participant (discussing no tax on retirement and lower top-up)

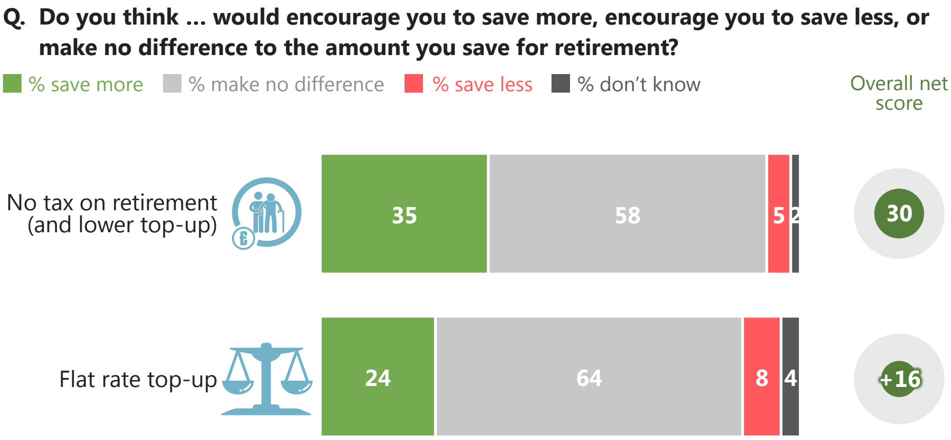
4.3 Potential impact of alternative systems

Do people feel that alternative systems make saving easier?

As Figure 4.5 shows, three in ten (28%) think the flat rate system would make them increase the amount they personally save for retirement, and one-third (34%) think this of the tax-free retirement option. However, these system-wide changes would not necessarily change actual saving behaviour in many cases. In both cases, the majority (64% and 58% respectively) think these alternative systems would make no difference to the amount they save.

Of course, as with any survey like this, it should be remembered that stated intentions do not always equate to actual behaviour either. What these data show is that there are reasons other than affordability and ease of saving that lead many people to favour alternatives to the current pension tax system.

Figure 4.4: Perceived impact of alternative systems on how much people save



Bases: 703 British adults aged 16–55 overall; 376 basic rate taxpayers; 118 higher/additional rate taxpayers

On balance, the key subgroups all tend to think that the proposed alternative systems would make no difference to the amount they save. However, young people aged 16–34[25] are more likely than those aged 35–55 to say they would be encouraged to save more under either the tax free retirement (and lower top-up) option (41% vs. 29%) or the flat rate system (30% vs. 19%), hinting that changes to the system could be particularly effective for younger people.

As might be expected, higher or additional rate taxpayers are more likely to feel they might save less under a flat rate top-up, where their Government contribution would fall (21% say they would be encouraged to save less, vs. 5% of basic rate taxpayers). A similar subgroup difference also emerges for the tax-free retirement and lower top-up option (11% of higher or additional rate taxpayers say they would be encouraged to save less under this system, vs. 3% of basic rate taxpayers). Part of this difference might simply reflect higher or additional rate taxpayers' better awareness of the existing system.

The qualitative discussion groups also highlight other ongoing barriers to pension saving that would not necessarily be addressed by having a different pension tax system, thereby limiting the impact on savings rates.

- Participants gave several examples of competing demands on their incomes such as day-to-day spending, saving for a house or clearing student loans.

[25] The sample size in the under-30s age group was too small for analysis on this measure.

- There were also suggestions that pensions are poor investment products due to perceived inflexibility in how people can withdraw their savings (although this did in fact change in 2015 with the introduction of new pensions freedoms for those 55 or older), apparent low returns relative to alternatives such as investing in property, and a perceived lack of transparency over how amounts are calculated. For example, some mentioned that certain people would be better putting their money into ISAs for long-term saving, so they could access it more easily if needed.

"I know that possibly a pension would be good for me, but we are planning to buy a house within two years. So we're more focused on that."
Individuals discussion group participant

"He's not earning enough money to put into a pension, so he is better off sticking to ISAs, or something like that, so he can get to his money quickly."
Individuals discussion group participant

How might employers react to alternative systems?

The qualitative research with small and medium employers focused most on how employers decided what level of contributions to make to employees' workplace pensions, how tax relief factored in this and how any changes to pension tax relief might change this. For this reason, these employer findings are covered mostly in this section, and featured less across the rest of this report.

The findings suggest that the potential alternative systems would not necessarily lead to employers of this size changing their pension scheme structures. In interviews, employers tended to see tax relief rates as irrelevant to the amount they contributed to employee pensions. Some reasoned that they were currently only contributing the minimum amount required by automatic enrolment legislation, and therefore the financial impact of higher or lower tax relief would be negligible. Another common theme was that National Insurance contributions were a more significant issue than income tax relief for employers, which meant they were less concerned about changes to pension tax relief.

"We went with the bare minimum required by law."
Employer interview

"The National Insurance, not so much the tax relief, does make a difference. National Insurance has no ceiling, so you just pay more and more and more."
Employer interview

Many employers said that the main lever acting on their company pension scheme was the financial health of the company – if the company could afford it, employer contributions might increase but otherwise they would remain the same, and this was irrespective of tax relief.

In addition, there was a sense that pension tax relief was not a benefit that was *owned* by the employer, and therefore the employer had no recourse to take any of this benefit away from their employees. In practical terms, this meant that if there was an increase in the Government top-up, participants generally did not think they would lower their employer contribution by the equivalent amount (even if, in net terms, employees would be no worse off than before). In some cases this was because they felt it was simply wrong to offset a Government benefit, and in other cases it was because they felt their employees would complain if they attempted to do this.

However, this stance seemed to be asymmetrical. Some employers said they would be reluctant to reduce their employees' pension pot growth if they could help it. This meant that in cases where a different system might mean lower the Government top-up for certain groups (e.g. higher rate taxpayers under the flat rate system), employers would potentially be happy to provide the additional top-up to the groups that would otherwise lose out, as long as this did not affect the company's overall financial health.

"I don't think the level of tax relief would make any difference to our decision. The decision will be made on whether or not the company can afford whatever, and everyone will get the best deal out of that fund."
Employer interview

"If across the whole workforce we end up being better off under a different tax system, then I could increase it for everybody to a different level. Whatever happens, my employees' position will be protected."
Employer interview

Some of the small and medium employers did recognise that larger organisations might think differently, since the financial repercussions of changes might be higher for them. Some also suggested that larger organisations might consider pensions schemes as more of a recruitment tool, so might be more engaged with legislative changes.

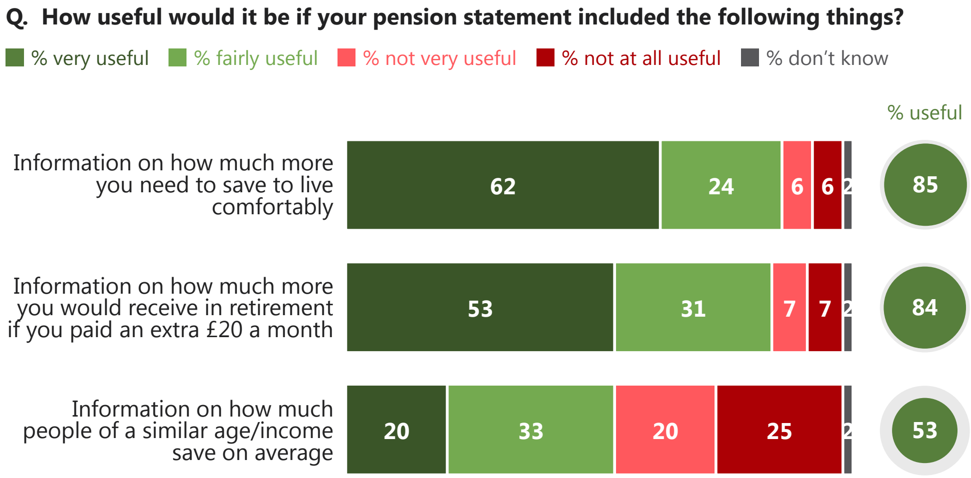
4.4 Appetite for more information

There is a clear appetite for receiving more information to help people anchor their saving, i.e. understand how much they need to save to be able to have the kind of retirement they envisage, which Figure 4.6 shows. Among those who have pensions and remember receiving pension statements, six in ten (62%) think it would be very useful to have their statements tell them how much they need to save to live comfortably, and five in ten (53%) think it would be very useful to know how much more they would receive in retirement from paying an extra £20 a month. These ideas could help respond to the dissatisfaction expressed with pension statements in the discussion groups (see section 2.4). Their popularity might also reflect that they help deliver what participants said they ultimately wanted – a better sense of how much they would get in retirement.

Reflecting the statistical modelling in section 4.1, having information on how much people of a similar age and income save on average is deemed less useful, with only two in ten (20%) rating it very useful. However, as aforementioned, providing this information in a way that is judged to be credible could help nudge people into saving more, by helping to change social norms. A 2015 Ipsos MORI survey has indicated that people in the UK do tend to overestimate how many others around them are not saving enough for retirement, which is potentially setting a negative social norm.[26]

[26] Ipsos MORI (2015) On the money, available at: https://www.ipsos-mori.com/researchpublications/researcharchive/3597/On-the-money-Misperceptions-and-personal-finance.aspx.

Figure 4.5: Usefulness of including further information on pension statements



Base: 351 who remember receiving pension statements

Again reflecting their ranking of different potential features of a pension tax system in section 4.1, young people aged 16–34[27] would particularly welcome further information on how much they need to save to live comfortably (75% say this would be very useful, vs. 62% on average).

Seven in ten (69%) of those with defined contribution pensions say it would be very useful to have more information on how much they need to save to live comfortably in their pension statements, compared to just over half (56%) of those with defined benefit pensions. This is one of the few differences by workplace pension type across the survey and may reflect the greater flexibility employees on defined contribution schemes have over how much they pay into their pension.

Finally, under five in ten (46%) of women say it would be very useful to have information on how much more you would receive in retirement if you paid an extra £20 a month on their pension statement, compared to six in ten (61%) men.

[27] The sample size in the under-30s age group was too small for analysis on this measure.

5 Key subgroup profiles

This chapter briefly brings together the subgroup differences discussed across this report to profile how key subgroups approach the general topic of pensions and, more specifically, pension tax relief.

5.1 Gender differences

Women are generally less aware of the pension tax system than men, and tend to feel more detached from their own pension arrangements.

- Four in ten (38%, vs. 27% of men) do not know if the Government tops up pension contributions. They also tend to underestimate the amount of top-up more than men (3 per cent vs. 8 per cent mean guess).
- Among those with pensions, a quarter (27%, vs. 14% of men) were unable to say how much of their own salary they had contributed to their pension last month.
- Almost two-fifths of those with pensions (37%, vs. 25% of men) do not remember receiving pension statements. Among those who remember receiving them, a third of women do not find them useful (33%, vs. 28% on average).
- These differences may reflect that women are less likely than men to be higher or additional rate taxpayers (8% vs. 20%), who tend to be a more highly engaged group.

There are indications that women are more open to either of the potential alternative systems than men, perhaps highlighting their overall lower engagement with the existing system.

- Out of the twelve options for change in the survey, women rank the tax-free retirement and 20% top-up option second, whereas men rank this sixth.
- Men are more likely to say the flat rate system is their least preferred option (16%, vs.8% of women).

5.2 Age differences

Young people aged under 30 tend to be less aware of the pension system as a whole and also less engaged (which perhaps reflects their distance from retirement).

- Just three in ten (29%, vs. 81% of 44–55 year-olds) have any workplace or personal pensions. Two-fifths (42%, vs. 25% of 44–55 year-olds) also say that saving for later life is not a priority for them right now.
- Three in ten (30%, vs. 19% of 45–55 year-olds) think the Government does not contribute to pension pots.
- They are more likely to say they do not know if retirement income is taxed (28% vs. 12% of 45–55 year-olds)
- Only two-fifths (41%, vs. 58% of 45–55 year-olds) recall hearing anything at all about the variable rate of Government contributions to pensions.
- Two-thirds (65% vs. 22% of those aged 45–55) of under-30s with pensions do not remember receiving pension statements in the last three years.

Young people especially value the simplicity of the no tax on retirement (and lower top-up) option, but may be more sceptical about the reasons behind implementing such a system and whether they stand to benefit.

- They are especially likely to think of no tax on retirement (and a lower top-up) as a simpler system (66%, vs. 41% of 45–55 year-olds).
- Those aged 16–34[28] are more likely than those aged 35–55 to say they would be encouraged to save more under either the tax free retirement (and lower top-up) system (41% vs. 29%) or the flat rate system (30% vs. 19%).
- The qualitative work highlights a more general distrust among young people when it comes to pensions policy changes. For example, some younger participants strongly suspected that the pension system might have changed again by the time they retired.

Alongside favouring alternatives to the existing system, there are indications that young people have the strongest unmet information needs, looking for figures and examples to help better align their own saving.

- Younger people not aware of pension tax relief are more likely to say that they would be encouraged to save more if they knew that pension contributions were tax free (77% vs. 58% aged 45-55).
- Those aged 16–34[28] would particularly welcome further information on how much they need to save to live comfortably (75% say this would be very useful, vs. 62% of all adults).

5.3 Differences by taxpayer group

Basic rate taxpayers are more favourable than average to the flat rate system, but still prefer no tax on retirement (and lower top-up) on balance.

- Higher or additional rate taxpayers are more likely to make the flat rate system their least preferred option (22%, vs. 11% of basic rate taxpayers and 10% of non-taxpayers) and two in ten (21%, vs. 5% of basic rate taxpayers) say they would be encouraged to save less under this system.
- On the flipside, seven in ten basic rate taxpayers (68%, not significantly different from the average) say the flat rate system would make no difference to the affordability of a pension.

This is in the context of basic rate taxpayers knowing less about the pension tax system generally and considering tax relief to be a relatively weak incentive.

- They are less likely to have any workplace or personal pensions (73%, vs. 88% of higher or additional rate taxpayers) and more likely to agree that saving for later life is not a current priority for them (30% vs. 15%).
- Three in ten basic rate taxpayers (31%, vs. 26% on average) think the Government does not top-up pension contributions, and a quarter (24%, vs. 10% of higher or additional rate taxpayers) do not know whether tax is paid on retirement income.

[28] This age group is used where the sample size for under-30s was too small for analysis.

- Higher or additional rate taxpayers are more likely than basic rate taxpayers to have heard a great deal about the variable rate of pension tax relief (26% vs. 14%), the annual limit on tax-free contributions (62% vs. 42%) and lifetime limit (53% vs. 33%).

- The qualitative research suggests that basic rate taxpayers can feel priced out of the market for tailored financial advice (e.g. paid advice from an Independent Financial Advisor).

- Among those who remember receiving pension statements, higher or additional rate taxpayers (70%) are more likely than the average (56%) to have found them useful.

- Higher or additional rate taxpayers are more likely than basic rate taxpayers to cite the Government contribution as most important in their decision to invest (24% vs. 14%). Basic rate taxpayers are, by contrast more likely to see the tax-free lump sum on retirement as most important (23%, vs. 12% of higher or additional rate taxpayers).

5.4 Differences by pension type

While those with non-workplace (i.e. personal) pensions tend to have differing opinions from those with workplace pensions, there is less variation in attitudes to pension tax relief based on the type of workplace pension someone has.

- Three-fifths (58%, vs. 41% overall) of personal pension holders think the Government tops up pension contributions.

- Two-fifths of personal pension holders (40%, vs. 29% of those with workplace pensions say pension tax relief was very important in their decision to invest in a pension. Nevertheless, personal pension holders are still more likely to rank the no tax on retirement and a lower top-up system top (52%, vs. 32% of those with workplace pensions).

- Seven in ten (69%, vs. 56% of those with defined benefit pensions) of those with defined contribution pensions say it would be very useful to have more information on how much they need to save to live comfortably in their pension statements.

- Among those not aware of pension tax relief a third (32%, vs. 22% overall) of those with defined benefit pensions say they would not at all be encouraged to save if they found out that pension contributions were tax-free.

6 Conclusions

This research shows that the public tends to have mixed to low awareness of the pension tax system, with people generally undervaluing the Government contribution to pension pots by a substantial margin. They also see the system as complex, with women, younger people aged under 30 and basic rate taxpayers in particular tending to be less engaged with pension saving as a result.

In this context, many people are open to any alternative system that comes across as being simpler, even if this means potentially receiving a lower Government top-up on pension contributions. Nevertheless, it is important to remember that the potential alternative systems explored in this research would not necessarily address all the underlying issues and attitudes that hold back pension saving:

- Improving awareness of the existence and level of the existing Government contribution could itself help to increase how much people save into pensions.

- People ultimately want to better link the amount they save to what they will receive in retirement. Changes to pension tax relief made in isolation, or even simple awareness raising to help people understand the existing system, may not necessarily make this relationship between contributions and retirement income clearer. There is still an important role and appetite for broader information provision that can help people to better anchor pension saving, i.e. understand how much they need to save to be able to have the kind of retirement they envisage.

- Few say they would save more under either of the proposed alternative systems, and affordability of saving is not the main reason people favour these systems. There are various other factors outside of pension tax relief that continue to influence how much people choose to save, such as competing demands for their incomes (e.g. saving for a house), and perceptions that pensions are poor or inflexible, particularly relative to other ways of saving, for example through investing in property or through savings products like ISAs.

Yet better communication – whether it is about the existing system, about alternatives, or about the link between pension contributions and the income people receive when they retire – comes with many challenges:

- There may need to be a range of communication channels, potentially involving informal or non-Government information sources such as friends, family, employers, and other external websites that people trust, as many in key subgroups do not engage regularly with formal communications like pension statements.

- At the same time, people want communication from the Government on pensions to maintain a serious tone, which they feel reflects the seriousness of the topic.

- The framing of pension tax relief, and of any potential alternative systems, may affect how they are perceived. This is not just about the use of percentages versus pence amounts when discussing the Government contribution. It also reflects the fact that people tend not to have considered this issue in great detail before – therefore this is a topic area where people's opinions on the existing system or on alternatives could largely be shaped by what they see and hear from friends and family, as well as in the news and media.

- Under any system, some people are still likely to think that pension tax relief is complicated. This is particularly when compared to other elements of the pension system that are more widely recognised and better understood, such as the employer contribution to workplace pensions.

Guide to statistical reliability

It should be remembered that final data from the survey are based on a weighted sample, rather than the entire population of adults aged 16–55. Percentage results are therefore subject to margins of error, which vary with the size of the sample and the percentage figure concerned.

For example, for a question where 50% of the 703 adults sampled in the survey give a particular answer, the chances are 95 in 100 that this result would not vary more or less than 4.7 percentage points from the true figure – the figure that would have been obtained had the entire population responded to the survey. The tolerances that are assumed to apply in this report are given in the following table.[29]

Approximate margins of error applicable to percentages at or near these levels

	10% or 90% ± (% points)	30% or 70% ± (% points)	50% ± (% points)
703 adults aged 16–55	2.8	4.3	4.7
485 who have a pension pot	3.1	4.7	5.2
377 women	3.7	5.7	6.2
133 16–29 year-olds	6.3	9.6	10.4
376 basic rate taxpayers	3.7	5.7	6.2
118 higher or additional rate taxpayers	6.6	10.0	11.0

There are also margins of error when looking at subgroup differences. A difference must be of at least a certain size to be statistically significant. The following table is a guide to these margins of error.

Differences required for significance at or near these percentage levels

	10% or 90% ± (% points)	30% or 70% ± (% points)	50% ± (% points)
377 women vs. 326 men	c.4	c.9	c.10
133 16–29 year-olds vs. 274 45–55 year-olds	c.7	c.12	c.13
376 basic rate taxpayers vs. 118 higher or additional rate taxpayers	c.7	c.12	c.13

[29] In calculating these sampling tolerances, the design effect of the weighting has been taken into account.

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