

Working paper

Research on predictions of income in retirement

by Mehul Kotecha, Rachel Kinsella and Sue Arthur

Department for Work and Pensions

Working Paper No 87

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First Published 2010.

ISBN 978 1 84712 870 6

Views expressed in this report are not necessarily those of the Department for Work and Pensions or any other Government Department.

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Acknowledgements

We are very thankful to the all of the respondents who agreed to take part in individual interviews for this study.

The project was managed by Rob Hardcastle at the Department for Work and Pensions (DWP) and we are grateful to Rob, Aisha Riaz and their colleagues at DWP for their thoughtful feedback and support.

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Summary

Background and research objectives

Evidence suggests that we live in an ageing society and given the number of people reaching retirement age, there is concern that the majority of the population does not save enough to secure an adequate income in retirement. The Department for Work and Pensions (DWP) estimate that around seven million people are not saving enough to deliver the pensions income they are likely to want, or expect, in retirement. This finding mirrors wider research indicating that, on the whole, people's knowledge and understanding of pensions is limited and there is widespread uncertainty about how to go about financial planning for the future. However, what is not known in any detail is the extent to which people can and do predict their likely future retirement income and, if they do, what factors they take into account in determining their likely income.

Against this policy background, DWP aims to investigate, through a programme of social and experimental research:

- the extent to which people can and do predict their likely future retirement income;
- what factors they take into account if they do;
- their underlying knowledge of, and attitudes and behaviour towards, income in retirement; and
- to what extent people can be abetted in improving their knowledge and enhancing their predictions, and thus their retirement planning.

This social research aimed to explore the nature and cognitive underpinnings of people's responses when asked to predict their income in retirement. The findings would feed into further experimental analysis of the impact of information in shaping those predictions and reveal attitudes and behaviour towards retirement planning. The research used a qualitative design in order to carry out in-depth exploration of the way people approach the task of estimating their retirement income, their terms of reference and the information they use.

Research design

This study comprised 30 in-depth interviews with people aged 22 to 59 in three locations: Newcastle, Southampton and Portsmouth. Individuals were purposively selected based on four key criteria agreed with DWP: gender, age, personal income and the number of years they have been contributing to private pensions (including those that did not contribute to one). The use of purposive sampling in this way enabled the study to achieve diversity among sample members, as opposed to building a statistically representative sample. This furthered the goal of this qualitative study, which was to understand, in depth, the range of views around predicting income in retirement.

The interview topic guide was developed in partnership with DWP. Each interview lasted approximately one hour and they were conducted on a face-to-face basis.

The concept of income at retirement

When asked to predict income in retirement, people typically tended to focus on their various individual potential sources of income rather than income 'in the round'. Respondents identified a number of income and investment sources they could draw on in retirement, ranging from different types of pensions to stocks and shares. Although respondents found it challenging to predict the likely yield of all of these streams, they found it particularly challenging to predict how much savings and the State Pension would contribute to their retirement. This is because savings tended to be used for non-retirement related purposes and, where the State Pension is concerned, respondents were not clear how entitlement is calculated and even whether the State Pension would exist when they retire.

Discussions around predicted income were sometimes further complicated by respondents conflating the income they thought they would have at retirement with the income that they felt they wanted or needed. This conflation was managed by researchers in the interviews through the use of effective prompts and probes that sought to disaggregate these different ways of conceptualising income in retirement.

The specific challenges experienced by respondents in making predictions in relation to their own situation (for example, conflating the income they feel they will get with that which they feel they need or want) lend weight to the desirability of carrying out any further experimental study based on the use of hypothetical scenarios, which would encourage respondents to come up with approximate guesses, rather than being concerned about the accuracy of their own likely income. In order to further minimise the complexity in making predictions, it may be important for these scenarios to focus on:

- just one income stream – particularly in view of the challenges respondents experienced around predicting their income from multiple streams;
- the income respondents feel they will get at retirement, rather than the income they feel they need or want at retirement; and
- the income in retirement of an individual, rather than the joint income of partners.

Variations in ability to predict income at retirement

Respondents varied in the degree of difficulty they found in predicting their income in retirement. Accordingly, respondents could be classified into four groups (groups A to D) according to how willing and able they were to make predictions – with those in groups A and B being the most willing and able to make predictions and those in groups C and D being the least willing and able to do so.

A key factor in determining membership of a group was respondents' attitudes towards their financial future. Respondents who were highly engaged in predicting their income in retirement (that is, those in groups A and B) tended to be those that took ownership of their financial future insofar as they assumed responsibility for their financial welfare and accorded priority to securing their income in retirement. Other factors that determined membership of a group included:

- **Number of income and investment streams** – with those in the higher groups A and B tending to have multiple income and investment streams, whereas those in the lower groups tending to have either a single stream or none at all.
- **Knowledge of income and investment streams** – group A tended to have the soundest knowledge of their different income streams in comparison to the other groups.

- **Age** – groups A and B tended to have older respondents, with groups C and D having respondents from mixed age groups.
- **Income** – group A had the highest earners, whilst group D had the lowest. Both group B and C had middle to low income earners.

How people predict income in retirement

A number of key reference points/prompts helped respondents to engage with the task of making predictions, either in the way they articulated their approach or in the prompting that researchers used to help them reach a prediction. Different approaches appeared to work well for different people, and there was no single key factor or terminology that helped engage respondents. The four main points of reference were:

- using external financial forecasts;
- focusing on their current position and factoring in changes in the future;
- focusing on what they want or need;
- focusing on individual income streams.

There were three different approaches that respondents adopted when making their predictions about how much they would have in retirement: guesses, rules of thumb and financial calculations. These varied in terms of how informed they were, what information they utilized and what they based their predictions on. Respondents who made guesses or used rules of thumb sometimes found it difficult to explain how they had reached the figure provided.

Although respondents adopted different approaches for different income streams, there were patterns in terms of the different methods adopted by the different groups described above:

- **Groups A and B** – adopted financial calculations, as they had more knowledge and financial ownership over their different income streams. They also tended to be older, so retirement was closer and there were fewer variables to consider when making their estimates.
- **Group C** – adopted rules of thumb, as they struggled to understand the financial and pension forecasts they did receive. They focused on the present so they had not given a lot of thought to retirement or making calculations about future income.
- **Group D** – adopted guesses, as they had limited knowledge about their planned income streams and were focused on their current financial survival. They also tended to be younger, so retirement was a long way off and there was more possibility for their lives to change, for example, having children, meeting a partner which affected their ability to make estimates.

Respondents across all four groups identified a range of factors that made it difficult for them to predict their income in retirement. These included:

- **Employment** – uncertainty about what wages they would have between now and retirement could impact on how much they could contribute into a pension plan or save for retirement.
- **Age of retirement** – uncertainty about when they would retire could influence how much they could save, invest or contribute towards a pension plan. Age of retirement was related to changes in the default retirement age and health concerns.
- **Future financial commitments** – doubt about likely financial commitments (or financial support) and how they would affect their disposable income before and after retirement.

- **Financial environment** – fluctuations in the financial markets, instability in the housing market and inflation and cost of living all led to uncertainty about future income in retirement.
- **Pension related issues** – limited information from pension companies and lack of knowledge about how pension plans would perform in the future made it difficult to make estimates.

Personal attitude towards planning for the future also appeared to underpin some of the factors described above. Feeling it was too early to start thinking about retirement, or just not wanting to think about it, created a barrier to making predictions.

Overall conclusion

The consideration of carrying out further analysis of the role of information and on attitudes and behaviour raises a number of issues. Our study found that one of the main reasons respondents struggled to predict their income in retirement is that they feel that there are too many unpredictable aspects of their lives which may impact on when they retire and how much money they will be able to save for retirement. This includes their family situation, their employment situation and their health. It is difficult to judge the value of hypothetical information (as, say, generated from further experimental research), in the sense that people may not be able to relate it to their own lives. Another key consideration that emerged from the study is that, even where they were able to make realistic estimates, respondents found it hard to understand what any given retirement income would actually mean in future terms, not only in terms of future money, but also what they would need or require when they were retired.

We can, however, see a number of advantages to proceeding with further analysis and a potential experimental design, and believe that this may be feasible, although it may be a task which the segments of the population who are less knowledgeable about pensions find quite challenging. Alternative ways of carrying out research among different population groups are discussed in this report. The experimental design does however pose some difficult issues, for example, the need to standardise and simplify a scenario to generate predictions of retirement income while at the same time retaining sufficient information to allow people to make realistic estimates that can be measured against each other and against modelled income levels. This report does not attempt to draw any conclusions about whether the proposed design would generate the type and volume of data that will allow comparison with data derived from experimental (optimal Bayesian predictor) models.

1 Introduction

1.1 Background and rationale

Evidence suggests that we live in an ageing society. There are now over 12 million pensioners, with 700,000 people reaching State Pension age (SPa) in 2009/10 alone (International Longevity Centre, 2010). Given the number of people reaching retirement age, there is concern that the majority of the population does not save enough to secure an adequate income in retirement. DWP estimate that around seven million people are not saving enough to deliver the pensions income they are likely to want, or expect, in retirement. This finding mirrors wider research indicating that, on the whole, people's knowledge and understanding of pensions is limited and there is widespread uncertainty about how to go about financial planning for the future (see, for example, *Attitudes to Pensions*, 2006). However, what is not known in any detail is the extent to which people can and do predict their likely future retirement income and, if they do, what factors they take into account in determining their likely income.

Reforms contained in the Pensions Act 2008 will introduce a duty on employers to automatically enrol all eligible jobholders into a qualifying workplace pension's scheme from 2012 and to provide an employer contribution. Although people will still be able to opt out, automatic enrolment should therefore dramatically increase the number of people saving for retirement.

Against this policy background, DWP aims to investigate, through a programme of social and experimental research:

- the extent to which people can and do predict their likely future retirement income;
- what factors they take into account if they do;
- their underlying knowledge of, and attitudes and behaviour towards, income in retirement; and
- to what extent people can be abetted in improving their knowledge and enhancing their predictions, and thus their retirement planning.

In light of the paucity of knowledge around this issue, and as a first step to possible experimental research, the DWP commissioned this study to explore the feasibility of asking people to predict their income in retirement.

1.2 Research aims and objectives

This research aimed to explore the nature and cognitive underpinnings of people's responses when asked to predict their income in retirement. The findings would feed into further experimental analysis of the impact of information in shaping those predictions and reveal attitudes and behaviour towards retirement planning. They would thereby inform DWP's view on the feasibility of asking people to predict their income in retirement in an experimental setting: in other words, whether and how it might be possible to ask people a simple question to generate an estimated monetary value of retirement income. The study used a qualitative design in order to carry out in-depth exploration of the way people approach the task of estimating their retirement income, their terms of reference and the information they use. In this way, the study aimed to provide qualitative insights on the kind of information that might help people to improve their estimates.

The experimental research would aim to ask people to make predictions about income in retirement in the same vein as recent academic experimental research. This research, in the field of cognitive psychology (Griffiths and Tenenbaum, 2006), has proposed that people have an innate knowledge of the distribution of so-called ‘everyday phenomena’, such as longevity, film box-office takings, queue times and so on. Furthermore, they assert that the underlying cognitive processes used to derive this knowledge are essentially Bayesian in character, that is, people derive and use innate, subjective probabilities, based on their past experiences and observations, in order to assess the likelihood of specific events or outcomes. It is also proposed that, on average, people’s predictions are accurate for the most part when compared to so-called optimal Bayesian predictors. The proposition that follows from this analysis is that people can, be relied upon to make predictions whose distribution is in line with actual observations, on the back of relatively limited information. This might therefore have potentially significant implications for the provision of information on retirement planning.

After consultation, both internal and with external academics, including Tom Griffiths, it was decided to explore the feasibility of carrying out experimental research on retirement income.

A major element of this approach was to conduct this social research before embarking on a potentially resource-intensive programme of experimental study. This would aim to provide an indication of whether and to what extent DWP could conduct an analogous piece of research to that conducted by Griffiths and Tenenbaum, looking at predictions of income in retirement. Can such methodologies be successfully applied to the investigation of potentially less ‘everyday’ phenomena such as retirement income? And just what are the potential methodological issues around conducting such research?

While the research would not only provide pointers towards whether and how best to conduct experimental research it was recognised that it would provide much useful information and insights on the form and cognitive underpinnings of people’s predictions of income in retirement and on attitudes and behaviour towards retirement planning.

The specific study objectives were to:

- investigate how people go about making estimates of their income in retirement;
- describe the language people use when thinking about how to estimate their future income;
- map the range of factors taken into account and the different frames of reference that people apply in predicting income in retirement; and
- explore the pros and cons of conducting further experimental research on people’s predictions of income in retirement.

1.3 Overview of the study design

Qualitative in-depth interviews were conducted with 30 respondents. The sample was designed using purposive sampling to ensure a representation of a range of characteristics and circumstances across four primary criteria agreed with DWP: gender, age (22-59), personal income (£10K to £60K) and the number of years they had contributed to a pension or pensions (0 years to 30+ years). Respondents were recruited in public areas or door-to-door by National Centre for Social Research (NatCen) recruiters across three locations: Newcastle, Southampton and Portsmouth. In order to ensure diversity in the sample, recruiters used a questionnaire that screened respondents according to the four key criteria (see Appendix A for a copy of the questionnaire). A breakdown of the achieved sample is presented in Table 1.1.

Table 1.1 Achieved respondent sample in relation to the primary sampling criteria

Characteristic	Number of respondents
Gender	
Male	19
Female	11
Age	
22-29	8
30-39	1
40-49	11
50-59	10
Personal income	
£10-25K	15
£26-40K	11
£41-60K	4
Number of years contributing to pensions	
Zero contributions	9
1-20 years	12
21-30 years	5
30+ years	4
Total number of respondents	30

Table 1.1 indicates that the study managed to capture a range of respondents around the primary sampling criteria. However, it must be noted that particular challenges were experienced around recruiting respondents from higher income groups (that is, the £41-60K bracket) and those aged 30-39, and the numbers recruited fell below our target quotas. Where the higher income group is concerned, one key reason for this was that there seemed to be a lack of incentive for these respondents to be involved in the study; the thank you payment of £20 did not motivate this higher income group to participate in a way that it perhaps did for the other income groups. This notwithstanding, recruiters managed to get representation from this income group across all three areas. It is not clear why it was difficult to recruit respondents aged 30-39. In view of the likelihood this may be the age range where individuals could well be starting to consider their income in retirement, it is disappointing to have a lack of diversity in this age group within the sample. However, the diversity reached in the other sampling criteria ensures that key qualitative insights are still captured by this study.

In addition to above primary criteria, the sample was also monitored across the following five secondary criteria¹:

- mode of employment (full-time, part-time and self-employed);
- type of pension (private, occupational, both private and occupational and none);

¹ Diversity was achieved across all of these criteria with the exception of ethnicity, where there was very little representation from across Black and Minority Ethnic (BME) groups. This lack of BME representation may reflect the importance attached by recruiters to meeting the primary criteria within the context of limited timeframe for fieldwork.

- qualifications (school level, higher education and none);
- ethnicity (white and Black and Minority Ethnic (BME)); and
- household status (living alone and living with someone).

1.4 Conduct of interviews

The interviews were carried out using a topic guide developed in consultation with the DWP (see Appendix B). The topic guide set out key areas for the interviews to cover and ensured consistency across the interviews, whilst also enabling the researcher to flexibly explore the range of issues raised in different interviews and to respond and follow up on new subject areas raised by respondents.

The interviews started by collecting background information about the respondent's financial and pension situation. The researcher then introduced the topic of retirement income by asking people what they thought their income would be when they retired (the wording of this question was not fixed but was nonetheless similar across the interviews). They were not required to make an accurate prediction, but rather to say roughly what they thought their income would be. People responded in a range of ways to this initial question, from saying they did not know, to spontaneously providing an estimate (sometimes showing how they reached this), to providing a response based on what they would hope or like to get rather than what they thought they would get. The initial response to this question determined a range of follow up questions, including:

- encouraging reluctant people to make a guess, and to think in round figures;
- asking people to explain how they had come up with their estimate; and/or
- re-focusing the question by asking whether they thought they would actually get the income they would like to get.

Where people were unable to come up with a prediction despite encouragement to 'guess', the researcher prompted them by asking about individual sources of income (for instance, income from a State or company pension, income from any investments or assets) in order to help identify potential sources and levels of income. In this way, all respondents ended up with a predicted figure, but with varying degrees of prompting and help from the researcher in doing so. This process is discussed further in Chapter 4.

Interviews lasted approximately one hour and were conducted on a face-to-face basis at locations that were convenient for respondents, usually their homes. Assurances of confidentiality were given at the start and end of each interview and an emphasis was placed on informed consent throughout the encounter; this is standard practice in accordance with research ethics guidelines. Respondents were given a thank you payment of £20 at the end of the interview. In case the respondents wanted any further information or advice following the interview, they were given contact details of relevant organisations (see Appendix C). All of the interviews were digitally recorded with the respondent's consent.

It is worth noting here that, as a qualitative piece of work, this study sought to explore and understand views around predicting income in retirement, rather than to quantify these. This focus is reflected in the decisions around the sample size, the use of purposive sampling (which sought to achieve diversity among sample members rather than to build a statistically representative sample) and the method of questioning used – all of which are designed to explore views and experiences in depth and within an individual context, rather than to generate data that can be analysed numerically.

1.5 An overview of the structure of the report

The remainder of this report presents findings from the interviews with respondents. Chapter 2 explores how respondents approached the concept of retirement income. Chapter 3 looks at the variation among respondents in terms of how willing and able they were to predict their income in retirement. Chapter 4 moves on to consider how respondents actually set about making these predictions and the challenges faced by respondents in making these predictions. The final section, Chapter 5, draws together the overall key findings from the study and presents a number of issues for consideration by DWP in relation to the feasibility of conducting further research (experimental and social) on predictions of income in retirement.

Where case studies are used in the report to provide an illustration of views, we have taken care to preserve anonymity and the names used are all pseudonyms.

2 The concept of income in retirement

This Chapter looks briefly at the concept of income in retirement and the different ways in which respondents engaged with the concept during the interview. The complexity of thinking about income in retirement was underpinned by two main considerations:

- whether the estimate of income relates to income needed, wanted or expected;
- what components of income should be included in the estimate.

These two aspects inevitably have implications for further social research in this area and for the design of any experimental research.

2.1 The nature of income in retirement

Although the objective of the interview was to discuss predictions of expected income in retirement, respondents who found this particularly difficult to think about tended instead to initially refer to the income they felt they wanted/hoped for or needed. This was the only way they felt able to give a monetary value to their future income. However, the uncertainty about the cost of living in the future also underpinned how well they felt able to make a valid estimate. This point is illustrated by the respondent below who, despite having well-laid financial plans for retirement, is not sure whether he will have enough money to live on due to the rise in price of goods, services and utilities in the future.

‘But of course, how much is enough? That was the question. How much is enough money for us to exist on [when they retire]?’

(Male, high income earner, has pension, 50-59)

This notwithstanding, the recurrent view amongst respondents was that the broad level of income that they would need at retirement to survive would be far lower than that which they currently require. (Those who were confident their income would be enough to live on cited income levels of between £1,500-2,500 a month².) A key reason for this was that respondents anticipated fewer financial commitments in retirement than at present because mortgages would have been paid off and current dependents, such as children and elderly relatives, would require less financial assistance. Respondents also drew attention to the likelihood of their lifestyles being ‘downsized’ so that, for example, they would take fewer holidays.

‘Well, just over the years, doing is now, and that’s paying the mortgage. You know? Have to run a car, get to work every day, two kids, £30 a week dinner money, clothes, uniforms and then they have that and the house is paid, I’d only have myself to worry about [when she retires]. That would be fine, I think.’

(Female, middle income earner, no pension)

² Respondents who felt that their income would be enough to live on tended to have multiple income streams and/or were convinced that their pension compared favourably to others. Respondents who were not confident that they would have enough for their retirement tended to feel that they could not currently increase their contributions to their income and investment streams and, as such, would either continue to work until they could retire or reduce their budget in retirement.

It is important to note that there was also an alternative, albeit more marginal, view around the income needed in retirement. According to this view, expenditure in retirement would actually increase in order to accommodate the extra leisure time that would be available to individuals and the rise in utility bills associated with individuals spending more time at home. Even within this view, it is interesting to observe that an increase in costs associated with the ageing process, such as the need for a carer due to health issues or the need for specialist mobility equipment due to issues around mobility, were not at the forefront of respondents' minds.

2.2 The different income and investment streams at retirement

As described in Chapter 1, the aim of the interviews was to understand how respondents reached an estimate of income in retirement, and to help others reach an estimate by a process of probes and prompts. Instead of discussing total income in retirement, respondents tended to spontaneously mention different sources of income which they could draw on in retirement. In some cases, this was found to be a useful way of prompting others to conceptualise future income. These different potential sources of income are presented in the table below. The range of possible sources provides evidence of the complexity of the task of making an estimate.

Table 2.1 Potential income and investment streams at retirement

Income streams	Investment streams
Pensions <ul style="list-style-type: none"> • Occupational pensions • Private pensions • State Pension 	Property – where respondents envisaged selling their property/ies and gaining a lump-sum payment from these
Property – when referred to as yielding regular rental income in retirement	Stocks and shares
Work in retirement – usually part-time work	Savings <ul style="list-style-type: none"> • ISAs • Savings Bonds • Regular savings accounts • Managed equity funds
Other – state related benefits such as Pension Credit ¹	Other <ul style="list-style-type: none"> • Inheritance monies • Returns from endowment mortgages/policies

¹ This was mentioned spontaneously and without prompting by respondents.

Pensions figured highly in respondents' accounts of their source of income in retirement. Pensions were seen to yield reliable, regular income in retirement and it was not unusual for respondents to have multiple pension schemes, some that were frozen and others that were still active. Those that had private pension schemes overwhelmingly shied away from predicting the income yield from these streams, whereas those in an occupational scheme were more likely to engage with providing an estimate. There were two key reasons for this: firstly, those that had a private pension tended to feel that their pension was far more exposed to fluctuations in market forces – and hence variable – than those that were in an occupational pension. Secondly, respondents that were in occupational pension schemes were more likely to draw on (and therefore, be more knowledgeable about) the forecasts given to them by their pension providers than those with a private pension. This

could reflect differences in how different types of schemes keep individuals informed about pension contributions and projections.³

Even within both types of schemes, respondents tended to find it much more difficult to comment on the likely yield of frozen pension policies. This could be because respondents paid less attention to the information that they were given about these schemes, preferring to focus on current policies, and/or because knowledge of these schemes may have lessened over time. Furthermore, regardless of whether a scheme was frozen or active, respondents found it much easier to comment on the lump sums that these pensions would pay out, rather than on the annuity part of the pension, that is, the annual income yield of that pension. This could be because it may have been easier for respondents to work with a one-off large payment than to make calculations around how their pension fund would be distributed annually throughout their retirement.

The State Pension was not generally seen to be a key form of income in retirement, even by those that did not have any other planned income stream⁴, for two reasons: either respondents were unsure whether they would be entitled to it and/or were uncertain about whether the State Pension would still exist when they retired. There was also confusion around how entitlement is calculated, with respondents tending to have just a vague idea that their level of National Insurance contribution could determine the level of State Pension they would receive.

Property was another stream of investment that featured prominently in respondents' accounts, as it was seen to hold its value in relation to the cost of living. Indeed, respondents who favoured property over pensions tended to feel that property investments were more reliable in this respect than pensions, which they felt were performing badly and would not yield a level of income needed to survive at retirement. In terms of predicting income from property, respondents drew on current property prices (rental or otherwise) to make these estimates and found this relatively straightforward.

Respondents did not envisage savings to be a key part of their financial plans for retirement, citing the low interest return on savings as a reason for this and/or preferring to save for a particular non-retirement related purpose (for example, to fund a holiday, to purchase cars and luxury electrical goods, such as televisions). Where investments such as shares and endowment policies are concerned, these were also not widely regarded as a source of financial means at retirement. Those who did rely on these streams tended to be able to make predictions as they were well informed about them, either by virtue of having either previous experience of the financial market and/or having good access to information around their investment streams, particularly endowment policies.

Where respondents had a number of income and investment streams planned for retirement, they tended to identify one or two streams as their core source of financial means and envisaged other streams as providing peripheral funds that they could draw on for specific purposes. The case study below provides an example of this core/periphery model of drawing on multiple sources of income.

³ It is worth noting here that respondents who were informed that their pension funds were doing badly questioned the reliability of the income yielded by pensions, with some respondents wishing that they had not started their pension schemes in the first place. However, these respondents tended to continue to contribute to their pension schemes despite any losses incurred, feeling that they had contributed so far and that it did not make financial sense to stop their contributions.

⁴ Those without other planned income streams tended either not to have any plans in place to secure income in retirement or felt that they would carry on working even when they were past retirement age. See Section 2.4 for a fuller discussion of respondents grouped according to their attitudes about their income in retirement.

‘George is 52 years old and is married with three children. He has worked in the same company for over 30 years and feels he has very good company pension scheme that he has contributed to since he started work. He also has brought shares in the company he has worked for over the years and has a number of ISAs. He also expects a small return from an endowment mortgage he took out in the 1980s. George feels that his pension will be his chief source of financial means at retirement as it will provide a regular monthly income. He intends to use his investments and savings as a lump sum pot of money that he can draw on to purchase large items (such as a car) or to help him through rainy days.’

(Male, high income earner, has a pension)

2.3 Summary

In summary, respondents identified a number of income and investment sources they could draw on in retirement, ranging from different types of pensions to stocks and shares. Respondents found it difficult to predict the likely yield of all of these different income and investment streams. However, they found it particularly difficult to predict how much savings and the State Pension would contribute to their retirement. This is because savings tended to be used for non-retirement related purposes and, where the State Pension is concerned, respondents were not clear how entitlement is calculated and even whether the State Pension would exist when they retire.

Discussions around predicted income were sometimes further complicated by respondents conflating the income they thought they would have at retirement with the income that they felt they wanted or needed. This conflation was managed by researchers in the interviews through the use of effective prompts and probes that sought to disaggregate these different ways of conceptualising income in retirement.

An important potential implication for potential experimental research stems from the specific challenges outlined in this Chapter around respondents making predictions in relation to their own situation (for example, conflating the income they feel they will get with that which they feel they need or want). These challenges lend weight to the desirability of carrying out an experimental study based on the use of hypothetical scenarios, which would encourage respondents to come up with approximate guesses, rather than being concerned about the accuracy of their own likely income. In order to further minimise the complexity in making predictions, it may be important for these scenarios to focus on:

- just one income stream – particularly in view of the challenges respondents experienced around predicting their income from multiple streams;
- the income respondents feel they will get at retirement, rather than the income they feel they need or want at retirement; and
- the income in retirement of an individual, rather than the joint income of partners.

3 Variations in ability to predict income in retirement

As a prelude to understanding how respondents actually set about predicting their income in retirement, this Chapter explores the ease with which respondents were able to make predictions and whether there were certain groups within the sample that found it more difficult to do this than others.

Not surprisingly, respondents across the sample found it difficult to predict their income in retirement for a number of reasons relating to their reluctance to engage with the issue and/or their actual ability to predict their income due, for example, to a lack of knowledge of their potential sources of income. Even respondents who were willing to engage with making predictions and felt relatively able to make informed predictions based on the information they had at hand questioned the accuracy of their predictions due, for example, to uncertainties around how fluctuations in the financial markets would affect their income and investment streams (see Chapter 4 for a fuller discussion of these and other challenges). The two quotes presented below are illustrative of the difficulties that respondents had when asked about their income in retirement.

'I haven't got the foggiest idea. I'm hoping that I'll have a house with no mortgage and I possibly will have...well I'd probably like to have a hundred pounds a week, if not more...'

(Female, low income earner, has a pension, age 50-59)

'I've absolutely no idea. Wouldn't know where to start.'

(Female, low income earner, no pension, age 22-29)

3.1 Predictions in relation to key groups in the sample

Although respondents across the sample experienced some difficulty predicting their income in retirement, the sample can be organised into groups according to the ease with which respondents were willing and able to engage in making predictions. Group membership was determined by a number of factors, including:

- attitudes towards the future;
- number of income streams;
- knowledge of these income streams;
- age;
- income levels.

It is interesting to note that educational background did not play a part in determining group membership. Respondents across all four groups had varying levels of educational backgrounds; these ranged from respondents that had no formal qualifications, to those with school-leaving qualifications to those that had higher education qualifications. This indicates that the financial capability of respondents to organise and be cognisant of their income in retirement did not solely hinge on their educational background.

Table 3.1 provides a breakdown of these groups along with their key characteristics.

Table 3.1 A breakdown of the groups in the sample

Group	Ability to predict income
<p>Group A</p> <ul style="list-style-type: none"> • High ownership of financial future • Tended to have multiple planned streams of income (including pension arrangements) • Tended to be knowledgeable about all streams • Closer to retirement • Tend to be middle to high income (£26-60K) 	<p>High</p> <ul style="list-style-type: none"> • Acceptability of topic high • Able to engage in predictions with little prompting • Predictions informed by performance of income streams – both past, current and projected future
<p>Group B</p> <ul style="list-style-type: none"> • Some ownership of financial future • Tended to have multiple planned income and investment streams (including pension arrangement) • Knowledge of some streams • Closer to retirement • Middle to low income groups (£10-40K) 	<p>Moderate to high</p> <ul style="list-style-type: none"> • Acceptability of topic high • Able to engage in predictions with some prompting • Predictions based on some knowledge of income streams
<p>Group C</p> <ul style="list-style-type: none"> • Very limited ownership of financial future • Tended to have single planned stream of income or investment (usually an occupational pension or property) • Limited knowledge of income/investment stream • Mixed ages (22-59) • Middle to low income group (£10-40K) 	<p>Low to moderate</p> <ul style="list-style-type: none"> • Acceptability of topic moderate to high – sometime embarrassed by the lack of knowledge of income streams • Needed a lot of prompting to engage in topic • Predictions were less considered as they were based on: <ul style="list-style-type: none"> – limited information (for example, current performance of income stream) – what income respondent would like – simple guess
<p>Group D</p> <ul style="list-style-type: none"> • Lack of ownership of financial future • Tended to have no planned streams of income/investment or a single stream • Mixed age groups (22-59) • Low income (£10-25K) 	<p>Low</p> <ul style="list-style-type: none"> • Acceptability of topic low – usually feeling embarrassed about income and/or knowledge of income streams • Not willing and able to engage in predicting income and only did so after an exceptional level of prompting

A key determinant of group membership was respondents’ attitudes towards their financial future. Respondents who had a high ownership of their financial future (group A), for instance, who took responsibility for their financial welfare and who did not lose sight of their financial security at retirement – were most able to engage in making predictions. As one goes down the table, ownership of financial future diminishes so that those at the bottom of the table (group D) focused almost exclusively on their current financial circumstances. The two case studies below contrast the approach towards retirement income taken by respondents from two different groups.

Group A

'Frank is 53 years old. He joined the company pension scheme at 21 because even then he knew that he wanted to put money aside to pay for his retirement. He knows he pays 6% of his salary to his pension scheme and that this limit is fixed by the terms of his scheme. Frank looks at his pension forecasts regularly and estimates that his pension will give him a lump sum of £35-40k. Thereafter, it would give him an index linked income of £15k per annum, based on his anticipated final salary. Frank also has other investments planned for retirement which he hopes will supplement his pension, including company shares and an endowment policy. Although Frank is unsure about what his shares will yield due to fluctuations in the market, he does consult his endowment policy company in order to see how this policy is maturing.'

(Male, high income earner, has a pension)

Group C

'Jane is 27 years old and is recently married. She already has a child and another one on the way, so she has taken a maternity break from her public sector job. Jane's only source of income in retirement is an occupational pension, which she joined simply because she was automatically opted in to it by her employer. Jane is not sure how much her monthly contribution to the pension scheme is as this is deducted automatically from her salary. She also does not know whether her pension payout is based on her final salary or her overall contributions to it. Although Jane feels comforted to have some sort of provision in place for her retirement, she feels that she is too young at the moment to think about retirement and will think more seriously about her income nearer the time. Jane also prefers to focus on her current concerns – most importantly, raising her young family.'

(Female, middle income earner, has a pension)

Respondents' attitudes towards their financial future may have also have had an influence on the other factors that determined membership of a particular group. For example, respondents' knowledge about their financial streams may have been influenced by their attitudes towards the future. Accordingly, those in group A tended to be highly knowledgeable about these streams because these respondents took control of their financial future by actively seeking out information, as opposed to relying on 'others' to organise this for them. The two case studies below illustrate this point.

Group A

'Brian is single and a homeowner. His main sources of income in retirement are the three pension schemes he has accumulated throughout his working life (one of which he still pays into). Two of these schemes are occupational pensions and one is a private pension. Brian does not get much information currently about his frozen stakeholder pension. However, Brian makes a point of knowing more about his occupational pensions by asking colleagues that have retired. Brian has also consulted his bank in the past in order to get a sense of how good his current occupational pension is. Brian reads the annual statements provided to him by his occupational pension schemes in order to be more aware of how much he will eventually get from these pensions at retirement.'

(Male, low income earner, has a pension)

Group B

'Richard is 51 years and lives with his wife. Richard sees his pension as the chief source of income in retirement but intends to supplement this with other sources of income, such as the lump sums of money generated by his portfolio of shares and ISAs. Richard is able to predict how much his ISAs and shares will yield when he retires based on how much he intends to contribute to these prior to retirement. However, Richard is not sure what the forecast is for his pensions because he does not look at the statements his pension company gives him and leaves this to his wife to sort out and file.'

(Male, middle income earner, has a pension)

Although less critical than attitudes, both income and age also played a role in determining group membership. With regards to the former, the influence of income levels on the ability to predict income in retirement was particularly pronounced between members of groups A and D, who existed at extreme ends of the income scales. Having the highest income levels across the groups may have afforded members of group A the financial security to think about their income in retirement, thereby helping them to engage with making predictions. Conversely, group D members tended to be preoccupied with ensuring their current financial survival which, coupled with a perceived lack of future financial prospects (for example, the likelihood of securing well paid employment), may have deterred them from thinking about the future. The quote below illustrates this point.

'I haven't got a proper career, that's probably why I haven't thought about it. Just have kids, a family...I haven't got time to go to college and stuff like that, I just go to work and I earn the money for the kids...I probably would think about stuff like that [pensions and income in retirement], that [lack of career prospects] might be why I don't think about stuff like that.'

(Female, low income earner, does not have a pension, age 22-29)

Where age is concerned, given the limited number of individuals aged 30-39 that participated in the study, a degree of circumspection needs to be employed in drawing any conclusions on the impact of age on the ability of individuals to predict their income in retirement. However, the data suggest that groups consisting predominately of older respondents (that is, groups A and B) were more likely to engage with predicting their income in retirement. This could be because retirement is closer in their horizons. As such, older respondents may have taken greater steps in recent years to consolidate their knowledge about their financial situation at retirement and, therefore, be better placed to comment on their income in retirement.

Before concluding this Chapter, the paragraphs below outline the actual range of predictions that respondents made of their income and investment streams at retirement.

In making estimates, respondents specified their income and return on investments in retirement either in weekly (ranging from £60 to £900), monthly (ranging from £350 to £4K) or annual terms (ranging from £15K to £50K). Respondents from groups A and B predominately framed their income in either annual or monthly terms, whereas those from groups D (and to a lesser extent, group C) did so also in weekly, as well as monthly terms. It is not clear from the data as to why group D members focused on weekly estimates, but it may be due to the fact that these respondents tended to be on low incomes and so were trying to budget on a weekly basis and/or because they tended to be paid on a weekly basis. The use of a 'week' as a time interval, therefore, may make much more sense to this group.

It is worth noting that a broad-brush analysis of respondents' estimates of their income in retirement tended to be in the region of between 25-50 per cent of their current earnings⁵. Where respondents felt particularly pessimistic about their pension due, for example, to a perceived poor level of contribution to their pension fund, there was a lower expectation of their income in retirement, that is, something in region of less than 25 per cent of their current earnings. As the next Chapter explores, these predictions ranged from being well informed (for instance, through pension forecasts) to being a simple guess. Although guesses were sometimes quite realistic, at other times they appeared to be overly-optimistic. Younger people in particular, although not exclusively, tended to be less realistic about their likely income, how they might achieve it and what they needed to live on.

3.2 Summary

Respondents varied in the degree of difficulty they found in predicting their income in retirement. Accordingly, respondents could be grouped according to how willing and able they were to make predictions. A key factor in determining membership of a group was respondents' attitudes towards their financial future. Respondents who were highly engaged in predicting their income in retirement (that is, those in groups A and B) tended to be those that took ownership of their financial future insofar as they assumed responsibility for their financial welfare and accorded priority to securing their income in retirement. Other factors that determined membership of a group included:

- **Number of income and investment streams** – groups A and B tended to have multiple income and investment streams planned, group C tended to have a single stream of income whereas those in group D tended not have any streams planned.
- **Knowledge of income and investment streams** – group A tended to have the soundest knowledge of their different income streams in comparison to the other groups.
- **Age** – groups A and B tended to have older respondents, with groups C and D having respondents from mixed age groups.
- **Income** – group A had the highest earners, whilst group D had the lowest. Both group B and C had middle to low income earners.

The existence of these groups poses a key question around whether the experimental research under consideration should differentiate between the groups and, if so, what form this should take. For example, this differentiation could entail the variable phrasing of questions around retirement income for each group or, more fundamentally, a consideration of whether to only include groups that were more likely to be willing and able to engage with making a prediction (see Chapter 5 for a further discussion of these points).

The next Chapter explores how respondents actually set about predicting their income in retirement as well as outlining the specific challenges they faced in doing this.

⁵ This is based on an analysis of what was known about their current earnings and the figure that they eventually gave for their estimated income in retirement (sometimes arrived at after some prompting).

4 How people predict their income in retirement

4.1 Introduction

A key question for this research was how people predict their income in retirement. As the previous Chapters have highlighted, respondents generally found the task of predicting income in retirement a challenging one. This understandably had implications for how they made estimations about their future income. This Chapter explores these. It looks first at what helped people engage in making an estimate (Section 4.2), the methods people adopted to make predictions about their income in retirement and what factors they took into consideration (Section 4.3). It also explores the different approaches adopted by the four groups outlined in the previous Chapter (Section 4.4) and describes why people found it difficult to make estimates (Section 4.5).

4.2 What helped to engage respondents

In the research interviews, respondents were all asked what they expected their income in retirement to be and while everyone appeared to understand what ‘income in retirement’ meant, their ability to make an estimate varied considerably due to a range of factors that are discussed further below. Where respondents struggled to make an estimate, there were a number of reference points or prompts that helped to engage them with making a prediction. However, it is important to note that there were no standard phrases or terms used during the interview, nor was the interview structured to ask for responses to standardised pieces of information or typical scenarios. In addition, different techniques helped different people, rather than one technique proving to be particularly useful. The reference points discussed below were all used spontaneously by respondents, given as factors that helped them reach a prediction. They also represent the main methods of prompting used by interviewers for those who were finding the task particularly difficult or felt unconfident about making an estimate. Four types of reference point emerged from the data and each of these will now be discussed in turn.

- **Using external financial forecasts**

Respondents found it easier to predict their pension income if they had an up to date pension forecast with them during the interview. Similarly, respondents who had reviewed this information prior to the interview and/or looked at their pension forecasts on a regular basis could draw on this information in order to make an estimate about their income in retirement from a pension scheme.

- **Focusing on their current position and factoring in changes in the future**

Using their current salary, current rental income or current cost of living was another approach adopted spontaneously by respondents as a starting point for making their predictions. Some respondents would then build on this initial figure; for example, factoring in career progression, which could lead to higher wages and increase their retirement income. In addition, being mortgage-free and/or having no dependents could also reduce the amount they would need in retirement. Others required prompting to work through this thought process and the following dialogue illustrates this:

I: How much do you see yourself receiving from your pension in retirement?

F: I don't know because, how much will I be earning in 22 years; I don't know. But I suppose I'll be on the same kind of wages [as] what I'm earning [now].

I: What if you were to base it on now?

F: Now?

I: Yeah, how much do you think you'd receive roughly?

F: Erm, probably about £250 a week, not enough.

I: Where would you hope to be or see yourself being in 22 years time?

F: In a little bungalow with a little picket fence, flowers in the garden.

I: In terms of employment...if you think forward...how much do you think you would have?

F: I'm actually planning on giving some time to sort my career as well at the minute...I've been offered the chance to do level 5 in Business and Management foundation degree. So, if I go ahead and do that, I could [be] in a management role, so that would be more.

I: If you get into management how much do you think you'd receive in retirement...?

F: Probably get a lot more than we do. Probably on about...my income at the moment before tax and national insurance is just under £1,400 a month so, probably double that, no maybe not double, maybe about 2,100, 2,200?

I: So in terms of a pension fund how much you think you'd get from that?

F: I would say £1,800 from the age-related; probably, need to work out paying on a weekly basis.'

(Female, low income earner, has a pension, 40-49)

• **Focusing on what they want or need**

As previously discussed in Chapter 2, respondents who found it particularly difficult to think about their expected income in retirement tended instead to initially refer to the income they felt they wanted/hoped for or needed in retirement. This was also an approach adopted by interviewers as a starting point for making comparisons with what they expected to receive, especially with respondents who were very reluctant to give a monetary value to their retirement income. This approach is highlighted in the following account:

I: How much income do you think you will have at retirement maybe in comparison to what you have now?

M: I've no idea. It's 20, well, it's 24 years time, I've no idea.

I: I'm just trying to get a sense of how better off or how worse off you think you will be compared to now?

M: Oh, we'll be exactly the same, exactly the same as we are now. I'm 41 now, when I'm in my 60s, [we'll be] exactly the same as we are now I would imagine, maybe less holidays. My son will be grown up, so, financially, we'll probably be in the same boat as we are now.

I: How much you think you will have at retirement...let's start with how you currently live and then compare that to how you think you'll live because you were saying you'll have less expenditure because your son will have grown up by then, so how much income do you think you'll need to live on when you retire?

M: I've no idea, no, absolutely no idea whatsoever.

I: How much do you think you would ideally like to live on compared to what you earn now when you retire?

M: Ooh, 1 million a year...

I: 1 million a year, but I guess if you don't win the Lottery how much would you ideally think, okay, I can live on that?

M: I've no idea, no idea, whatever the minimum the government says that you need to live on. If there is a number, I've no idea what the number is.

I: Could you live on the state pension?

M: No, no, you couldn't do it. It's not worth, no, its £100 and something a week, nobody could do that.

I: Okay, so whatever you earn would be higher than £105, whatever it is...

M: Yes.'

(Male, low income earner, no pension, 40-49)

In one or two cases, respondents refused to provide a figure and interviewers had to suggest amounts to respondents, for example, £250 a month. In these cases, respondents would respond by stating whether they felt that would be enough for them to live off in retirement, rather than whether they expected to receive that much in retirement.

- **Focusing on individual income streams**

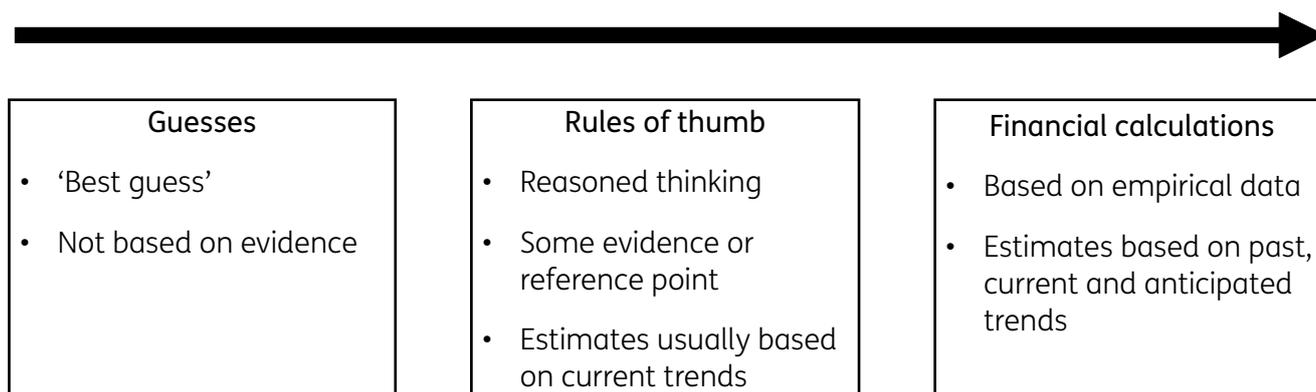
Identifying their potential income streams in retirement and then taking each of those in turn and considering their potential income from each of the individual streams facilitated respondents to conceptualise and then provide an estimate for their overall income in retirement. However, this was not the case for everyone as others found this approach more difficult, especially if they had less knowledge or information about a particular income stream, for example, the State Pension.

4.3 How people predict their income in retirement

Although respondents tended to find it difficult to predict their income in retirement they all came up with an estimate⁶, though these varied in how well informed they were. As discussed above, some required a lot more prompting than others, which resulted in some respondents revising initial estimates after further reflection. On the whole, respondents did not appear to be using very sophisticated methods for predicting their income in retirement. Also, when asked to explain how they had reached a predicted level of income, respondents were not always able to articulate any method or rationale.

Three approaches emerged from the data, which fell along a continuum in terms of how informed people were, what information they utilised and what they based their predictions on.

⁶ On one or two occasions, this was more in response to a figure suggested to them, rather than raised by them. In addition, some of the estimates were based on what they hoped, wanted or needed in retirement, rather than what they expected to receive.



On the whole, respondents' approach fitted into one of these categories; however there were circumstances where people used different approaches depending on the income source being considered. Where people had more knowledge, or received information regarding a certain income stream, for example, an occupational pension, they could make financial calculations, but they used rules of thumb or 'best guesses' for income streams that were tied to market forces, such as rental income from property.

'You don't know what's going to happen over the next two, three years with the mortgage interest rates, because I have mortgages to pay, and I don't know what is going to happen with the gap between what the mortgage interest rates are and the rent that you actually charge... so if the mortgage and interests rates suddenly shot up high, my income will go down, so I can't really estimate at the moment, it's a best guess.'

(Male, middle income earner, has a pension, 50-59)

Each of the three approaches noted above are now discussed in turn.

4.3.1 Guesses

There were some respondents who were very reluctant to provide a figure and their initial response was that they simply did not know and could not even hazard a guess. This was particularly noticeable among those who also found it difficult to identify their sources of income in retirement:

'And if you ask me how I expect I'm going to live when I retire, I really haven't got a clue'.

(Female, middle income earner, no pension, 40-49)

However, with further prompting (as discussed above) these respondents did manage to provide a figure as to what they thought their income in retirement would be, although they found it difficult to explain how they had reached that figure, so that there was no indication to the researcher of any 'rule of thumb' or other process underlying their guess. In general, guesses appeared to be based on respondents' perceptions of what they would need in retirement. For example, they would describe their current outgoings and the amount they currently needed to live off as being 'enough' and provide that as the figure for what they expected their income in retirement to be.

4.3.2 Rules of thumb

The rules of thumb adopted by some respondents varied in their levels of sophistication. The approach was underpinned by a reference point, but had little empirical data to support the estimates. Three different methods emerged from the data; comparisons to their current earnings, comparing their own position relative to others and/or projecting forward a current income stream. The following paragraphs describe each of the three different rules of thumb in detail.

- **Comparisons to their current salary**

Where respondents were struggling to give a precise figure they would use comparisons to their current earnings as a starting point to predict their income in retirement and would make statements such as ‘I will have less than what I earn now’ or ‘half of my current income’. A common perception among respondents was that their income in retirement would be less than what they currently earned, which was deemed as acceptable as they would have fewer outgoings (as discussed in Chapter 2).

I: ‘What level pension would it be the same as your salary or?’

F: ‘I don’t know, I don’t know how it works. I just assumed it wouldn’t be the same as your salary, I assumed it would be like, I don’t know, 70% of your salary or something like that. Maybe not even that much. I don’t know, maybe I am being optimistic... That was just a random figure that popped into my head, it might not be. I don’t know, there was no real thought process behind it. Maybe it was a hope. That it might be as much as that.’

(Female, middle income earner, has a pension, 22-29)

However, there was also a more marginal view that people would earn a similar amount to their current income or they would be better off than they are now.

- **Comparing their own position relative to others**

Another approach adopted by respondents was to draw comparisons between themselves and others, which included family and friends, work colleagues and the average person⁷. This usually took the form of comparison with people who were in a similar situation to respondents. Work colleagues with similar occupational pension plans, who had recently retired or were drawing from a pension, and/or older family members, who had reached retirement could provide useful information about likely retirement income.

‘Yeah because I know I get a good lump sum and then you get a monthly payment, and I am sure, because my friends, they took their redundancy and they got their pensions at 50, that was in with the package, so my friends are obviously all hitting 50 because I am, and one of them had 20 years service in and she has just got a letter to say she is getting 27,000 and I think 150 a month, I cant remember what she was getting a month, but some girls only got 15,000 because they were part time, so they lost out you see.’

(Female, middle income earner, has a pension, 50-59)

As mentioned in Chapter 2, respondents found it particularly difficult to predict their income from the State Pension. As such, they tended to draw on other people’s experiences in order to provide a general sense of whether or not the State Pension would be enough to live on – rather than provide a precise figure. The State Pension was generally seen as not providing enough to live off in retirement as a single source of income. This view was shaped by seeing older people in their community struggling to get by. In addition, respondents spoke about family members not having enough money to live on when their sole source of income was the State Pension. Private pensions and other investments streams, such as savings or property were less easily comparable to others.

⁷ Drawing comparisons to the average person usually occurred in response to being prompted by the interviewer rather than being raised spontaneously by respondents. However, the average person was defined by respondents and generally referred to family or friends, or work colleagues in a similar situation to themselves. It was not a concept that respondents found particularly easy to relate to.

This might be due to the fact that people did not have shared experiences of such income streams and less knowledge in order to make an intuitive estimate.

When prompted, respondents would position their financial situation in retirement in relation to the average person. Having an occupational pension was often perceived as being sufficient for providing for their retirement (without taking into account what it was likely to generate). A recurrent theme was that people who had additional sources of income to the State Pension would be better off than those who only had the State Pension, but worse off than those who had multiple income streams, or had paid into a pension plan for many years. The following quote illustrates this point of view:

'If you compare it with someone who is just on a State Pension I would probably be slightly better off, but if someone has contributed to a private pension for the last, I don't know, 20, 25, 30 years, I will be considerably less well off.'

(Male, low-middle income earner, has a pension, 50-59)

Similarly, the type of pension was also used by respondents to position themselves against others. A National Health Service (NHS) pension with high employer contributions or a final salary pension was described as being a 'good' pension compared to others, such as stakeholder pensions or schemes that have been affected by the recent economic downturn.

Drawing comparisons between themselves and the average person was often used when respondents were considering whether they would have enough to live off in retirement. Thus, it related more to their predictions on what they would want or need, rather than what they would have in retirement.

- **Projecting forward a current income stream**

The final approach adopted by respondents was estimations based on broad brush assumptions about their predicted yield from different income streams. This was particularly noticeable when predicting how much rental property might be worth in retirement. In these circumstances, respondents would draw on current trends, for example, their current salary or current property prices, and attempt to translate these into retirement.

'Well, I am just taking the average rental of a two bedroom place being about 600 in [area] and owning three two bedroom properties, you know, just averaging out, 600 per property currently. You know, it might be different figures when I come to retirement because it's at least 40 years time.'

(Male, low income earner, no pension, 22-29)

However, respondents themselves acknowledged the uncertainty around whether they would achieve these future plans and described these estimates as 'best guesses'. This highlights the fact (as discussed in the Chapter 2) that actual income in retirement was more difficult to predict than hoped for income or income respondents thought they would need.

4.3.3 Financial calculations

Written information or informed/specialist knowledge underpinned this approach to predicting income in retirement. Various information sources were used by respondents who made financial calculations, which ranged from pension forecasts, advice from financial advisors and/or knowledge gained through employment, university studies or an interest in the financial sector. For example, one respondent had been paying into her pension plan for twenty years and had another twenty years left to work, so doubled the figure on her latest pension forecast in order to estimate her

expected yield from her pension plan. Another respondent used projections for two of his frozen pensions in order to work out what he would receive per annum. He then added those to the amount he thought he would receive from his current matched salary pension and his wife's pension to give an overall figure for his retirement pension income.

Where respondents had multiple income streams they tended to identify figures for each individual stream in order to estimate their total income in retirement. In some cases, respondents would do this spontaneously, whereas others required more prompting to provide figures for their different sources of income. Estimates were largely based on past, current and anticipated future trends. The case study below provides an example of this approach.

'Gary has a fixed final salary pension, so he knows he will get half of his final salary if he retires at 61. He expects to get around £22,500 income from his pension. This figure is based on the fact he predicts his current salary will rise by around £5,000 over eight years. He also received information telling him he had made 30 years of National Insurance contributions, so he is eligible for a full State Pension when he retires at 65. He is expecting to receive about £92 a week from the State Pension when he retires. In addition, they have his wife's pension, but he doesn't know much about that. They also have £60,000 in savings and shares. They are currently saving £1000 per month, so this figure would rise over the next 8 years. However, Gary expects to use some of this money between now and retirement, so suggests they might have around £80,000, which he thinks they would use as a one-off payment.'

(Male, high income earner, has a pension, 50-59)

Respondents who adopted this approach took account of other factors when making their estimates; factors that others, especially those who guessed their income, identified as barriers to predicting income. Their knowledge and/or the information they received allowed them to anticipate interest rates, what financial commitments they may have in retirement and what their final salary might be when they retire based on their current grade and factor these into their calculations. This was particularly noticeable with the older respondents.

4.4 Methods adopted by the four groups

The evidence suggests that there are patterns in terms of the types of approaches adopted by the four groups described in Chapter 3. However, it is important to note that there was some overlap between the groups.

Groups A and B tended to use financial calculations to make their estimates as, on the whole, they had more knowledge about their different income streams and the predicted yields from individual sources. Respondents in this group also tended to be older, so had given more thought to their retirement and found it easier to translate, for example, what their final salary would be as retirement was a lot closer. In addition, they tended to follow financial markets and current trends closely in order to monitor their financial situation, which could be due to the fact that they had more interest in their finances than the other two groups.

Group C tended to use rules of thumb to predict their income in retirement. Respondents in this group were sufficiently aware of the factors they needed to consider in order to make a prediction and so they did not rely on guesswork based on, for example, their current income. However, they did not have enough information or knowledge about these factors to provide a reasonable estimate and so resorted to using rules of thumb. In particular, they compared their current

financial situation to what they hoped their financial situation would be in retirement, or compared themselves to other people in similar situations. In some cases, respondents in this group tended to be focused on the present and concerned with current activities, for example, paying off a mortgage or providing for dependent children. This preoccupation appeared to affect their desire to know more about their income streams at retirement and make accurate financial calculations.

'I'm sure if I wanted to find out, I could. And as I say, I'm not really a planner...not very wise but, you know...you could spend God knows how much time worrying and planning for things that are never going to materialise anyway...'

(Female, middle income earner, no pension, 40-49)

Group D tended to guess their income in retirement, although there was also evidence of using broad brush rules of thumb. Limited knowledge about their planned income streams made it difficult for respondents in this group to ground their estimates in any empirical evidence. Trying to ensure their current financial survival, such as paying their rent or mortgage, or household bills took priority over planning for their future retirement. Age also influenced this group's approach, as they tended to be younger, thus they had given little thought to retirement and did not have stable employment, career paths or pension plans to base their predictions on. For younger respondents there were more variables that were subject to change over their life course, such as changing careers, having children and buying property which made it both difficult for them to engage with the issue and/or to make a meaningful financial calculation about what their future income would be.

4.5 Factors influencing ability to make estimates

Respondents identified a range of factors that made it difficult for them to predict their income in retirement. These related to five different sets of issues: employment-related, age of retirement, future financial commitments, the financial environment, and pension-related issues. Not surprisingly, where respondents felt a greater certainty in relation to any of these factors, often because they were closer to retirement, this helped them feel more confident in making predictions.

Each of the following paragraphs describes each of the five aspects in detail and how each played a part in influencing respondents' ability to make estimates.

- **Employment**

Uncertainty about what wages they would have between now and retirement was raised by respondents as a barrier to predicting their income in retirement. This was due to a range of factors. Doubt about how high they would get in their career, changing careers, taking a career break, or changing their hours, for example, from full time to part time could all affect their potential earnings and in turn impact on how much they could contribute into a pension plan or save for retirement. Fluctuations in salaries over the course of their career could also have a direct impact on those who had a final salary pension as this made it difficult to predict the potential yield from their pension plan.

- **Age of retirement**

Doubt about what age they would or could retire was also highlighted as a barrier. Changes to the default retirement age⁸ led to uncertainty about when people could retire and created difficulties in knowing how much they would have contributed towards a pension plan, saved or invested for the future by the time they had retired. Health was another factor that could affect the age at which someone would retire. Poor health could impact on their ability to continue working which could in turn impact on their earnings and ability to maintain their pension contributions. Although some respondents did talk about working forever (discussed further below), health was raised spontaneously by other respondents and was generally discussed in terms of the impact it would have on someone's capability to continue working, rather than the possible cost of health care and medication in the future which could potentially reduce their disposable income in retirement.

- **Future financial commitments or support**

Uncertainty about likely financial commitments up to and after retirement was another factor highlighted by respondents, and impacted on both their pre-retirement income and ability to save, and also their post-retirement income. Being mortgage-free and having fewer dependents were described as factors that may increase people's disposable income before or during retirement. In their place however, there could be grandchildren or the cost of university fees, weddings or property for children which could all reduce people's disposable income. Younger respondents in particular found it difficult to account for these factors as they had longer until retirement and were unsure if they would have children and if so, how many, or if they would have a future partner that could increase their potential income. Although not mentioned by many respondents, the possibility of divorce or separation, or spouses or partners passing away could also affect their level of income and created uncertainty when making estimates.

- **Financial environment**

Where the financial environment was discussed, it was said to affect people's ability to make estimates in three main ways. The first of these related to **fluctuations in financial markets**. Uncertainty about how a pension fund would perform in the future with stock market fluctuations created difficulties for making estimates. This was a particularly pertinent issue given that the research was carried out in the context of a recession and significant fund shortfalls in some pension schemes. Respondents gave examples of how their pensions had been affected by the recent economic downturn and by changes to pension schemes.

'I had two pensions, one was through the [pension company] and when the trouble came up with all the pensions, they were the main ones [affected], so basically we froze it and whatever's left in there we'll just take it when it matures. I have a company one, which is possibly going to get dumped as well because we could stand to lose about thirty grand on our pensions, on our final salary. So, I don't know what to do with that. We're thinking about just leaving it, stop paying into it, leave whatever's there now and then just invest the money in something else...it's basically down to the financial problems that all the worlds having...'

(Male, middle income earner, has a pension, 40-49)

Respondents also expressed concerns about the impact the financial environment could have on the value of their investments, such as stocks, shares and ISAs or other savings. A second way the financial environment affected people's estimates related to **instability in the housing market**. Not being able to predict future property prices, rental prices and interest rates created difficulties for

⁸ This was raised spontaneously by respondents.

those who were planning on using property as a source of income in retirement, either as a rental income, or a lump sum payment from selling a property and downsizing. The final way was related to **inflation and the cost of living**. Respondents were unsure about how much future salaries might rise and what a given income would mean in terms of future costs of living. The potential impact this would have on people's disposable income created barriers to predicting how much people felt they wanted or needed in retirement.

- **Pension related issues**

Lack of knowledge about pensions could also limit a respondent's ability to predict their income in retirement. Receiving limited information regarding occupational and private pensions and/or respondents not taking the time to seek this information or read the information they received meant they were unsure about how their income would be released from their pension, for example, whether they would receive a lump sum payment or monthly instalments and how the amount for these would be calculated. Similarly, uncertainty about whether the State Pension would still be available when respondents retired, if they were entitled to the State Pension and how much they could expect to receive could all impact on respondents' estimates.

'...well I am definitely going to need one [pension] because the State Pension is not going to do anything for us, I don't think there's going to be one by the time I retire...as people live longer basically more and more people take from the State Pension and that must be a burden on the state to pay pensions out, they cant afford, which is going to spiral out of control in this country.'

(Male, middle income earner, no pension, 22-29)

The level of information that people received from pension companies about their likely pension income was a key issue raised by respondents. In general, respondents did not seem to be getting the information they needed from pensions companies. Respondents described that they wanted explanations about how their levels of contributions would affect their future income, given different retirement ages. Talking to someone face-to-face and on a one-to-one basis about their personal situation was also highlighted as key for improving their understanding of their pension plans. Information seemed to be especially lacking for frozen pensions (in previous pension schemes) and situations where pensions had been folded or transferred.

'When you worked there, you got one [pension statement] every year, they were sent round to the company because they obviously wanted to keep you sweet because people are paying in...[once it's frozen] just getting in contact and getting figures, that was a nightmare, they just didn't want to know.'

(Male, high income earner, has a pension, 40-49)

Of course, some people felt they had too much complicated information from their pension companies which meant that they could not find the key bits of information they needed. Simpler and more accessible information was described as important by these respondents. Respondents spoke about wanting information about what they would expect to receive based on how much they had paid in or the level of their contributions.

Personal attitudes towards planning for the future (discussed in Chapter 3) also appeared to underpin some of the factors described above. Feeling it was too early to start thinking about retirement, or avoiding thinking about their retirement created barriers to making predictions. A common view among respondents who avoided thinking about retirement was that they would keep on working as they would not be able to afford to retire or they feared boredom in retirement. Similarly, they reported not wanting to think about the future as they 'lived for today', or could not bear to think about their retirement. This may be due to the fact that they felt unprepared for retirement and did not know what their sources of income were likely to be or how they would cope.

4.6 Summary

A number of key reference points or prompts helped respondents to engage with the task of making predictions, either in the way they articulated their approach or in the prompting that researchers used to help them reach a prediction. Different approaches appeared to work well for different people, and there was no single key factor or terminology that helped engage respondents. The four main points of reference were:

- using external financial forecasts;
- focusing on their current position and factoring in changes in the future;
- focusing on what they want or need;
- focusing on individual income streams.

Three different approaches emerged from the analysis for making predictions about income in retirement; guesses, rules of thumb and financial calculations. These varied in terms of how informed they were, what information they utilized and what they based their predictions on. Respondents who made guesses or used rules of thumb sometimes found it difficult to explain how they had reached the figure provided.

Although respondents adopted different approaches for different income streams, there were patterns in terms of the different methods adopted by the different groups described in Chapter 3:

- **Groups A and B** – adopted financial calculations, as they had more knowledge and financial ownership over their different income streams. They also tended to be older, so retirement was closer and there were fewer variables to consider when making their estimates.
- **Group C** – adopted rules of thumb, as they struggled to understand the financial and pension forecasts they did receive. They focused on the present so they had not given a lot of thought to retirement or making calculations about future income.
- **Group D** – adopted guesses, as they had limited knowledge about their planned income streams and were focused on their current financial survival. They also tended to be younger, so retirement was a long way off and there was more possibility for their lives to change for example, having children, meeting a partner which affected their ability to make estimates.

Respondents across all four groups identified a range of factors that affected their ability to predict their income in retirement. The identification of these factors has helped to inform our suggestions for the design of potential experimental research, discussed in Chapter 5.

- **Employment** – uncertainty about what wages they would have between now and retirement could impact on how much they could contribute into a pension plan or save for retirement.
- **Age of retirement** – uncertainty about when they would retire could influence how much they could save, invest or contribute towards a pension plan. Age of retirement was related to changes in the default retirement age and health concerns.
- **Future financial commitments** – doubt about likely financial commitments (or financial support) and how they would affect their disposable income before and after retirement.
- **Financial environment** – fluctuations in the financial markets, instability in the housing market and inflation and cost of living all led to uncertainty about future income in retirement.
- **Pension related issues** – limited information from pension companies and lack of knowledge about how pension plans would perform in the future made it difficult to make estimates.

Personal attitude towards planning for the future also appeared to underpin some of the factors described above. Feeling it was too early to start thinking about retirement, or just not wanting to think about it, created a barrier to making estimates.

The next chapter draws together the key findings from the study and presents a number of issues for consideration in relation to the feasibility of conducting further research on predictions of income in retirement.

5 Conclusion

This Chapter draws together the findings from the previous three Chapters, identifying conclusions and implications for conducting further analysis, including experimental research on predictions of incomes in retirement.

5.1 Summary of research findings

On the whole, the research has shown that respondents experienced varying degrees of difficulty in making what they felt was a realistic estimate of their likely future income in retirement, unless they were close to retiring. The respondents who found the task easier tended to display a greater ownership of and interest in their financial future and have greater knowledge about their potential sources of income, including pension income, in terms of current and future performance. Perhaps not surprisingly, the respondents who appeared to find predicting their own retirement income particularly difficult were people on low incomes with little control over or interest in their own financial future; this tends to include younger people at the start of their working lives. The frame of reference this group found the easiest to relate to was the income level they thought they would need in retirement, rather than what they might get.

The main reason respondents found it difficult is that they perceive there to be (and in fact there are) a large number of unknown factors, all of which may impact on their ability to contribute or save in a pension leading up to retirement. There is also uncertainty about what age they will retire, whether they will have a spouse or partner at that stage, and what impact market fluctuations will have on the performance of their pension fund. On top of this, pension information was not felt to be as clear or as helpful as it could be in terms of making decisions about planning and saving for the future.

Respondents who were the most confident about making a prediction tended to be those who referred to financial forecasts (provided by, for example, a pension company). In other cases, respondents' estimates tended to be less confident and perceived as more approximate. These estimates tended to fall broadly within a range of more than a quarter but less than a half of their current earnings. There were no common 'rules of thumb' being used to relate future income to either current income or saving/contribution levels, and respondents were not always able to articulate why or how they had reached their estimate.

Respondents did however position themselves in relation to other people, both in terms of what they knew about the retirement income of family or friends (although it was not common to know very much about this) or whether they felt their pension was a relatively 'good' or particularly problematic one. These respondents did therefore work within a frame of reference in attempting to understand their own likely income in retirement.

A number of factors emerged as providing help in engaging respondents with estimating their likely income, and were used by researchers during the interviews: focusing on their current position and factoring in changes in the future; focusing on what they want or need; and focusing on individual income streams to build up an overall figure.

The previous three Chapters have demonstrated that, perhaps not surprisingly, conducting research on how people predict their income in retirement is not straightforward. In-depth qualitative interviews are of great value in understanding how people talk and think about issues, and also in identifying areas of confusion or misunderstanding. There are some specific issues which have

emerged from the qualitative research into how people estimate future income. These issues require consideration in terms of the design and interpretation of further research in this area.

- 1 When people think about their retirement income, there are a range of different sources of income to consider and understand: pensions are just one source of income, and property as a financial investment for the future was a core aspect of some respondents' future financial planning. It was not uncommon for respondents to have two or more different pension pots, some ongoing, some frozen, to take into account. Disentangling capital from income was also not always straightforward.
- 2 Making a prediction about retirement income requires making a number of assumptions, which some people are better able or prepared to do than others: for example, assumptions about continuity of employment, earning and contributions; future financial commitments and how these impact on their ability to save; what percentage of a fund will be used as a lump sum and what left for an annuity; whether their income estimates take account of a spouse or partner (in terms of supporting them in the future, or as an additional source of 'joint' pension income).
- 3 Finally, there are some subjective issues around how people position themselves in relation to their future income. This relates to how people interpret a given income in terms of its purchasing power – either in current or future terms. In other words, what that income will buy them and whether it will be enough for what they need. While slightly separate from the objective ability to estimate an income, this nonetheless came up as a key issue for respondents in thinking about their retirement income.

5.2 Implications for conducting further analysis and research

Given that even the more knowledgeable respondents expressed some difficulty with predicting their retirement income, there is an opportunity to improve people's ability to predict their retirement income and therefore their financial planning for the future. It is clearly worth exploring what the options may be for carrying out further research in this area. There are likely to be significant benefits in identifying ways of helping people improve their understanding of their future income, by providing them with relevant and well-communicated information.

Based on the findings of this study, it seems likely that some people (those, for example, in the younger age groups and on low incomes) will find it difficult to engage with making a prediction of retirement income in any type of further research. Part of the reason for this is that these groups have insufficient personal or shared experience and knowledge about how retirement incomes are likely to relate to earnings or savings rates.

One implication of this is that it may be more appropriate to carry out further research, and especially experimental research, only among groups who would be able to engage with making a prediction. However, a significant disadvantage of this is that it might end up excluding key target groups in terms of the policy agenda. If these groups are included within the research, it would of course be interesting to compare the predictions they do make with those of people who find it easier to make them.

5.2.1 Study design

One of the main aims of this research was to explore how people made predictions with a view to potentially conducting an experimental study, one which would lend itself to comparison of predictions against modelled Bayesian predictor distributions. The expectation is that such a study would utilise hypothetical scenarios to standardise the variables, and provide an opportunity to

compare what happens to people's estimates when they are provided with additional information, for example, about pre-retirement income and retirement circumstances. In this way, the study would aim to identify the kind of information that most helps in enabling people to make better estimates.

Although there is inevitably a tension between measuring people's ability to make predictions in the abstract, and how they then apply this to their own lives, we believe that the best approach to such a study would be to use an abstract situation, and that this should then generate useful insights into the kind of information that helps people improve their predictions. One of the clear advantages of asking people to respond to a hypothetical scenario is that it removes the 'messiness' or variability of people's personal situations. It also means that people are far less likely to find the topic challenging or upsetting. However, it is important to bear in mind that there is likely to be a need to ensure that people have the support or advice they need if taking part in the research makes them (re)consider their own situation. Our own research found that this was often the case.

By standardising the scenarios that are used, people will be responding to the same set of circumstances, for example, considering the same sources of income, and the same set of assumptions. This should therefore avoid the problem whereby people are drawing on a wide range of different sources of income or a number of different pension pots in making their predictions, as discussed above. As noted above, we believe that the most useful income source to focus on will be individual (not joint) pension income, although questions will clearly need to be framed to be clear which type of pension is being discussed. Standardised scenarios should minimise the tendency for people to conflate what they think they will receive in retirement with what they hope to get or what they think they will need. Although some respondents in our feasibility study found it easier to think about what income they hope to get or what they need, we feel that an abstract scenario will make it easier to think about what a likely pension income might be, and that this is likely to be the most appropriate variable to focus on in terms of policy development.

Careful design of the questions and piloting would of course be needed to identify any problems of misinterpretation.

Given the amount of information that could potentially be used to help shape people's estimating ability (discussed below), we would propose that any study design needs to develop a number of different scenarios, and that each of these scenarios presents additional different information to investigate their effect on people's estimates. In this way, responses to a wider range of different types of information can be tested. However, it is worth considering only exposing any single group of respondents to one or two scenarios, in case their answers to the subsequent scenarios are influenced by the information provided in earlier scenarios. In this context, it will of course be important to think about the best way to describe the study, assuming people are recruited to it in advance and not on the spot, in order to avoid them 'preparing' for it.

As already mentioned, we believe that some groups would find this approach very difficult, and would be likely to make a guess with no apparent frame of reference, or feel unable to answer at all. This would mainly relate to people belonging to groups C and D described in Chapter 3. As we have suggested, their difficulties may be due to the fact that they have little personal knowledge or shared experience (from family or friends) of the factors that influence retirement income or its distribution. We would suggest considering a different approach with these segments of the population. A possible approach might include providing a worked example (or possibly more than one), which demonstrates the final retirement income of a hypothetical person, given a particular set of circumstances. This would be used instead of the provision of key information about pre-retirement circumstances. The study could then go on to ask the respondent to predict the retirement income of a second, not dissimilar, person and see the extent to which the worked

example helped them to extrapolate a likely income. The advantages of this approach are that it supports these groups in making predictions by giving them a frame of reference, and may provide useful insights as to the most helpful ways of providing information to different population groups.

5.2.2 Topic coverage and question design

One of the important things to decide when designing scenarios for further research would be which source of income is being considered. Given the specific interests of the Department, we have based our discussion below on the assumption that the study would be asking about pension income, rather than any other source. We also feel that this area lends itself well to experimental study design, in the way that other sources of income might not. Even though respondents had not always focused on pension income for their own retirement, it was nonetheless something which respondents were generally aware of and could understand as a concept, in a way that other sources of income may not be. However, it is important to recognise that pension income is only part of the broader picture of retirement income.

A key challenge for an experimental study would be the need to build into the question design sufficient information to ensure that people are not making entirely different assumptions from each other, but without giving so much information that the question becomes unworkable. For example, the question will need to state some (although ideally not all) of the following as fixed assumptions. We have listed these in our suggested order of importance for including them as the starting assumptions for a given scenario:

- the level of earnings or pension contributions;
- the nature of the income stream, for example, company pension, private pension, and how these are set up (is it a final salary scheme? are there employer contributions?);
- the age of retirement;
- continuity of job and contributions;
- the percentage lump sum taken on retirement;
- whether the income is to be linked to inflation;
- whether the income is to provide for a spouse/partner on death.⁹

In framing the questions it will be important to distinguish between the variables that need to be given at the start to standardise people's initial assumptions, and the variables that will be used to add additional information to investigate how this influences people's estimates.

This research has identified a large number of factors that people take into account when looking to estimate their retirement income, or that they would want to take into account if they had information about them. An important requirement of further research is that it should draw on the most relevant of these factors, and retain as much simplicity as possible in the question wording. There are two possible types of information that could be provided:

- specific information about the financial factors affecting retirement: these have a direct influence on retirement income and have a known outcome or range of outcomes;
- general information about the personal circumstances which influence pre-retirement income: these have more of an indirect influence on retirement income, and require making a number of assumptions in order to know their outcome (in terms of final income).

⁹ Although this can make a significant difference to the level of income from a pension fund, it is unlikely to be a factor that respondents will find easy to engage with in terms of aiding their predictions.

The types of information that could be used are grouped into these two categories as follows:

Financial factors

- Monthly contributions.
- Continuity or change in contributions between now and retirement.
- Size of pension fund/pot available now (and age now).
- Size of pension fund available at retirement.
- Age started paying into a pension.

Personal factors

- Expected earnings between now and retirement – changes in job, or to hours, or taking a career break.
- Whether have children or not – examples of specific financial commitments for children (education, help with property).
- Whether have a mortgage or not and when hoping to pay this off.

Our view is that the first type of information would have more value in helping people generate improved estimates of retirement income. However, the second type of information may be worth investigating, as these are often the ‘lifestyle’ issues that respondents raised which make it difficult for them to predict their future income. In contrast, the first type of information would be the sort of factors people might expect to receive from a pension forecast.

We would recommend that in any one scenario, the additional pieces of information given be restricted to two or three, as beyond this number, we feel that respondents would not be able to remain fully engaged with the task in hand. We would anticipate that the best way to do this would be to add additional pieces of information one by one, and observe how estimates are amended in the light of the new information.

In relation to question design, it will be important to pilot the study with some cognitive testing of questions, to ensure that respondents are interpreting and responding to questions as intended. It will be important to avoid technical language, which our study suggests people are likely to struggle with, for example, ‘company pension’ may be more easily understood than ‘occupational pension’.

It may also be worth piloting the use of a multiple choice response given how difficult people find it to predict income (even when they have relevant information). It could be that this provides a starting point for their first estimate, and subsequent estimates, made following the introduction of new information, are left as open answers. It might be sensible to avoid having a ‘don’t’ know’ option, as our findings suggest that people would be likely to opt for this in the first instance.

It will of course be important to collect demographic information on respondents in order to be able to look at their responses in relation to their characteristics, including their own financial situation and perhaps a measure of their attitudes towards financial planning for their future.

Finally, it might also be worth considering adding a final question at the end of the scenario exercise, asking respondents their opinion about the level of income that they have predicted, for example, whether they feel it is a good, middling or low income, or whether they feel this would be enough for them to live on in their retirement. This could also be asked in relation to a) the point when they retire; b) when they are 75; and c) when they are 85, in order to establish whether or how people's predictions about what is enough to live on vary depending on how far into the future they are looking.

5.2.3 Conclusions

The consideration of carrying out further research raises a number of issues. This research found that one of the main reasons respondents struggled to predict their income in retirement is that they feel that there are too many unpredictable aspects of their lives which may impact on when they retire and how much money they will be able to save for retirement. This includes their family situation, their employment situation and their health. It is difficult to judge the value of hypothetical information (as, say, generated from an experimental study), in the sense that people may not be able to relate it to their own lives. Another key consideration that emerged from the study is that, even where they were able to make realistic estimates, respondents found it hard to understand what any given retirement income would actually mean in future terms, not only in terms of future money, but also what they would need or require when they were retired.

We can, however, see a number of advantages to proceeding with an experimental design, and believe that this may be feasible, although it may be a task which the segments of the population who are less knowledgeable about pensions find quite challenging. We have discussed alternative ways of carrying out research among different population groups. The experimental design does however pose some difficult issues, for example, the need to standardise and simplify a scenario to generate predictions of retirement income while at the same time retaining sufficient information to allow people to make realistic estimates that can be measured against each other and against the probable income level. We have not attempted to draw any conclusions about whether the proposed design would generate the type and volume of data that will allow comparison with data derived from optimal Bayesian predictor models.

Appendix A

Screener questionnaire

Serial number of respondent:

PLEASE NOTE THE AREA WHERE RECRUITMENT TOOK PLACE:

Newcastle

Southampton

Portsmouth

PLEASE NOTE WHETHER THE RESPONDENT IS:

Male

Female

- My name is [AS APPROPRIATE], and I am taking to you on behalf of the National Centre for Social Research.
- The National Centre for Social Research has been asked to carry out this research by the Department of Work and Pensions (DWP). NatCen is an independent not-for-profit research organisation, specialising in research on social issues.
- Our research is being carried out to explore people's views about their likely income in retirement.
- Taking part would first of all involve answering a few questions about yourself. This information will be kept completely confidential. We will use it to help us make sure we include a range of people in the study. If for any reason you do not want to answer any of the questions you can just say. Nothing you say will be shared with anyone outside NatCen.
- Do you have any questions you would like to ask me about the study? **IF YES, REFER TO BRIEFING NOTES.**
- Are you happy to answer these questions now? **IF THE RESPONDENT SAYS NO, EXPLAIN THAT IT WILL ONLY TAKE A FEW MINUTES AND THEY DO NOT HAVE TO ANSWER ANY QUESTIONS THEY DON'T WANT TO. IF THEY STILL SAY NO, THANK THEM FOR THEIR TIME AND END THE CONVERSATION**

READ OUT: Thank you for agreeing to answer a few questions. First of all, can I check some background information with you?

SECTION A: QUESTIONS TO ASK ALL RESPONDENTS

Q1. Could you tell me which age group you fall under:

READ OUT

- 1. 20-29 years old
- 2. 30-39 years old
- 3. 40-49 years old
- 4. 50-59 years old

Q2. Could you tell me if you pay, or have paid, into a pension plan:

READ OUT

- 1. Yes IF YES, GO TO Q3
- 2. No IF NO, GO TO Q5

Q3. How many years have you paid into a pension plan:

INTERVIEWER: This refers to the number of years in total that they have paid into any pension policy or policies (NOT including a state pension), even if they have currently stopped paying into one

- 1. 1-10 years
- 2. 11-20 years
- 3. 21-30 years
- 4. 31-40 years
- 5. 40+ years

Q4a. Can I just check, are you receiving any payments from a pension at the moment?

- 1. Yes IF YES, GO TO Q4b
- 2. No IF NO, GO TO Q5

Q4b. Are you expecting to receive extra payments from any other pensions in the future?

1. Yes IF YES, GO TO Q5
2. No IF NO, thank them for their time and end the screening interview

Q5. Please tell me approximately what your own income is over a year:
 SHOW THE RESPONDENT SHOW CARD A AND ASK THEM TO SPECIFY WHICH OPTION NUMBER RELATES TO THEM

Write option number in box

IF INDIVIDUAL EARNS LESS THAN £10K OR OVER £60K, LET THEM KNOW THAT BASED ON THE ANSWERS GIVEN TO US, THEY ARE NOT ELIGIBLE TO TAKE PART. THANK THEM

IF INDIVIDUAL MEETS THE SAMPLING CRITERIA, PLEASE READ OUT:

Thank you very much for answering those questions. I'd like to tell you a bit more about the study now.

We would like to speak to you in person about your views on how you work out and plan your income for your retirement. This would take about an hour of your time and we would meet you at a time and place that suits you. You would be given £20 as a thank you for helping us.

ASK INDIVIDUAL IF THEY WOULD LIKE TO TAKE PART IN THE STUDY:

- Yes IF YES, COMPLETE QUESTIONS IN SECTION B AND C
- No IF NO, ASK THEM IF THEY HAD ANY PARTICULAR CONCERNS ABOUT TAKING PART. IF YOU CAN NOT ADDRESS THESE, THANK THEM FOR THEIR TIME AND CLOSE THE INTERVIEW.

SECTION B: QUESTIONS TO ASK RESPONDENTS WHO FIT THE SAMPLE QUOTA AND WHO HAVE AGREED TO TAKE PART

PLEASE READ OUT: Before we move on to arrange a date for the interview that is convenient for you, I have just a few more quick questions to ask. These will not take very long to answer.

Q6. Are you currently employed?

1. Yes IF YES, GO TO Q7.
2. No IF NO, GO TO Q8.

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Q7. Please tell me which of these forms of employment apply to you:

READ OUT

1. Self-employed (either FT or PT)
2. Employed full-time
3. Employed part-time

Q8. Please tell us what type of the pension plan you pay into

READ OUT

1. Private pension plan
2. Occupational pension plan
3. Other, please state _____

Q9. Could you tell me if you live alone or with others:

READ OUT

1. Live alone
2. Live with others (specify who, e.g. partner, children) _____

Q10. (Now thinking about all the qualifications you have) please tell me the highest qualification you have obtained

INTERVIEWER: THIS REFERS TO THE RESPONDENT'S HIGHEST QUALIFICATION OVERALL (NOT JUST FROM ANY RECENT COURSES)

School level qualifications (e.g. BTEC Diplomas, NVQs, GCSEs, A Levels)

Higher education level qualifications (e.g. BTEC Professional Diplomas, HNDs, Degrees, post-graduate qualifications)

Q11. Which of the following broad ethnic groups do you consider yourself to be:

SHOW THE RESPONDENT SHOW CARD B AND ASK THEM TO SPECIFY WHICH OPTION NUMBER RELATES TO THEM

Write option number in box

SECTION C: ARRANGING THE INTERVIEW

Q12. THANKS VERY MUCH. WHAT DATE AND TIME ARE YOU AVAILABLE TO DO THE INTERVIEW?

INTERVIEWER: PLEASE FILL IN SUGGESTED DAY AND TIME HERE:

Q13. WHERE WOULD YOU LIKE THE INTERVIEW TO TAKE PLACE?

INTERVIEWER: PLEASE PLACE THE ADDRESS BELOW AND STATE WHETHER IT IS THE RESPONDENT'S HOME OR A PUBLIC VENUE

Q14. PLEASE COULD YOU PROVIDE A TELEPHONE NUMBER WHERE WE CAN CONTACT YOU

INTERVIEWER: PLEASE PLACE THE RESPONDENT'S TELEPHONE DETAILS BELOW

Q15. DO YOU HAVE ANY SPECIAL NEEDS THAT WILL HELP YOU PARTICIPATE IN THE INTERVIEW

INTERVIEWER: PLEASE PLACE DETAILS OF ANY SPECIAL NEEDS BELOW

Q16. (FOR RESPONDENTS THAT DO NOT LIVE ALONE) WOULD YOU LIKE YOUR PARTNER/WIFE/HUSBAND TO DO THE INTERVIEW WITH YOU

INTERVIEWER: IF YES, PLEASE PLACE THE NAME OF THE PERSON BELOW AND THEIR RELATIONSHIP TO RESPONDENT

READ OUT:

Thank you very much for the help you've given us today. You will be sent a letter confirming the interview date and time.

MAKE FINAL REASSURANCES ABOUT CONFIDENTIALITY.

END

Appendix B

Topic guide

Interview aims: The key aim is to explore participants' estimates of income in retirement, and the frames of reference and factors that informed their predictions. This study will also explore:

- background information around participants' current economic activity in terms of employment and housing
- participants' current pension(s) and savings plans
- explore participants' overall thoughts about the future and retirement
- To explore participants' other plans for the future

Guidance for interpretation and use of the topic guide: The following guide does not contain pre-set questions but rather lists the key themes and sub-themes to be explored with each participant. It does not include follow-up questions like 'why', 'when', 'how', etc. as participants' contributions will be fully explored throughout in order to understand how and why views and experiences have arisen. The order in which issues are addressed and the amount of time spent on different themes will vary between interviews.

Introducing the study to participants

- **Introduce self and NatCen** (emphasising the independence of NatCen)
- **Introduce the study**
 - o A study which explores how people predict their income in retirement and what they take into consideration to do this
 - o Emphasise the fact that this is not a quiz and that we are not trying to test their knowledge on pensions or finances in general – we are not experts ourselves. We simply want to understand the issues people take into account when trying to predict their income in retirement

Details about their participation

- o **Why they have been selected** – They have agreed to take part in the study having being approached NatCen recruiters
- o **Voluntary nature of participation** – both overall and in relation to any specific questions; drawing the participant's attention to the fact that the nature of the discussion will mean there is a need to ask for some quite personal information and that the participant should feel free to let us know if they are uncomfortable sharing any information that we request
- o **Recording of the interview** – to have an accurate record of what was said; held securely by the research team
- o **Confidentiality** – and how findings will be reported
- o **Length of interview** – approximately 1 hour

Introduce timeline to participant:

- What it is: a line that simply marks the passage of time [*draw the line*]. We use the line to mark down when important events happened.
- Why we use it: the questions we are about to ask are likely to jump around a bit, so it would be really useful to use the timeline to help us see what happened when.
- How we will use it: As we discuss different issues, we will use the timeline to mark down the important events that happened in your life and discuss how these informed your thinking around these issues.

Note to interviewer: If it becomes apparent during the interview that the participant is not clear about pensions, then probe around their understanding of how pensions work and the challenges that they experience in understanding pensions.

1. Current economic activity

[Aim: to explore participants' current economic situation and to ease them into the interview]

Estimated coverage time: 5mins

Explore participant's employment status and brief employment history

- Explore whether they work and, if so, what they do. Are they:
 - o F/T employment
 - o P/T employment
 - o How long have they been in that situation

[Use timelines to mark employment patterns and changes in types of employment]

- If they are not working, explore why and how long this situation has been going on for. *[use timeline to mark periods of unemployment]*

2. Current pension and savings details

[Aim: to gain a broad understanding of participants' current pension, savings and investment arrangements. Factual details will be used later in the interview as probes to understand decision-making around retirement planning]

Estimated coverage time: 10 mins

Explore whether participants have a pension

- If so:
 - o The number of pensions they have
 - o The type(s) of pensions they have?
 - o Do they have a state pension?
 - o What made them select these types/policies?
 - o How are the pensions arranged?
 - o How long they have had pensions?

[use timeline to mark when thinking around pensions began and when policies began]

- If not, explore why they do not have a pension?

Explore how much participants contribute to their pension

- How much do they contribute to their pension(s)
- Has this changed over time
- How have they made decisions about contribution levels

Explore whether participants have any other planned income for their retirement

- If they have a long-term savings policy:
 - o Number and nature of savings policies they have?
 - o Whether the savings policies have a purpose (and if so, what? E.g. savings for a rainy day, holidays, deposit for a house, savings for retirement)
 - o How long they have been saving for?

[Mark on the timeline when they started saving]

- Whether they own their own property or rent privately or are in social housing *[use timeline to mark changes in tenure]*
- If own property, explore their mortgage situation:
 - o How long they have had their mortgage?
 - o How long left?
 - o Whether they own any other properties?
 - o Investing in property at home or abroad
- If they have property:
 - o How they intend to use the property to help raise income for their retirement
- Explore other investments that participant may have:
 - o What these investments are?
 - o How they intend to use these to help raise income for their retirement?

Views on their earning status

- How do they classify themselves – high, middle or low earner?
- Their views on how comfortably they can live on their earnings in terms of:
 - o Paying rent/mortgage
 - o Providing for themselves and family
 - o Leisure activities
 - o Food and utility costs

3. Thoughts about retirement and the future

[Aim: Having explored their current activity, this section moves on to discuss their broad retirement as well as their predictions about their income in retirement]

Estimated coverage time: 30 mins

Explore their general retirement plans

- Explore whether they have thought about retirement recently? If so, what does the concept of retirement mean for them?
- When do they hope to retire? *[use the timeline to mark this event down]*
 - o If below retirement age, the rationale behind this

Explore their thoughts around the income they will have in retirement

- What level of income do they think they will actually have in retirement (e.g. does it reflect current levels) and why.
 - o How is this income specified (in terms of annual or weekly income or quality of life?)
 - o How does it compare with their current income?
 - o How does it compare with what they think others may receive – perhaps reference to people they know or what they know about average levels?
 - o Why do they think it will be the same/different

What factors have they taken into consideration to reach an estimate of the actual income they will receive.

- How easy do they find it to make an estimate about how much income they will have? How have they tried to work it out?
- Spontaneous answers then prompt around the following factors:
 - o Expectations around what their pensions will pay
 - o Expectations around retirement age
 - o Expectations around life expectancy and health
 - o Expectations around financial commitments in later life
 - o Experience of friends or family members – either positive or negative – that helped to shape their thinking
- What tools/sources of information have they used to estimate the income they will receive:
 - o Do they get advice?
 - o Where this advice comes from?
 - o How helpful is the information/advice?

Explore whether there are any factors that make it difficult for participants to think about their income in retirement and to predict this income

- What are these factors and why are they deemed to be important?
 - o Prioritising thinking about income in retirement
 - Retirement not seen to be an immediate concern (why not?)
 - A lack of thinking about retirement in their family history
 - o Estimating income in retirement
 - Inconsistent employment patterns
 - Inconsistent contributions to pension policies
 - Predicting inflation
 - Distinguishing between income levels and purchasing power

Explore what, if anything, helps them to think about and predict their income levels in retirement

- What facilitates their thinking around their future income levels:
 - o Knowledge of their pension policy/policies
 - o Support from family and/or spouse
 - o Experience of family members – either positive or negative – that helped to shape their thinking
- What kind of information, if any, would make it easier to work out future retirement income?
 - o Typical annuity rates
 - o Relationship between pension contributions and income
 - o Average life expectancy
 - o Typical financial commitments

4. Hopes and aspirations for retirement

Aim: to explore their hopes and aspirations around quality of life in retirement and how these relate to their predicted income in retirement

Estimated coverage time: 10mins

Explore their thoughts about the quality of life they would like in retirement

- What would they like to be able to do when they retire?
 - o What kind of lifestyle they would like?(e.g. activities, living arrangements)
 - o How would it compare to their lifestyle now
 - o What kind of financial security they would like into later retirement?
 - o Do they have specific future plans that need to be funded
- How does their anticipated level of income in retirement sit with their desired quality of life?
 - o Are their aspirations based on the income they think they might have, or what they would ideally like?
 - o Is there a minimum level they feel they need to live; how do they work out this level

Explore their current approach towards pension and other savings

- Have their views on having a pension changed for any reason? If so:
 - o Why?
 - o At what point(s) in their life [refer to timeline]
- How do they decide their current pension contributions?
 - o Do their contributions reflect the income they hope to secure in their retirement?
 - o Based on what the employer will match with their funding
 - o Based on a fixed percentage of their salary
 - o Do they ever review their pension contributions? If so, how often and why? If not, why not?
[use timeline to mark when last time they reviewed it and why]
- Their views on whether they will be able to maintain pension contributions or resume these if they have stopped paying in to one (including a state pension)
- Do they receive any information at all about their pension contributions (including pension forecasts) and how often do they receive this information?
- Probe reasons and decision-making around other long-term savings or property investment, and expectations around how this will impact on retirement income

Explore how their desired level of income in retirement relates to their pension contribution/other savings

- Have they thought about how their desired income levels in retirement reflect their current pension contributions? If not, why not?
- If so, how has this affected their thinking on pension contribution?

5. Reflections

[Aim: to round off the discussion by exploring whether the interview itself has had an impact on thoughts about the future]

Estimated coverage time: 5mins

Based on the interview discussion, explore if they have changed their view about what their retirement income is likely to be; if so why

Would they change anything about their financial approach towards retirement

- If so, what would they change and why?

End

- Ask if there is anything we have not covered about retirement plans, pension plans and/or income in retirement that they would like to comment on
- Thank them for taking part
- Reassure about confidentiality and field questions
- Leave an information leaflet giving contact details for free financial advice

Appendix C

Information sheet given to respondents

Predicting Income in Retirement – Useful Numbers

Here are contact details of some organisations that provide free advice and information on pensions, if you have anything you would like to follow-up after the interview.

Pensions and Advisory Service

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions, including state, company, private and stakeholder schemes.

T: 0845 601 2923

www.pensionsadvisoryservice.org.uk

The Pension Service and Pension Tracing Service

This is a government run service which provides free useful information about pension and retirement planning.

T: 08700 50 88 80

www.direct.gov.uk/en/Pensionsandretirementplanning/index.htm

Money Made Clear

This is a free and impartial information and guidance service provided by the Financial Services Authority (FSA) on all money matters.

T: 0300 500 5000

www.moneymadeclear.fsa.gov.uk/about_the_fsa/contact/contact_us.html

If you have further queries about the study that you participated in, please contact either:

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This in-depth, social research was undertaken to shed light on the questions of whether and to what extent people are able to predict their income in retirement. The main aims were to explore people's attitudes and behaviour towards retirement planning as well as the feasibility of conducting larger-scale experimental research that would look at the role and impact of information on retirement planning.

The research found, unsurprisingly, great variation in the ease with which people were able and willing to make predictions. It found patterns in the types of methods people used - these in turn suggest potential options around providing information on retirement planning.

If you would like to know more about DWP research, please contact:
Paul Noakes, Commercial Support and Knowledge Management Team,
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<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

DWP Department for
Work and Pensions

Published by the
Department for Work and Pensions
November 2010
www.dwp.gov.uk
Working paper no. 87
ISBN 978-1-84712-870-6