Department for Work & Pensions

GOVERNMENT SOCIAL RESEARCH

Social Science in Government

Defined Ambition: Consumer perspectives

Qualitative research among employers, individuals and employee benefit consultants

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Summary

Defined Ambition (DA) is a new category of pensions the Department for Work and Pensions (DWP) would like to introduce to complement existing Defined Benefit (DB) and Defined Contribution (DC) pensions. It aims to provide more certainty for individuals than DC and less cost volatility for employers than DB pension schemes.

Over time there has been a shift from DB to DC pension schemes. Previously, many individuals were able to rely on a DB pension, guaranteeing them a pension based on their final salary or career average earnings with employers bearing the risks of longevity, investment and inflation. In DC schemes, individuals take on more of the risk as they save in their pension, buying an income product at retirement when the insurer promises an income for life. The Government, along with members of the pension industry, are looking at alternative models of pension saving that do not leave either individuals or employers shouldering the entire risk of pension saving. Defined Ambition proposes three new categories of pensions; Flexible DB; DC Plus and Collective Defined Contribution (CDCs) schemes.

This research was commissioned to understand consumers' views about risk sharing in pension schemes, the appetite for greater certainty in relation to pension costs and saving and views about the proposed DA schemes. The research was wholly qualitative in nature, conducted during September and October 2013.

Key findings

Consumers welcomed DA as it could help to reduce the costs of DB pensions and provide greater certainty for DC pensions. Its implementation raised practical concerns for employers and individuals of efficacy, costs and complexity, but overall consumers were supportive of the idea.

Flexible DB: There was appetite among DB pension providing employers to further reduce the risks associated with DB pension schemes. Employee Benefit Consultants (EBCs) felt there was a need for greater flexibility and an appetite in the industry for innovative approaches to smoothing out the risks of fluctuating investment return.

DC Plus: The concept of DC Plus and providing greater certainty through the introduction of guarantees and income building held overall appeal. Consumers felt DC Plus may require individuals to be educated about this concept, particularly for the ideas relating to building certainty through buying promises or deferred annuities.

CDC: There was recognition that investment pooling could smooth volatility and result in lower charges, although there were some concerns about how well this may work in practice.

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Glossary of terms

Annuity	In a DC scheme when a person approaches retirement age, they will have to decide what to do with the pension fund they have built up. One option is to buy an annuity which converts the pension fund into retirement income for the rest of the individual's life.
Collective Defined Contribution scheme (CDC)	The scheme discussed in the research is one which pools the assets of all members. Members have a targeted pension, and the pension is paid out of the scheme. CDC schemes provide certainty to the employer who pays a fixed rate of contributions while risk is shared between members, leading to a narrower range of outcomes for DC.
Defined Ambition (DA)	A new category of pensions the DWP would like to introduce to complement existing Defined Benefit (DB) and Defined Contribution (DC) pensions. DA pensions would aim to provide more certainty for individuals than DC and less cost volatility for employers than DB pension schemes.
Defined Benefit pension scheme (including for example a final salary scheme)	A type of occupational pension where the employee is promised a certain amount of pension at retirement by the employer. That amount is normally based on a formula linked to the person's salary and/or length of time they have been contributing to the scheme. An open DB scheme is one in which new employees may join; a partially open DB scheme accepts contributions only from existing scheme members; a closed DB scheme no longer accepts contributions from existing or new members and comprises only deferred members and pensions in payment.
Defined Contribution workplace pension scheme	A type of workplace pension where the employee pays in together with an employer's contribution to give a sum of money on retirement with which the employee can secure a pension income, for example, by buying an annuity. It provides benefits based on the contribution invested, returns received on that investment (less any charges incurred) and the rate at which the final pension fund is converted into a retirement income, often through an annuity. Workplace DC schemes are generally divided into two types: Occupational DC schemes and Group Personal Pension (GPP) schemes.

Employee Benefit Consultants (EBCs)	Advise on a full range of employee benefits. They design, communicate, evaluate and deliver benefits packages, often called flex benefits, covering everything from pensions to childcare vouchers.
Group Personal Pensions	A type of defined contribution pension scheme. They are a collection of personal pension plans usually provided by an insurer, facilitated by the employer. Each member has a contract with the provider, and both the employer and employee contribute. As with other types of defined-contribution scheme, members in a GPP build up a personal fund, which they then convert into an income at retirement.
Nursery DC scheme	New joiners initially contribute to a DC scheme and after a set period are then moved into a DB scheme.
Occupational Defined Contribution pension schemes	Operated, sometimes in-house, by a company for its own staff. They will have a trustee board that plays a similar role to the trustee board of a DB scheme, in that it: is responsible for the administration of the scheme; manages member communication; ensures the scheme is governed correctly; selects the fund range members will be offered; and has certain liabilities towards members. This type of scheme is only usually appropriate for larger businesses. Self-Invested Personal Pension and Small Self-Invested Administered Scheme are also types of trust-based DC schemes. Employers with trust-based DC schemes participating in this study were larger organisations.

Abbreviations

CDC	Collective Defined Contribution scheme
DA	Defined Ambition
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EBC	Employee Benefit Consultant
GPP	Group Personal Pension
SPA	State Pension age

Executive summary

Background

The Department for Work and Pensions (DWP), along with members of the pensions industry[1], has explored options for greater risk sharing to address individuals' concerns over uncertainty of their retirement income and the volatility of costs for employers. Defined Ambition (DA) is a new category of pensions the DWP would like to introduce to complement existing Defined Benefit (DB) and Defined Contribution (DC) pensions. DA pensions would aim to provide more certainty for individuals than DC and less cost volatility for employers than DB pension schemes.

Research design

DWP commissioned research to understand: consumers' views about risk and uncertainty in pension schemes; the appetite for reducing risks for employers (in DB schemes) and increasing pension outcome certainty for individuals (in DC schemes); and views about their appetite for the proposed DA schemes, which seek to address these.

The research, conducted during September and October 2013, was wholly qualitative to enable an in-depth discussion of these issues and was based on:

- 35 depth interviews with employers – reflecting a broad range in terms of size, industry sector/type, turnover, ownership and type of pension scheme(s) in place;
- 9 deliberative workshops with individuals – selected for age, income, whether they are currently saving, or have ever saved into a pension scheme, and the type of pension scheme into which they had saved;
- 5 depth interviews with Employee Benefit Consultants (EBCs)[2].

These research participants were selected to represent the key people who might be affected or interested in these new pension arrangements.

Key findings

The pension landscape

Private pension saving has been falling. Over time, there has been a shift from DB to DC pension schemes. Previously, individuals were able to rely on a DB pension, guaranteeing them a pension based on their final salary or career average earnings and the length of time with their employer, with employers bearing the risks of longevity; investment and inflation. In DC schemes, individuals take on more of the risk as they save in their pension, buying an

1 Here, the pensions industry refers to pensions experts, pension providers, advisers, EBCs and those involved in the provision, administration and regulation of pensions.

2 The role of EBCs is to provide advice and guidance to businesses in relation to company pensions, and employee benefits.

income product at retirement where the insurer promises an income for life[3]. If DC pensions become the default alternative to traditional DB schemes, future generations face a less certain pension income. The Government, along with members of the pension industry, are looking at alternative models of pension saving that do not leave either individuals or employers shouldering the entire risk of pension saving.

Awareness and attitudes towards risk and uncertainty in pension schemes and appetite for future change: reducing risk for employers (DB schemes) and increasing pension outcome certainty for employees (DC schemes)

Employers were broadly aware of the advantages and disadvantages of DB and DC pension schemes, although knowledge about specific risks and uncertainties were largely dependent on the employer's own pension provision and financial knowledge.

Employers with DB schemes were aware of the financial risks of these schemes, for example effects of longevity and investment risks, and had therefore taken active steps to manage the cost volatility and deficits that had arisen. They did this by various methods, including increasing member contributions, increasing the pension age, closing the scheme to new members (and replacing it with a DC), or bringing in a nursery DC scheme[4]. Employers with only DC schemes felt that DB schemes could be expensive but were less aware of the specific risks. Having seen the negative effects of DB schemes for other employers, they did not consider that they had the financial capacity, or desire, to incur any additional costs or risks.

Overall, employers were aware of the uncertainties for employees in a DC pension, but there was little spontaneous concern for this as they felt they were meeting their responsibilities by providing a pension. However, on further discussion they were positive about the idea of increasing pension outcome certainty and felt that it was a worthwhile focus. Their appetite was dependent on the cost of any certainty or guarantee, and who would bear that cost. Some were willing to share some of the costs, while others were more cautious.

EBCs were highly aware of the risks and uncertainties associated with DB and DC schemes as part of their advisory role.

Regarding DB schemes specifically, EBCs had some concerns that these schemes had provided over inflated pensions that had raised pension expectations. They also felt that there was a need for greater flexibility and industry appetite for innovative approaches to smoothing out the risks of fluctuating investment return.

As with employers, EBCs were keen to see increased pension certainty for individuals in DC schemes and agreed that cost was a crucial factor. Additionally, EBCs emphasised that while certainty of income is desirable, they thought there was also a need for people to build up an adequate pension pot through sufficient contribution levels.

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3 At the time of the research, purchasing an annuity, which offers an income at retirement for the rest of the individual's life, was the option taken by the majority of DC pension holders. From April 2015, from age 55, DC pension pot holders will be able to withdraw their pension to suit their needs, subject to their rate of income tax in that year. This may be purchasing an annuity or drawing down a pension as they choose.

4 A scheme whereby new joiners initially contribute to a DC scheme and after a set period are then moved into a DB scheme.

Individuals had very limited knowledge about their own pension scheme and the risks and uncertainties associated with DB and DC pension schemes. They tended to see pensions as risky and uncertain as a whole but were unable to attribute specific risks to the different types of pension scheme. Once informed about DB and DC schemes (as part of the research), individuals recognised the risk for employers with DB pensions but were unwilling to share risks with employers as they remained protective of their accrued rights, a view felt especially by those who had a DB pension. They also desired more certainty around DC pensions, but recognised that they would require support in managing this.

Appetite for Defined Ambition pensions

Overall, the concept of DA was seen positively by employers, EBCs and individuals as it could help to reduce the costs of DB pensions and provide greater certainty for DC pensions.

Flexible DB

There was an appetite among DB employers to further reduce the risks associated with DB pension schemes, and EBCs felt there was a need for greater flexibility and an appetite in the industry for innovative approaches to smoothing out the risks of fluctuating investment return.

In terms of DB schemes, the consultation document sets out proposals to deal with three key risks; inflation, former employees and longevity.

Employers and EBCs were weakly positive about the idea of managing the **risks of inflation** through the removal of index linking or by making it discretionary, although EBCs considered this approach tended to go against the financial trend of inflation proofing. Employers also considered that the potential financial impact on the scheme was limited as it does not deal with the accrued benefits of existing and deferred scheme members. Individuals were concerned that the removal of inflation proofing would undermine the value of their pension scheme.

Managing **risks associated with former employees** through conversion of a leaver's DB scheme to a DC scheme was viewed positively by employers and EBCs although limited in scope only because the proposal applies only to future accruals. Individuals were concerned about the potential loss of benefits accrued in the DB scheme and that employers could act in an unscrupulous way in order to reduce their pension costs.

Dealing with **longevity risks** by extending the pension scheme's pension age in line with increases in life expectancy chimed well with employers, individuals and EBCs. This was primarily because it reflected the changes that were occurring with the State Pension.

While the Flexible DB ideas were appreciated, and some had potential to reduce deficits, overall they were seen as insufficient to have a significant impact on current DB schemes, as the proposals focused on future accruals rather than the historical challenges and risks. Furthermore, employers had to consider and trade off the benefits of risk reduction with the potential negative impact on employee relations.

DC Plus

The concept of DC Plus and providing greater certainty through the introduction of guarantees and income building held an overall appeal.

The consultation sets out three principles for increasing certainty of retirement income from DC pension schemes: money-back guarantee; capital and investment return guarantee; and building income certainty over time.

The principle of a **money-back guarantee** was initially greeted with some enthusiasm by employers and risk-averse individuals, but on reflection suggested a poor investment. **EBCs** thought the principle was financially worthless but might provide a *'psychological benefit'* for highly risk-averse individuals.

The principle of a **capital and investment guarantee** was seen more favourably by employers and individuals who desired a low level of risk, but again was thought to reflect a poor investment; EBCs thought a guarantee would have a detrimental effect on investment returns.

The idea of **building certainty of retirement income over time** was appealing to employers, individuals and EBCs. The logic of building up certainty of retirement income would potentially enable individuals to plan more effectively for their retirement; it would inevitably reduce the overall return on the pension investment.

CDC

Employers found the **CDC** concept[5] generally difficult to understand, with EBCs being mixed in their opinions with some being advocates of the principle and others being less convinced that it was a viable option. While there was recognition that theoretically investment pooling could smooth volatility and result in lower charges, there were concerns about how well the idea worked in practice.

Employers, EBCs and individuals felt that the complexity of DC Plus would require individuals to be adequately educated, especially for the ideas relating to building certainty through buying promises or deferred annuities, which were otherwise quite appealing. However, EBCs noted the lack of a current market for such products.

EBCs and some of the employers also noted that, while DA was not designed to address these, the overarching issues for individuals were not knowing how much they would need to be able to live in retirement and the inadequacy of contribution levels.

Conclusions

The DA concept was seen as positive. Its implementation raised practical concerns for employers and individuals of efficacy, cost and complexity, but overall consumers were supportive of the idea. EBCs considered there was a need for greater pension flexibility and an appetite in the industry for innovative approaches to smoothing out the risks of fluctuating investment returns. Flexible DB was appreciated in this context, although there was some

5 Discussions on CDCs was confined to employers and EBCs. Individuals covered two significant elements of DA in the deliberative discussion groups and it was not possible to include a third concept in the allotted time.

concern that it may have a limited impact on current DB schemes. This was because the proposals focused on change to the benefits of future accruals rather than the historical challenges and risks faced by employers.

The concept of DC Plus and providing greater certainty through the introduction of guarantees was appealing to individuals and employers. There were concerns about who would pay and the potential impact on investment returns, but overall, consumers were supportive of the concept. Building certainty through buying promises or deferred annuities was also appealing, but EBCs noted the lack of a current market for such products and the complexity of such arrangements for individuals to master.

Some employers found CDCs a difficult concept to understand; EBCs were mixed in their views, with some being advocates while others were not convinced they lived up to expectations.

Overall, DA was seen as a positive move towards greater certainty of retirement income. However, the overarching issues of helping individuals to understand how much they would need to live on in retirement and the amount that people are saving for retirement remain.

1 Introduction

TNS BMRB was commissioned by the Department for Work and Pensions (DWP) to explore consumers' views about risk sharing in pension schemes, the appetite for greater certainty in relation to pension costs and saving, and views about the proposed Defined Ambition (DA) pension schemes.

1.1 Research background

DA[6] is a new category of pensions the DWP would like to introduce to complement existing Defined Benefit (DB) and Defined Contribution (DC) pensions. DA pensions would aim to provide more certainty for individuals than DC schemes and less cost volatility for employers than DB schemes. DA encompasses a wide range of models, some of which are possible in the current legislative and regulatory framework, and others which are not. At a time when many changes in the pension landscape are being set in motion, DA could provide a timely opportunity to re-engage and encourage employers towards risk-sharing and innovation by developing a legislative framework which allows it.

DWP is carrying out research on DA from a consumer perspective to further inform policy and legislation development in this area.

1.2 Research aims

The overarching aims of the research were to understand consumers' views about: risk and uncertainty in pension schemes; the appetite for reducing risk (in DB schemes) and increasing pension outcome certainty (in DC schemes); and views about, and appetite for, the proposed DA schemes, which seek to address these.

Specifically the research aimed to explore:

- employer decision-making about pension scheme(s) for employees, their motivations, concerns, understanding and sources of information, and their appetite to offer alternative pension arrangements;
- how employers support and advise employees nearing retirement and how employers use their pension arrangements for workforce planning/retirement purposes;
- how individuals engage with pension provision, make decisions about savings and pensions, their understanding and acceptance of risk, their desire for a guaranteed level of income in retirement and their appetite to take up alternative pension arrangements;
- how Employment Benefit Consultants (EBCs) decide what types of pension schemes to make available and what the future pensions marketplace might look like.

6 Department for Work and Pensions (2012). *Reinvigorating workplace pensions*. *'The name Defined Ambition is intended to provide a similar short-hand title to encapsulate the many models that could deliver this concept. The term is intended to reflect a greater focus on outcome than DC, but also to reflect a difference in the nature of the risk bearer compared to DB'*. (10) http://www.dwp.gov.uk/docs/reinvigorating-workplace-pensions.pdf

1.3 Research approach

Qualitative research was undertaken during September and October 2013, with three participant groups: employers, individuals and EBCs:

- 35 depth interviews were conducted with employers using a combination of face-to-face and telephone depth interviews. The sample reflected a broad range of employers in terms of size, industry sector, turnover, ownership and type of pension scheme(s) in place including: partially-open DB schemes; trust-based DC pension schemes; Group Personal Pension DC schemes; and hybrid risk-sharing schemes.
- Nine deliberative workshops were carried out with individuals across four locations in the UK (London, Edinburgh, Norwich and Birmingham) and lasted 2.5 hours. Each group comprised a group of six to eight participants, with a total of 63 participating in the research. Participants were selected for age, income, and their pension saving approach:
  - currently saving, or had ever saved into a pension scheme and the type of pension scheme saved into;
  - not currently saving (but had a deferred DB pension);
  - currently saving towards a DB pension;
  - currently saving towards a DC pension;
  - retired and never saved;
  - retired and drawing from a DB or DC pension; and
  - never saved towards a pension.

  Deliberative workshops allowed respondents to explore contextual and in-depth information provided which informed participants' discussions. The method gains a much deeper understanding of consumer attitudes than traditional focus group discussions.
- Five depth interviews were conducted with EBCs who were selected to represent a range of industry representatives.

A full breakdown of the sampling approach is provided in the Appendix A.

The interviews and deliberative groups were undertaken by the research team using topic guides to structure the discussions (Appendix B). Data was fully analysed using a content analysis approach (Appendix C).

1.4 The report outline

With this introduction forming the first chapter, the rest of the report is structured as follows:

- Chapter 2 provides a brief overview of the pension landscape – employer provision, and individual's understanding and engagement with pensions.
- Chapter 3 explores awareness of, as well as current views and attitudes to, uncertainty and risk in both DB and DC schemes, including whether there is an appetite for future change.
- Chapter 4 explores initial reactions and appetite for the proposed DA models.
- Chapter 5 outlines key conclusions including perceptions of pension futures.

All quotations are verbatim, drawn from transcripts of the depth interviews and workshop discussions.

2 The pensions landscape

This chapter provides a brief overview of the pension landscape from the perspective of employers, Employee Benefit Consultants (EBCs) and individuals, providing the context for subsequent chapters which explore perceptions of risk and uncertainty of pensions and consumer appetite for the Defined Ambition proposals. In this chapter, the value of providing a pension by employers is explored alongside individuals' attitudes and decision making around saving for retirement and their awareness and understanding of pensions. The chapter also reflects on EBCs' views of the pension landscape and their perceptions of the drivers of employer and individual decision making.

2.1 Workplace pension provision

Employers provided a workplace pension for their employers for four key reasons:

- To be seen as responsible and doing the right thing, with a clear expectation on the part of individuals that good companies offer a pension.
- To provide an overall competitive employee-reward package, enabling effective recruitment and retention.
- To stay in line with industry expectations and ensure a comparable benefits package to their competitors.
- To meet the requirements of automatic enrolment into a workplace pension scheme.

Employers with partially-open Defined Benefit (DB) schemes tended to be former public sector employers, partnerships and businesses offering professional services. Employers with historical links or partnerships with the public sector indicated that a generous DB pension scheme was often used to offset acknowledged lower rates of pay.

DB schemes continued to be provided for three reasons: DB schemes were considered to be the sector norm; trade union and employee pressure; and senior management support, as they were in the position of being both beneficiaries of their DB scheme and important decision makers regarding the company's pension provision.

A number of employers in the research had made changes to their DB pension schemes in the last five years. These were driven by the desire to: reduce their pension scheme management and compliance costs; minimise the cost volatility of DB schemes due to the effects of investment risks and employee longevity; and reduce the scheme deficit on their balance sheet.

Employers were managing the costs of their DB schemes by changing employer contributions; increasing employee contributions; closing DB schemes to new members; increasing the pension retirement age; and introducing nursery DC schemes for new employees[7]. Some employers had also set up new DC schemes to meet automatic enrolment requirements. Where employers had both DB and DC schemes, contribution levels into the DC schemes were significantly lower than those into the DB schemes.

7 New joiners initially contribute to a DC scheme and after a set period of time are then moved into a DB scheme.

DC schemes were now generally seen as the norm and had largely replaced DB schemes because they allowed employers to contain their costs in a predictable way. It also reflected an increased desire to have a hands-off approach in the management and administration of pension schemes.

Employers were also making changes to DC schemes. Over time, some had reduced their level of contribution, reflecting the financial circumstances of the business. Others were reducing contribution levels for new members to take into account the increased cost to the company of meeting their automatic enrolment obligations.

EBCs also observed the trend from DB to DC schemes and reflected employers' concerns about the cost of pension schemes.

> *'Companies are very much going for DC and the driver for that is the financial risks associated with DB which have been hurting them a lot over the last 15-20 years. They've been having to put a lot of money into those pensions and most of them are still in deficit after contributing all that money. There's a massive move to the opposite spectrum to DC. It is a shame they have gone so far. I think there is some middle ground which could be appealing.'*
>
> (EBC)

It was felt that larger employers in particular preferred to offer a mix of benefits for their employees, with an appetite for greater flexibility. While they considered that pension provision might be one component, they were keen to see benefits packages that offered a range of products and saving vehicles, including pension-related products that could be used to release capital at certain points in a person's lifetime.

EBCs additionally discussed the need for a wider range of pension provision to meet the diversity of individual's retirement outcome needs. However they acknowledged that multiple choices can both confuse and disengage individuals and that flexibility would need to be offered through a limited number of fund options to make choice easier for employees.

Individuals generally expected employers to provide a pension scheme if it was the norm for that industry and for the government to provide a State Pension safety net but recognised it was their own responsibility to ensure they had enough to live on in retirement (see Section 2.2). Some individuals did not expect to have to additionally provide over and above the State Pension and workplace pension, especially those with DB pensions.

Those who were currently saving, or had previously saved into a pension scheme, had mostly done so passively, being enrolled automatically by their employer or with minimal effort of their own. Once enrolled, few employees reviewed their pension arrangements, they did not understand the information they received and very few had any idea about how much their pension might be worth when they retired. The exceptions were those who recognised that they had a DB pension scheme.

For those who were not, or were no longer, contributing to a pension scheme, there were a variety of reasons, including: mistrust of pensions (influenced mainly by press stories and personal stories of friends or family not receiving the pension they expected); the cost and affordability of their pension contributions in the light of competing financial priorities (e.g. getting on the housing ladder and paying rent or a mortgage); or their employer did not provide a pension scheme.

> *'I just don't have enough money; it's hand to mouth.'*
>
> (Not currently saving [but have saved towards DB pension in the past], aged 45 – up to State Pension age (SPA))

2.2 Individuals' retirement outcomes

Individuals' retirement outcomes have become increasingly less important to **employers**, with employers' decisions about pensions being driven by business-related needs of cost and affordability rather than concern for the financial outcomes of individuals at retirement. Employers felt that in general, individuals have the primary responsibility for ensuring an adequate retirement outcome. This was a view shared by **EBCs** who observed a desire among employers for a more hands off approach, with employers increasingly favouring Group Personal Pension (GPP) arrangements in which they have minimum responsibility beyond offering a pension provider and employer contributions.

> *'I don't think employees now expect their employer to look after them in retirement. So when employees used to work for their employer for 40 years there was a bit of a deal – you give us the best years of your life and we will give you something back – but now people come and go and so why should an employer worry about you when you are 70 if you are currently 25 and you are going to be gone by the time you are 30. It's your money, you sort it out.'*
>
> (EBC)

> *'We are as concerned as we can afford to be.'*
>
> (Trust-based DC, Medium, Transport)

There was some variation in the strength of this view, with employers offering DB schemes generally accepting a greater responsibility than those with DC schemes.

> *'I feel comfortable that we have this scheme in place and I'm satisfied we look after our people well. Even if people leave we've done our bit to start them off. I know we can always do more, but that's the state of the economy.'*
>
> (Partially-open DB, Trust based DC, Very large, Manufacturing and construction)

Furthermore, while most employers were looking to reduce or manage their pension costs, some employers considered that they had a responsibility to provide pension advice, although they had limited funds to pay for this.

Individuals' lack of retirement planning was a concern for **employers** and **EBCs** because it potentially leads to workforce management issues, with people wanting to work longer as well as employees retiring with an uncertain financial future.

> *'We had a series of presentations but I don't think people really understand the difference … people generally think if I put 3 or 5 % in, it will provide me with a pension, when it doesn't.'*
>
> (Partially-open DB, Trust based DC, DC GPP, Large, Property investment)

However, employers saw these more as potential future issues, rather than a present issue for them to deal with.

As discussed above, individuals felt that it was largely their own responsibility to ensure they had enough to live on in retirement. Ensuring an adequate retirement outcome was seen as part of their broader responsibility to provide for themselves and their families in the future.

'It's your responsibility to provide for yourself and your family when you are working so it's your responsibility too when you finish.'

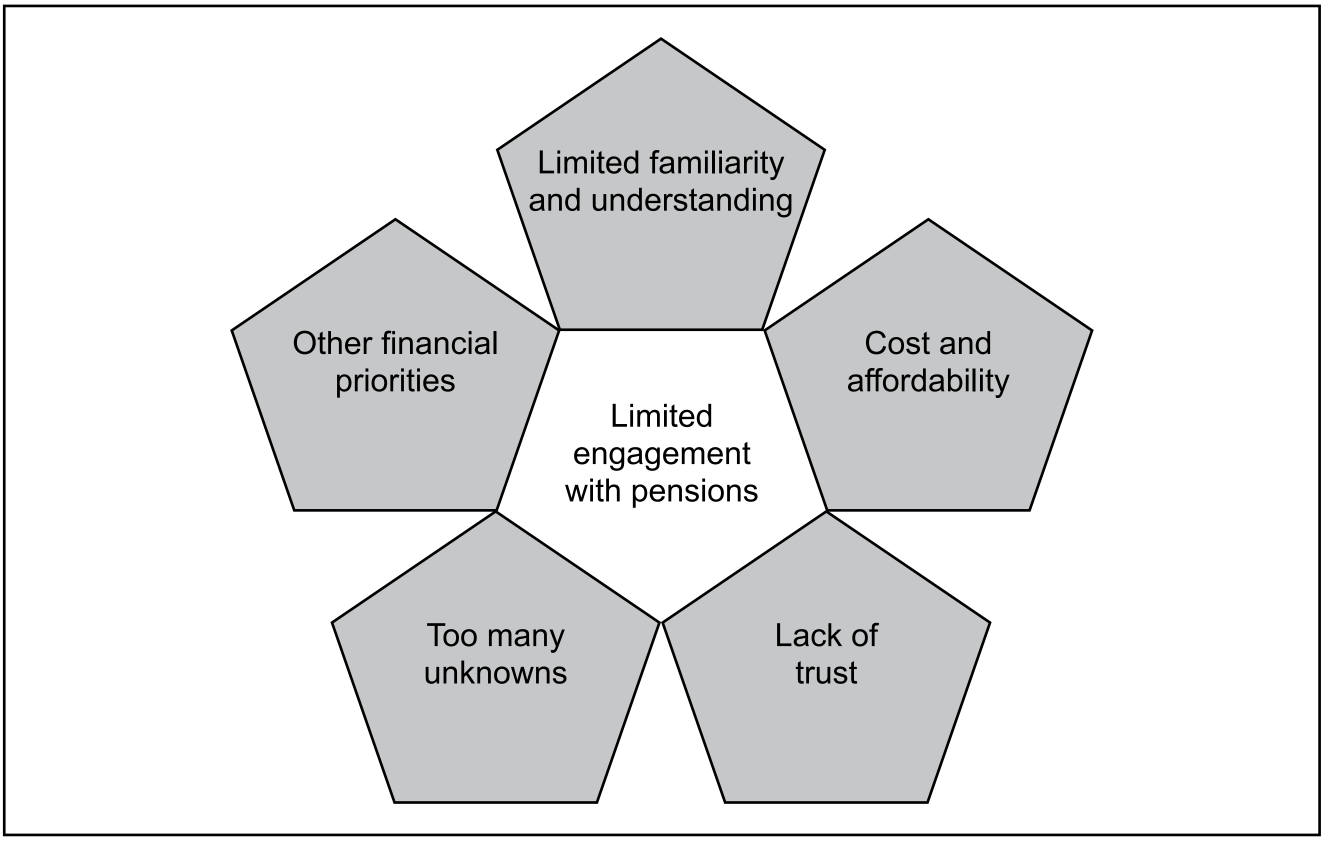
(Currently saving towards a DB pension, Aged 45 – up to SPA)

Whilst individuals accepted that it was their own responsibility to ensure they had enough to live on in retirement and that pensions were the main vehicle for retirement saving, most had not actively thought about retirement planning, seeing it as something they would do in the future.

Some had ideas about how they would fund their retirement, which included working for longer, downsizing their property and living on the proceeds, and saving into Individual Savings Accounts, although in most cases these had not been thought through in detail. Consequently, financial plans for retirement were often minimal, and engagement with pensions was very low.

This was driven by five key factors, as shown in Figure 2.1.

Figure 2.1 Key factors driving engagement with pensions



The issue of competing financial priorities was a particularly salient issue for younger individuals.

'It's a catch 22 [contributing towards a pension]*. Do I want to lose a portion of my salary, especially when I'm young and want to do stuff?*

(Not currently saving (but have saved towards DB pension in the past), under 45)

3 Risk and uncertainties in pension schemes

This chapter explores risk and uncertainties in pension schemes, from the three different perspectives, i.e. employees, Employee Business Consultants (EBCs) and employers. For each we consider/explore:

- awareness of the risks/uncertainties of DB and DC schemes;
- how these are currently managed, and employers', EBCs' and individuals' appetite for change; and
- future risk reduction for DB schemes and increased pension outcome certainty for DC schemes.

This sets the context for exploring consumer appetite for Defined Ambition in Chapter 4.

3.1 Awareness of the risk and uncertainties of DB and DC pension schemes

Overall, employers were at least broadly aware of the advantages and disadvantages of DB and DC schemes for employers and employees, and the associated risks and uncertainties of these schemes. The level of knowledge varied according to financial knowledge and personal (current or past) experience of DB and DC pension schemes.

Employers recognised that DB schemes were of benefit to employees (providing a generous and easily calculable pension, and enabling a more satisfied working culture), but this was outweighed by the high and unknown costs for employers providing this type of scheme. When looking at these disadvantages in more detail, those who had experience of providing a DB scheme were more likely to identify specific risks (e.g. index linking, high management and compliance costs, longevity and rising contributions, investment risks) whereas those with no such experience tended to see DB schemes more generally as risky and unpredictable'

Conversely, DC schemes, which came with smaller and more predictable costs, were of clear advantage to employers, although it was still a financial strain for some (these tended to be smaller companies or those that had recently introduced, or extended, their pension provision to meet automatic enrolment requirements). Employers recognised, however, that DC schemes were less advantageous for employees due to: uncertainty of pension income; relatively low contribution levels; the risks of investment returns; and fluctuating annuity rates.

EBCs, in their advisory role, had a high level of awareness of the risks and uncertainties of DB and DC schemes. In relation to DB schemes, they also commented that traditionally DB schemes had provided over inflated pensions, in terms of the pension payable to the member and providing inflation-proofing and additional benefits such as widow's benefits.

Individuals were not generally aware of the risks and uncertainties associated with the different types of pension scheme, with some who were currently or previously contributing to a pension scheme being unaware of the nature of their own scheme. Once provided with basic information (during the research), most could recognise the differences between DB and DC schemes, although individuals spontaneously tended to view pensions as a whole as risky and uncertain, irrespective of whether it was DB or DC. These views were dominated by a general cynicism of financial institutions, driven in large part by recollections of negative press stories, and from friends and family who had received less from their pension than expected. In addition, most were unaware of annuities and the risks associated with these for DC schemes.

3.2 Managing the risks and uncertainties in DB and DC pension schemes

3.2.1 Managing the risks in DB pension schemes – employers

For employers with DB schemes, the deficits resulting from the risks inherent in index linking, high management and compliance costs, longevity and rising contributions, had had an impact not just on pension decision making but decisions for the business as a whole. This meant that employers were actively managing the cost volatility of their pension scheme and providing additional funding for any actuarial deficits that arose.

The majority of employers with a DB scheme in this research had amended their scheme to reduce these risks, or had considered closing the scheme to new members, with some already doing so. In most cases they had opened a DC scheme as a replacement. Employers with these partially-open DB schemes were particularly risk averse, having already taken substantial measures to limit the impact of the cost volatility of their DB scheme.

Among the strategies which employers had introduced to mitigate the risks of their DB schemes were:

- increasing pension age;
- increasing employee contributions;
- mortality risk sharing;
- capping index linking;
- adopting better investment management approaches;
- introducing DC nursery schemes (DB open).[8]

For employers with only DC schemes, the risks associated with DB schemes were well known and as a result they did not consider a DB scheme to ever be a viable alternative option for them. Indeed, some of these employers were doing their best to manage the cost of their current DC pension scheme, either by reducing the level of their contribution for new (or in some cases existing) members, or introducing lower contribution DC schemes for employees who were joining following automatic enrolment.

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8 Nursery DC schemes had been introduced by a couple of employers, with others considering them. In these cases, new employees would join the nursery DC scheme. After a set period of time, with three and five years being mentioned, members would be moved to the company DB scheme. This approach was introduced in order to reduce the number of deferred members and companies taking the view that the highest level of staff turnover is in the first three to five years.

3.2.2 Managing uncertainties of DC pension schemes – employers and individuals

With regard to DC pensions, while employers were aware that this type of pension did not provide a guaranteed retirement income, they had generally given little thought to this and were not particularly concerned. In their view, providing a retirement income was largely the responsibility of the individual (see Section 2.2), with most considering that they were already meeting their responsibilities by providing a pension scheme in line with industry expectations. They saw limited ways of providing more retirement income certainty besides reviewing their pension provision every so often (some trust-based DC pension schemes also monitored the range of funds available).

Overall, employers with DC pension schemes were averse to incurring any additional cost or risk to the business – this was their first priority.

Some employers provided support for employees in other ways by: providing free advice or seminars from Independent Financial Advisers; providing pension modelling tools (often via the pension provider); encouraging employees to contribute more than the minimum contribution; and encouraging retiring employees to shop around for the best annuity deal on the market. However, employers observed little engagement among employees with any of these forms of support.

This was corroborated by **individuals**, who reported doing very little to manage the uncertainties of their DC pension scheme, despite their view of pensions as being risky and uncertain. This was primarily because they had never, or not actively, thought about both their retirement income but also what they would need to live on in retirement. Furthermore, in many cases they were simply not aware of the specific risks associated with DC pension schemes, such as the investment risks, economic (conversion) risks, and the need to shop around for an annuity. Pension statements also caused confusion for some, who misunderstood pension forecasts as guaranteed income.

Having seen press stories about money mismanagement as well as personal stories from family and friends about pension schemes paying out less than was expected, individuals were wary of pension schemes. While they generally recognised that stock-market-based investments were volatile, they expected their pension scheme money to be managed well and for investment companies to ensure that the right risk/reward ratio was achieved. At the same time, there was some acceptance of the difficulty in attaining certainty and doubt about whether this could be achieved in the current financial climate.

3.3 Appetite for future change in relation to risk and uncertainty in pension schemes

3.3.1 Future risk reduction for employers in DB schemes

Overall, there was recognition among **employers** and **EBCs** that there had been a long-term movement away from DB schemes, and that in the current financial climate there remained a strong desire to reduce the risks and costs further by making more changes to their DB pension scheme, closing it to new members, or closing it altogether. From the perspective of employers with DC pension schemes there was no appetite for DB schemes at all, a view confirmed by EBCs who could not recall the last time they had set up a DB scheme for an employer.

'We've come too far, in the last 16 years. Any type of DB or promise from the employer is finished and gone.'

(Partially-open DB, Trust-based DC, DC GPP, Large, Property)

'Employees absolutely love them, as an employer, absolutely no chance; I don't know how to manage this kind of risk.'

(DC GPP, Medium, Car company)

As discussed above, employers with DB schemes were already implementing risk-reducing strategies and they continued to seek ways to mitigate these risks and uncertainties. Most of the employers in this research with open DB schemes felt that their schemes may inevitably have to close in the future, and that in this context, risk sharing and reduction would be welcome but would need to have a sufficiently large impact to prevent this happening.

Across the employers with DB schemes there was a desire for greater flexibility and the need to be able to reduce the impact of deferred members' pension rights. Additionally, those currently with multi-employer DB schemes sought ways of mitigating risks of increasing contributions, which had been rising each year.

'A little more flexibility would allow the company to look more at the long term.'

(Partially open DB, Very large, Manufacturer)

As part of the research, it was necessary to provide a brief description of DB pensions to **individuals**. They recognised that DB schemes were expensive to run and potentially financially risky for employers. However, those that had a DB pension (active or deferred) were generally unwilling to share any of the risks with employers if it meant giving up any of their rights, including future rights. However, within the context of risk sharing and preventing DB schemes from closing, some individuals were able to put forward more pragmatic views and were willing to share a limited amount of risk, for example an increase in their contributions or an increase in retirement age. However, individuals were generally reticent about this, on the basis that any promises made in the past should be upheld.

'It is a commitment that the companies made and it should be honoured and stays the same.'

(Currently saving towards a DB pension, Aged 45 – up to SPA)

3.3.2 Increasing pension outcome certainty for individuals in DC schemes

With regard to DC schemes, while **employers** did not initially show any interest in increasing individuals' pension outcome certainty, once prompted with further discussion of these issues, it became evident that many liked the idea of it in theory, especially given the general movement towards DC schemes. Even employers with DB schemes, who had already, or were about to open DC schemes to meet automatic enrolment requirements, felt that improving the certainty of DC schemes was a worthwhile focus.

Employers' initial reticence about increasing pension outcome certainty, particularly guarantees, arose from the possibility of incurring additional costs for the employer. While they would like to see more certainty, their appetite for it was largely dependent on how much certainty would cost and who would pay.

Some of the employers in the study were particularly cautious about additional costs, particularly employers who were struggling to maintain their current pension provision (either due to business finances generally or automatic enrolment requirements) and employers that had closed their DB scheme to new members and were averse to taking any steps backward, that would incur additional costs or uncertainties for them.

> *'It might sound harsh but we can't control the economy, we can't control the money markets, we can't make any promises, I don't as a business think we should be held accountable for that.'*
>
> (DC GPP, Micro, Branding company)

> *'We already have the pain of historical deficits to pay for the DB scheme.'*
>
> (Partially-open DB, Trust-based DC, Very large, Transportation)

EBCs, who were driven by employer demand, also saw cost as being the critical factor.

> *'If there were DC providers in the market which offered some sort of security, that would be something we could advise on, how it fits with the companies' objectives. For clients it comes down to cost and if there are guarantees who bears that cost?'*
>
> (EBC)

However they also reflected the views of employers and individuals, and recognised that employees needed to play a part in planning for their retirement and considered that people needed more education about retirement planning. Recognising the inertia around pensions, there were some suggestions that it should be a mandatory mechanism for individuals to engage in retirement planning, thinking about their likely retirement needs and how these might be met.

It was also noted that increasingly people were accumulating a number of small pension pots over their working life, which made it difficult to understand how much retirement income they might have. While these individual pensions could be transferred into one, there was a call for a truly portable pension that would follow an individual throughout their working life.

Additionally, EBCs commented that while certainty of retirement income is a key issue for individuals, there is also a need for people to build up a sufficiently large pension pot from which to draw their retirement income. There was a concern that, with the move from DB to DC pension schemes, contribution levels had decreased considerably and that part of the problem with retirement incomes from DC pensions was not just uncertainty but also the reduced level of pension saving. In the view of EBCs there should be a focus on both certainty of retirement income as well as increased level of contributions.

> *'Contribution levels are quite small now. In some DB schemes we were seeing combined contributions of 24 per cent. With automatic enrolment we are seeing just 2 per cent ... yes, rising to 8 per cent but it still not enough. What should it be? North of 15 per cent ideally, at least if you don't want to live in poverty.'*
>
> (EBC)

Individuals who at the start of the research had limited understanding and knowledge of pensions, recognised that they had a part to play after they had been presented with the key elements of different pension schemes, together with the advantages and disadvantages of each.

> *'It's a big thing to have personal responsibility and people need help and support … there needs to be more transparency about pensions, because when we started the conversation we all voiced that we were unclear about it.'*
>
> (Currently saving towards a DB pension, Aged 45 – up to SPA)

They also recognised that there was considerable inertia in thinking about pensions, primarily because people do not know how much they will need to live on in retirement, which makes pension planning difficult. Additionally, individuals discussed that the word pensions is often perceived as scary and daunting, and called for more education about retirement planning.

4 Consumer appetite for Flexible Defined Benefit

The Department for Work and Pensions' consultation[9] sets out a range of proposals for how risks could be shared more equally between more parties than is common place in the current landscape. It divides the proposals between Flexible Defined Benefit, Defined Contribution Plus, and Collective Defined Contribution schemes under the umbrella term Defined Ambition. For each type of scheme the consultation paper sets out a number of proposals, each of which were described to the research participants. This chapter explores their responses, and consumer appetite for flexible defined benefit schemes in the context of the preceding discussions relating to risk and uncertainties in pension schemes. Chapters 5 and 6 focus on DC Plus and Collective Defined Contribution schemes.

The **flexible defined benefit** proposals are designed such that scheme members would have more certainty of the pension outcome than traditional DC arrangements but bear more risk than in a DB scheme; employers would have greater design flexibility and the ability to reduce cost volatility. The consultation document serves to address three risks – inflation, longevity and risks associated with former employees – and are reflected in three proposed models[10], each of which were presented to the research participants and are discussed individually in the next sections.

4.1 Managing inflation risks

Under the proposal to manage inflation risks, employers could choose to either provide additional benefits above the simplified DB level when the scheme funding position allowed, or the employer could provide a discretionary, one-off payment in any year, on top of the simplified DB level.

Overall, **employers** were weakly positive about the idea of managing the inflation risks of DB pensions as this provides the employer with greater scheme flexibility and helps to some extent to mitigate against potentially sharp rises in inflation.

The potential financial impact on the scheme was, however, seen to be limited as it does not deal with the historical risks associated with the accrued benefits of existing and deferred scheme members.

EBCs were of a similar view to employers, but commented that this approach tended to go against the financial trend, citing state benefits and the State Pension as both being inflation-proofed.

9 *Reshaping workplace pensions for future generations*. ISBN 9780101871020, Cm 8710 http://www.dwp.gov.uk/docs/reinvigorating-workplace-pensions.pdf

10 In *Reinvigorating workplace pensions* 2012 (Department for Work and Pensions) there were two separate proposals for paying fluctuating benefits, which have been subsequently combined in the 2013 consultation. While these were described and explored separately in the research, here they are discussed under the single heading of Ability to pay fluctuating benefits.

Most **individuals** had a very limited understanding of the impact of inflation and so, while they generally thought that the proposal had merit as it would reduce the employer's costs and that the core promise of a known pension outcome was retained, they did not generally understand what the effect would be once the pension was in payment.

The consultation document encapsulates the principle of managing inflation risks in two possible models. These are:

1. The employer would no longer have to index link benefits (future accrual only).
2. Employers would not be required to index link benefits but they would be able to choose to add additional benefits above a minimum level either as a discretionary one-off additional payment or for example by providing indexation when their funding position allowed (i.e. index linking could fluctuate year to year).

In discussing the proposals, **employers** could see merit in the approach of removing index-linking. However, schemes with large DB funding deficits did not see this proposal on its own as reducing the likelihood of future scheme closure.

> *'Removing the index link would be helpful – that is a meaningful thing to do.'*
>
> (Partially-open DB, Trust-based DC, Very large, Wholesale)

> *'It's not the index linking that is the problem; it's actuarial woes around solvency that are the problem.'*
>
> (Trust-based DC, Medium, Services)

Those employers that were particularly keen to retain a DB pension also thought that the removal of index-linking altogether would considerably devalue the scheme, delivering a flat pension that in some circumstances would have a significant impact on their ability to recruit experienced staff and would be problematic to communicate to employees.

> *'That would be great but the employee would have their benefits eroded if inflation goes up, the employee loses out.'*
>
> (Trust-based DC, Small, Manufacturing)

Nevertheless, there was already evidence of capping the level of index linking in some DB schemes, which employers agreed helped with cost volatility to a limited extent.

Managing inflation risks through optional financial payments were thought to be unlikely to happen with the employer more likely to reward current staff or shareholders rather than pensioners who are no longer contributing to the success of the company. There was also some suggestion that if this approach was to operate fairly and transparently then a binding mechanism would need to be in place.

> *'There would need to be some trigger mechanism; if the profits of a year came to a certain level then they must allocate x per cent.'*
>
> (Trust-based DC, Large, Car company)

EBCs broadly shared the views of employers. They took the view that managing the risk of inflation would have a negligible impact, especially for schemes with large deficits; discretionary payments were also thought to be unlikely to be paid, especially to pensioners who were no longer productive members of the company.

Most **individuals** were unaware of the impact of inflation, although some of those with DB schemes (either active or deferred) and those that had retired had a better understanding of the effect of inflation and were reluctant to see inflation-proofing removed.

> *'If we give that away* [inflation proofing]*, it* [the pension] *would be eroded very quickly.'*
>
> (Mixed, Retired group, SPA+)

Individuals too were highly sceptical that an employer would make discretionary payments when the scheme funding position allowed.

> *'But these are things which will be done and then not undone… they're not going to change these in five years' time when things are good.'*
>
> (Previously saved in a DB pension scheme; no longer saving into a pension scheme, under 45)

There was some suggestion by individuals that if this proposal was the only way to save an existing DB scheme from closing then perhaps an amount could be paid to each scheme member as compensation, either as a separate sum of money or as a one-off addition to their pension fund.

4.2 Managing the costs of former employees

Under current DB arrangements the employer promises that during the period of employment they will provide the employee with specified pension benefits that accrue at a given level. If an employee leaves their employment before retirement they may continue to accrue certain benefits as if they were still employed (as deferred members of the scheme). An employer may therefore continue to manage an employee's frozen contributions for many years after they have left the company. In order to manage these risks relating to the costs of former employees, one option is for former employees to no longer accrue any further benefits under the DB scheme.

Employers and **EBCs** were very positive about managing the costs of former employees in this way (when a member leaves employment) as potentially it could have a significant impact on the scheme's future liabilities. By applying only to future accruals, employers and EBCs thought that the proposal was limited in scope, reducing the potential impact on the pension scheme.

Individuals that understood the benefits of DB schemes expressed concern about this approach, considering that employers could act in an unscrupulous way in order to reduce their pension costs.

The consultation document proposes that the risks of managing the costs of former employees could be addressed in the following way:

> Employee's DB would be converted to DC if they leave the employer before retirement. The amount of pension benefit they had accrued in scheme would be crystallised and the cash value transferred to a nominated DC pension fund.

Employers and **EBCs** were very positive about the proposal and keen to see that once the member's pension had been crystallised into a DC scheme that it would no longer be part of the DB scheme and would become solely the ex-employee's responsibility.[11]

Four key issues were raised among some employers and EBCs:

- Management issues; these could include:
  - employees with a significant number of years of contributions to a DB scheme being reluctant to change employer and lose their accrued benefits;

    'If I have an employee that is in their 50s and they have, say, ten to fifteen years in the DB scheme, they are going to think very hard about leaving the company and losing all the benefits they have accrued. Potentially, it raises a workforce management issue with people being reluctant to leave once they get to a certain years' service.'

    (Open DB scheme, Large, Retail)
  - employers potentially forcing employees out of their jobs in order to protect the DB pension scheme (although there was recognition that there are workplace protections in place to deal with such circumstances).

    'I can see how that's a benefit for the company. But I can see issues with it such as potentially companies trying to get rid of people because of the risk.'

    (DC GPP, Small, Design company)
- With an increasingly mobile workforce and employees unlikely to remain with an employer for the whole of their working life, crystallising DB to DC pension assets for employees leaving would mean that in time there would no longer be any active members of the scheme, with the DB scheme ultimately winding up.
- For those employees moving within the same sector, or between public sector jobs, the proposal was considered to have limited impact as the organisations tended to be in the same multi-employer scheme.
- Converting a DB to a DC scheme would mean that the employee loses certain benefits they have accrued (such as index-linking, etc.) with the cash value being transferred to a new DC scheme. It was thought by some of the employers and the EBCs that the proposal would be difficult to sell and that employees would need to be fully informed about the implications of DB to DC crystallisation in order to avoid any suggestion of pension mis-selling.

    'Difficult pill to swallow as you're taking away guaranteed benefits and diminishing their benefits.'

    (Partially-open DB, Trust-based DC, Very large, Manufacturing)

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11 It was only possible to present brief descriptions of the proposals to the research participants and so questions were often asked about the detail of the proposals, some of which are covered in the consultation document. In this case, employers wanted to be clear that the member's pension assets were no longer part of the DB scheme in the same way that a person's pension pot could be transferred from one provider to another.

Individuals were concerned that an employee could lose their DB benefits through external events. These might be, for example: if an employee had to leave their job through ill health; the employer re-locates and the employee is unwilling to continue working for the employer; or a partner changes jobs and necessitates a change of location. Similar to employers and EBCs, individuals considered that if this proposal was implemented there would need to be considerable transparency about how it was operated.

4.3 Managing longevity risks

As people are increasingly living longer, a suggested design change to DB pensions is to reduce the pension payable in proportion to increased life expectancy.

Overall, the proposal for dealing with longevity risks by extending the pension scheme's pension age in line with increases in life expectancy chimed well with **employers**, **individuals** and **EBCs** primarily because it reflected the changes that were occurring with the State Pension.

The consultation document suggests the following approach:

Employee's DB would be converted to DC if they leave the employer before retirement. The amount of pension benefit they had accrued in scheme would be crystallised and the cash value transferred to a nominated DC pension fund.

Employers and **EBCs** were generally positive about the idea of increasing pension age, with some indicating that they had already changed the pension age of their scheme for existing members (active and deferred) and recognised that the proposal gave greater flexibility.

> *'If we could change retirement age for everybody for active and deferred for all service, we'd definitely do it. If for future provision, it's not as appealing.'*
>
> (Partially-open DB, Trust-based DC, Very large, Electronics company)

Individuals were very mixed in their views about working longer before they could receive their pension, although there was an increasing acceptance that this was inevitable. Few relished the idea of working longer; some were angry about the perceived unfairness of some professions being able to retire earlier than others as a matter of course, with specific public sector employees being cited in this respect. Employers also recognised that extending pension age could be a hard sell to employees.

> *'I think that would go down like a lead balloon … a disaster.'*
>
> (DC GPP, Medium, Manufacturing)

Nevertheless, while received positively, employers, EBCs and individuals did raise four issues with the proposal that could reduce its appeal. These were:

- management issues could arise with some employees staying in employment who were not as productive as required and the potential wider impact on the job market as a whole, especially reducing opportunities for young people;

> *'Slippery slope. Moving ages … we could have very different 65s, one who might be fine, others not … and employees would not be happy.'*
>
> (DC GPP, Small, Services)

> *'If the entire population works an extra five years and we still have youth coming into the job market, where will the jobs come from'.*
>
> (Not currently saving [but have saved towards DB pension in the past], Aged 45 – up to SPA)

- how the proposal would work across industry sectors where some employees retire earlier than others, such as manual labour occupations;
- by extending working years, an employer is potentially not financially better off as they will continue to pay an employee's salary and contribute to the pension scheme for longer;
- there may be some complexity about re-calculating a scheme member's pension benefits.

5 Consumer appetite for DC Plus

The Defined Contribution (DC) Plus proposals are designed to provide greater certainty of retirement income for members in the DC world. The proposals build on the positive aspects of traditional DC but with greater certainty for the consumer and without any funding liability for the employer.

The consultation document serves to address three types of uncertainty:

- *'Will I get my money back?'*
- *'I don't want to lose the investment returns I've built up and want some security about returns in the future.'*
- *'I want to be surer about what income I will get when I retire.'*

Each of these types of uncertainty, together with possible approaches to managing uncertainty, were presented to the research participants and are discussed individually in the next sections.

5.1 *'Will I get my money back?'*

The principle of 'Will I get my money back?' through a money-back guarantee was initially greeted with some enthusiasm by **employers** and risk averse **individuals**.

On reflection, both employers and individuals thought that such a guarantee suggested that the pension scheme was a poor investment.

> *'In reality, if you're only going to get out what you put in, then you've done badly.'*
>
> (Hybrid, Small, Consultancy)

From the **EBCs'** perspective, a money-back guarantee was thought to be financially worthless as it was unlikely that over the long term an investment such as a pension scheme would provide a return that was less than the contributions. They did suggest, however, that such a guarantee might provide a psychological benefit, especially for individuals who were highly risk averse.

In discussing the proposal, the following description of the money-back guarantee was provided:

To address the risk of a savings pot on retirement being less than what they put in a money back guarantee would be used which makes sure individuals won't get out less than the contributions they put in.

A primary concern with a money-back guarantee was the likely cost[12] and who would pay. Overall, most of the **employers** operating DC pension schemes were reluctant to accept any additional costs, although their perceptions of the likely cost of the guarantee played a part in this. If the cost was small, then some employers were willing to at least make a contribution; others continued to be reluctant to take on any additional costs, although some of these employers suggested alternatives in order to be able to provide the guarantees, such as incorporating it into an employee's flexible benefits package so that they could trade their benefits or reduce an employee's bonus. Further suggestions about how a money-back guarantee might be funded included: being paid for by the pension provider; or paid for by employer or employee with the government reducing National Insurance contributions to compensate.

> *'There is no appetite within the organisation for the company to take on any more risk, therefore it would have to be borne by the employees as part of their salary package.'*
>
> (DC GPP, Medium, Charity)

> *'If it's not cost prohibitive, we would look into it … reduce the percentage of the bonus to guarantee the pension. That might be an option we'd look at.'*
>
> (Trust-based DC, Small, Real estate)

While **individuals** also held mixed views about the potential cost of the money-back guarantee, those who had expressed most concerns about the security of pension funds or were very risk averse held more favourable views.

The money-back guarantee also posed questions for employers and individuals alike:

- Would the money-back guarantee be a single premium or an on-going payment? Generally, employers preferred a single premium whereas individuals preferred an on-going payment as they saw this as a smaller expense to manage even though it would be continuous over the lifetime of the pension product.
- How would the guarantee transfer if an employee changed employers and therefore their pension scheme?
- If the money-back guarantee premium was paid for out of contributions, what effect would this have on the level of returns?

5.2 *'I don't want to lose the investment returns I've built up and want some security about returns in the future'*

The principle of a capital and investment guarantee was seen to build on the money-back guarantee and overall was more favourably received by **employers** and **individuals** who desired a low level of risk. Indeed, some employers conceptualised the capital and

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12 It should be noted that the research did not set out to discuss the likely level of the cost of a money-back guarantee; rather, the research explored the concept of the guarantee, with employers and individuals raising the issue of cost spontaneously.

investment guarantee as a way of establishing the minimum a person would need to live on in retirement, together with a portion that could be invested in higher risk investments to provide an increased standard of living.

> *'If you can establish the minimum amount you need to live off and that is protected … all the rest that you can get on top, it can fluctuate but it can never go under that; that actually I like … it's more logical and it would protect everything.'*
>
> (Hybrid, Small, Consultancy)

However, some **employers** considered that the principle simply reflected a poor investment strategy on the part of the provider, while some **individuals** found it hard to differentiate this from investing in fixed-rate investments such as Individual Savings Accounts.

EBCs were not particularly keen on the principle of the capital and investment return guarantee. They thought that a guarantee would be expensive and, depending on how it was paid for, would be either unpalatable or have a considerable detrimental effect on investment returns.

Participants in the research were given the following description of the capital and investment guarantee:

The scheme member would have part of the capital and part of the investment return secured via the purchase of a guarantee.

As with the *'Will I get my money back?'* principle, the proposal was seen as attractive only to those **individuals** who were highly risk averse.

> *'It could be attractive for some individuals, particularly for employees who want a high level of security in benefit … While it sounds like a good idea, actually, in practice it might not be the best thing to do for members.'*
>
> (Partially-open DB, DC GPP, Very large, Car industry)

EBCs argued that the use of low-risk investments would be a better, and less costly, approach, although they were mindful that this would reduce the overall return of the pension fund.

The primary comments were again around cost and who would pay, with **employers** taking different views according to their propensity to take on any additional costs. Some employers would consider paying a modest premium for the guarantee while others were averse to any additional expense.

> *'If there was a one-off purchase we could consider that. That would be more viable… then it's done, we've done it for the individual and then it's there. If it's on-going then we can't predict how the business will do or if we sold it, at least with a one-off cost if would keep it within.'*
>
> (DC GPP, Medium, Wholesale)

As with the money-back guarantee, the same questions arose from employers, EBCs and individuals:

- How would the guarantee work in practice – a one-off or an on-going premium?
- How would the guarantee work if an employee moved jobs and pension schemes?
- What impact would the cost of the guarantee have on investment returns?

5.3 *'I want to be surer about what income I will get when I retire'*

While **EBCs** and most of the **employers** understood that the financial outcome of DC pensions was uncertain, this was not the case for **individuals**. Most individuals in the research had very limited understanding of pensions, were not generally aware of DC pension fund uncertainty, and had very little awareness that a pension fund would be used to purchase a product such as an annuity on retirement. It was only once individuals understood this that there was an appetite for certainty of income in retirement.

The idea of building certainty of retirement income over time was appealing to **employers**, **EBCs** and **individuals**.

EBCs thought that the logic of building up certainty of retirement income was a very sensible approach and would potentially enable individuals to plan more effectively for their retirement. They pointed out that this approach would, however, reduce the overall return on the pension investment.

The consultation paper refers to two approaches to providing greater certainty of retirement income: Retirement income insurance; and Pension income builder.

Retirement income insurance

There is an idea that, say from age 50, a promise is made about the level of retirement income a person will have. This promise builds up gradually each year, so certainty about the level of income increases on the approach to retirement. At retirement, the member receives the income which has been promised for life. The way this is achieved is that each year a portion of the member's fund would be used to buy an income insurance product which insures a minimum level of income. At retirement the saver draws their pension directly from their fund (which remains invested) and only if their fund is reduced to zero does the income guarantee insurance kick in.

Employers and **individuals** needed considerable time to grasp the certainty building concept of the retirement income insurance proposal, with none of them understanding why their fund might reduce to zero.

The issues raised about the proposal were centred primarily on how the product would work in practice and that, depending on how much of the complexity would need to be communicated to the individual, it could appear daunting to both the employer and the individual.

> *'Communication would be key and they would have to engage every year in an active process and a challenge from a complexity point of view.'*
>
> (EBC)

In this respect, questions were asked about:

- How the insurance would be paid for, who would be responsible for purchasing the insurance product and who would pay for it[13]. For most of the respondents the notion that

[13] The consultation document makes it clear that a fiduciary would use a portion of the member's fund to buy the income insurance product.

a fiduciary would be responsible for the purchase was the cause of some concerns, seeing fiduciaries in a negative light by associating them with financial advisers.

- If the insurance product was bought in a poor market, what would be the implications in terms of product mis-selling or financial mismanagement if the market then improved? It should be noted, however, that individuals understood that stock market investments varied and therefore returns on investments could vary but did not, in these instances, believe there was any action that could be taken.

The notion of building promises was seen in a negative light by some employers and individuals; guarantees were seen as robust, promises as flaky and easy to break. In this respect there may be a communications issue around how this particular model is described and presented.

> *'Idea sounds a bit flaky. I guess a promise is a good thing but I don't understand how it would work – is it based on an expectation that they would continue to work for another 10 or 15 years? I suspect the promise will be quite low in value which will then devalue the member in those very important years. I assume the insurer would make assumptions about the future, if these assumptions do not turn out the way they were expected to, someone will have to pick the cost up, so they would deliberately push the value down to take the risk away.'*
>
> (Trust-based DC, Large, Car industry)

Some of the **EBCs** thought that the retirement income insurance proposal was complicated for people to understand, especially the idea of the fund reducing to zero but still providing an income. Conceptualising promises as a form of deferred annuity, EBCs pointed out that there is currently very little demand for these from employers, with the effect that they are likely to be expensive to buy. However, this did not detract from the idea of building certainty over time.

Pension income builder

Pension contributions would be used for two purposes: a proportion would be used to purchase a deferred nominal annuity payable from pension age, the rest invested into a collective pool of risk-seeking assets.

Employers, **individuals** and **EBCs** found the Pension income builder proposal much easier to understand compared with the Retirement income insurance proposal. Both were seen as a form of life styling with the pension income builder clearly seen as providing greater certainty of retirement income.

> *'That could be quite good because you won't have all the worry; you'll know from when you're 50 that you're building up the income to a certain point; it would be good for a lot of people.'*
>
> (DC GPP, Medium, Manufacturing)

All three respondent groups had ideas about how the proposal might work:

- A single annuity could be bought from a portion of the pension fund at a particular point in time, providing a minimum level of guaranteed income plus the ability to invest the remainder of the fund in riskier investments, if the member so chose.
- The member could set a retirement pension target income. Annuities could be bought at set periods, possibly annually or every couple of years that gradually aligned with the target income.

Employers and individuals saw this type of proposal as a 'vote winner', but similar issues arose:

- Who would be responsible for purchasing the annuity?
- Would there be mis-selling issues if the annuity, or annuities, were bought in what turned out to be financially poor years;
- The current lack of a deferred annuity market, potentially making this an expensive approach at the current time.

> *'Again comes down to life companies; it's an interesting product; we'd be interested to buy that product because we're a reasonably responsible employer. Providing there's a solution on the company's responsibility, we'd be willing to share if it did not cost much and I was sure it would be worth it at the end. It's a "yes but" on this one.'*
>
> (DC GPP, Micro, Branding and communications)
>
> *'That's a better product to be developed; to secure chunks of income as they go along. I think that's a very positive thing to do.'*
>
> (Partially-open DB, DC GPP, Very large, Wholesale)

6 Consumer appetite for Collective Defined Contribution

The Department for Work and Pensions' consultation document includes the Collective Defined Contribution (CDC) approach. The underlying principle is that while there is no promise or certainty about the pension, including the pension in payment, CDCs offer an alternative approach by pooling assets and sharing risks among members which is considered to create a more stable outcome compared to individual DC schemes.

Discussion of CDC schemes was confined to employers and EBCs. With the exception of the largest **employers**, most felt unable to comment on a CDC. This was partly because they thought that this was how pension schemes worked already with contributions being pooled, and partly because they did not understand how such an approach would compare with existing types of pension scheme.

EBCs were mixed in their opinions about CDCs, with some being advocates of the principle and others less convinced that they were a viable option. While they recognised that theoretically investment pooling could smooth volatility and result in lower charges, there were concerns expressed about CDCs based on how they had recently performed in the Netherlands.

The following brief description of a CDC scheme was provided to employers and EBCs for discussion:

> A scheme member's funds would be pooled into a collective rather than an individual fund, thereby giving individuals a wider range of investment opportunities. This smooths the return, but there would not be a guarantee about the retirement income and it could fall in extreme circumstances, depending on the state of the fund.

There was some recognition among **employers** that financial pooling on a large scale could theoretically smooth volatility and reduce charges; this would need to be demonstrated in practice before they would be convinced.

> *'It's got the makings of a possible workable product; if you pool you have stronger purchasing power and stronger investment growth. Hopefully, if it's properly managed, then it should give a good outcome ... I guess the problem is that those people who take their money out may well get a better outcome than those who are left at the bottom if the investment growth hasn't done as well so somebody has to take a hit somewhere.'*
>
> (Trust-based DC, Large, Car industry)

The lack of some form of guarantee was of some concern, with employers preferring an approach that either comprised a definite guarantee or certainty of retirement income that was being built up over time.[14]

For those employers that thought employees should be able to vary the composition of their pension portfolio, they raised a question about how flexible a CDC would be for individuals to specify the level of investment risk they would require.

EBCs (and employers with a sophisticated knowledge of pension schemes) also commented that CDC schemes need a very large asset pool in order to function. They thought there were few employers in the UK with sufficiently large pension funds that could sustain a CDC approach; they were also dubious that small employers would come together to pool pension fund assets. This was due to pooling being seen as relinquishing control as well as raining commercial confidentiality issues.

> *'Doesn't appeal. It is an individual thing and people want to be responsible for their pot; I wouldn't want to group it.'*
>
> (DC GPP, Medium, Car industry)

Finally, EBCs also thought that, in order to smooth the volatility, the investment company would need to hold back a considerable portion of the pension pool to act as a buffer. They thought that this could have a significant impact on the investment return of the CDC.

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14 The various proposals were discussed in the same order with all the respondents. Consequently, views about CDCs in the light of preferences for guarantees and building certainty may be a research artefact. However, the final section of the interviews explored key preferences, with some form of guarantee or building certainty over time prevailing.

7 Looking forward

Overall, the concept of Defined Ambition was seen positively by employers, Employee Benefit Consultants and individuals as it could help to reduce the costs of DB pensions and provide greater certainty for DC pensions.

There was an appetite among DB employers to further reduce the risks associated with these pension schemes and EBCs felt there was a need for greater flexibility and an appetite in the industry for innovative approaches to smoothing out the risks of fluctuating investment return. The concept of DC Plus and providing greater retirement income certainty through the introduction of guarantees and income building also held an overall appeal with employers, EBCs and individuals alike.

Looking forward, what this meant for the three audiences moving forwards was as follows:

- **Employers**: Cost and affordability continues to be employers' priority, especially in the context of upcoming (or current) automatic enrolment requirements. DB employers generally actively seek reduced risk but any Flexible DB ideas need to have enough impact on the key issues these employers face, such as historically accrued benefits and rising employer contributions.

  DC employers remained wary of incurring additional risk or cost in the context of uncertain futures (especially smaller companies). The research seems to suggest that DC Plus ideas would work best if they make clear to employers what it means in practice and what the benefits are, including ways to prevent increased cost by integration into benefits' packages or through additional benefits to incentivise employers. Getting larger or specific employers within sectors on board to set the trend could maximise the success of any Defined Ambition ideas, as employers tended to tailor their provision to meet the sector norm.

- **EBCs**: EBCs' pension portfolios were driven by employer demand, and on the whole they agreed with employers' outlook on Defined Ambition. Most called for greater pension flexibility overall and were keen for the introduction of deferred annuities to increase individual certainty.

  However, they also went further in advocating lifestyling and reducing risk earlier and highlighted the need for any Defined Ambition models to have enough value for the cost of implementation, e.g. the impact on investment return would not outweigh the benefit of providing a guarantee.

  Furthermore, the research with this audience raised two particular concerns which they felt needed to be addressed. First, in relation to employee education: EBCs called for clear, accessible information for employees which would engage them enough, coupled with limited decision making (e.g. fewer fund choices) to reduce confusion[15]. Second, they felt that individuals needed help in linking what they wanted and needed in retirement to their pension provision and that it was important to make clear that (however much/little

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15 For example, Schwartz, B (2005). *The Paradox of Choice: why more is less*. Harper Perennial. ISBN 978-0-06-000569-6. Schwartz has argued that having excessively numerous options may lead to confusion, with no action being taken.

certainty) a reasonable contribution was needed to achieve a certain level of retirement income. They felt that contributions needed to be increased to at least 15 per cent, coupled with auto-indexation (contributions increase faster than salary).

- **Individuals**: Individuals faced many uncertainties as they looked towards their futures, not just in relation to pensions but also their careers and changes in government; they also expected to work longer.

  Their overall views and engagement with pensions and the Defined Ambition ideas were limited due to their lack of knowledge about pensions and they called for support in relation to this (starting early with education in schools and at specific points in their lifetime where they were encouraged – some said mandated – to review their retirement plans).

  In particular, individuals required help in understanding how much money they would need in retirement, as a first step, coupled with greater certainty of retirement income in order to plan for their retirement needs.

  Furthermore, individuals suggested other ideas such as greater portability of pensions (to increase awareness and understanding of multiple pension funds) as a means of helping them engage with and plan for their retirement

Appendix A
Breakdown of sample for employers and individuals

Table A.1 Employers

Ownership	Variables	Achieved
Pension Scheme	Employers with DB schemes (open)	10
	Employers with DC schemes (mix of trust based and GPP)	21
	Employers with Hybrid risk sharing schemes	4
Interest in risk sharing	Employers with DB schemes	5
	Employers with DC schemes	5
	Mix of both	3
Size	Micro	3
	Small	8
	Medium	11
	Large/Very large	13
Industry sector	Manufacturing and constructions (SIC codes A, B, C, D, E, F)	9
	Manual services (H)	1
	Office based services (J, K, L, M, N)	9
	Wholesale retail/hospital/accommodation/catering (SIC codes G/I)	11
	Other (SIC codes P, Q, R, S)	5
Annual staff turnover	5% and under (low)	15
	6-15% (medium)	15
	over 15% (high)	3
Type of workforce	Full time	28
	Part time	
	Both	7
Ownership	UK	28
	International	7

Table A.2 Individuals

Focus Group Variables	
Group 1 Not currently saving (but have saved towards DB pension in the past) Low/medium income Aged 45 – up to SPA	**Group 2** Not currently saving (but have saved towards DC pension in the past) Medium/high income Aged 45 – up to SPA
Group 3 Not currently saving (but have saved towards DB pension in the past) Medium/high income Aged under 45	**Group 4** Not currently saving (but have saved towards DC pension in the past) Low/medium income Aged under 45
Group 5 Currently saving towards a DB pension Low/medium income Aged 45 – up to SPA	**Group 6** Currently saving towards a DC pension Medium/high income Aged under 45
Group 7 Never saved towards a pension Medium/high income Aged under 45	**Group 8** Never saved towards a pension Low/medium income Aged 45 – up to SPA
Group 9 Mix of: Never saved towards a pension **or** drawing from a DB or DC pension Mix of income Retired	

Appendix B
Materials used during research

Employer interview guide

NOTE TO RESEARCHER:

Overall objective of the research is: **to understand views about risk sharing in pension schemes and explore the appetite for greater certainty with pension costs and savings**

For employers specifically, the objectives are to understand:

- **Pension scheme value and decision making**
  - How employers make decisions about the pension schemes available to employees – considerations and influencers
  - How employers value their pension arrangements for recruitment / retention purposes and retirement (ensuring reasonable income for employees in retirement)
  - How far information and advice factor into decision making and to what extent they engage with this
  - What are their concerns about outcomes for members
- **Attitudes to risk and certainty**
  - Level of knowledge about risk and certainty with DB and DC schemes
  - Willingness to accept risk / provide certainty with pension provision ; how much / what types
- **Appetite for risk sharing and greater certainty with pension costs/savings**
  - Views and appetite towards ideas / ways of doing this
  - Acceptability of ideas – which and why
- **Differences in all the above across types of employer**

This topic guide has been designed to cover all the various types of employer we expect to interview. There is not enough time to cover all the questions included please refer to the key aims boxes at the start of each section and use guide flexibly to reflect type and knowledge of employer

1. Introductions and background information about employer/current pension provision

NOTE TO RESEARCHER:

The key aims of the following section are to...

- *Introduce research*
- *Get background info on employer and pension provision*

Researcher introduction

- Introduce self
- About TNS BMRB - independent research agency working on behalf of Department for Work and Pensions
- About research - to understand employers' views on pension schemes and potential changes in this area
- Confidentiality / anonymity ; MRS guidelines
- Agreement to record the discussion
- 1 hour interview

Participant introduction / background info

- General characteristics of employer
- Name, nature of business – sector/industry, size (no. of employees) , nature of workforce, turnover of employees
- Role in business in relation to pensions; organisational set up in relation to pensions
- Pension schemes available; CHECK and CONFIRM from sample
- Types of pension scheme/s : DB, DC, GPP, hybrid
- Contribution rates (employer/ee)
- Total membership / no. of active members for each scheme

<u>Attitudes and decision making around pension provision (10 mins)</u>

NOTE TO RESEARCHER:

The key aims of this section are...

- *to get a broad overview of employer's general attitudes towards their pension provision and its value*
- *to understand decision making considerations , factors affecting this and its impacts (in particular, whether driving any past / upcoming changes to pension provision)*

Reasons for having a pension scheme

- Briefly outline these; if necessary, PROBE: recruitment/ retention/ retirement (ensure reasonable income for employees in retirement); level playing field for industry; paternalism/historical; fixed cost/fixed contribution; benefits for employees
- How pensions fits vs. other employee benefits

NOTE TO RESEARCHER: *This is to assess what value is placed on offering a pension scheme and level/ nature of concerns for outcomes for members*

- How important is it for the company to offer a pension scheme
- What they think their employees think about the scheme
- Effect of pension scheme on image/perception of organisation
- If they did not have a pension or their current type of pension scheme, would they still be able to recruit/retain staff of same calibre/ manage workforce (ie retire)
- To what extent do they think and/or are concerned about the financial outcomes of their employees on retirement

How they make decisions about pension scheme provision

- Who involved / responsible; how they work together
- What are their considerations when making decisions; Spontaneous then PROBE: market place, budget, risks (what), unions/reps, legislation, concern for outcomes for members - if employees can afford to retire (especially DC)What (if any) information or advice do they seek; PROBE: do they use EBCs
- How much influence do these sources have; extent to which this advice is followed

Rationale for current pension provision (if known)

- Why chosen
- Views about current scheme
- Any issues
- What is the main driver for their views : risks (what), costs, employee benefits
- (If hybrid, what were considerations / how did they negotiate this)

Any recent changes / considerations to change pension provision (if not covered above)

- What changes – e.g. moving from DB to DC or other, changes to how schemes funded, how benefits paid/how value of benefits calculated
- Reasons for changes (drivers)
- Considerations and influences; any alternatives considered
- PROBE: managing retirement workforce / managing employees’ income on retirement (especially DC)

- Any barriers – Spontaneous; if necessary PROBE:
  - Issues to do with the approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)
- Is there anything they can think of that might have changed their mind about their approach

Any future plans / intentions to change pension provision

NOTE TO RESEARCHER: *Cover very briefly*

- Reasons for considering changes
- What are potential new arrangements
- What is/might be considered / influence (see above)
- What barriers/potential barriers are there
- Spontaneous; if necessary PROBE:
  - Issues to do with the approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)
- Is there anything they can think of that might change their mind about their approach

2 Attitudes to risk and certainty (25 mins)

NOTE TO RESEARCHER:

The key aims of this section are to explore...

- *employers' views on risks within different types of pension provision*
- *willingness / appetite to share risk and provide greater certainty with pension costs/savings – views on how this might be done; how willing*

- *key factors it would need to include for them to consider adopting it*

The following section should be tailored to the type of employer – all questions can not be covered in time allocated and guide should be used flexibly to address key aims.

*The priority is to explore the **concepts**, either spontaneously and/or using DA models as prompts and/or as and when necessary, depending on type of employer*

Thinking about your current scheme....

NOTE TO RESEARCHER *– Structure of SECTION 3 depends on employer's primary scheme:*

*If employer has an open **DB SCHEME**:*

*Go to **SECTION 3A** first, exploring their views and experiences of their DB SCHEME (i.e. grounded in their actual experience)*

*Then go to **SECTION 3B**, and explore their views about DC SCHEMES; this may require them to think hypothetically about their views / concerns if they provided such as scheme*

*If employer has an open **DC SCHEME**:*

*Go to **SECTION 3B** first, exploring their views and experiences of their DC SCHEME (i.e. grounded in their actual experience)*

*Then go to **SECTION 3A**, and explore their views about DB SCHEMES; this may require them to think hypothetically about their views / concerns if they provided such as scheme*

If employer has a closed DB explore whether flexible DB options might have persuaded them to keep it open

*If employer has a **HYBRID SCHEME**:*

*Go to **SECTION 3C** only*

3A. Views in relation to DB SCHEMES

NOTE TO RESEARCHER*: If necessary, **clarify DB schemes**, in which the employer promises to pay out a certain sum each year once the employee reaches retirement age normally based on number of years they have paid into the scheme and salary either when they leave or retire from the scheme.*

- Why do they have a DB scheme (if not covered above) – if applicable
- What are the pros and cons of this kind of scheme – for the company, for members
- What do they perceive to be the risks associated with a DB scheme
- Spontaneous (note these) then PROBE:
  - Inflation risks (index linking)
  - Longevity risks (people living longer)
  - Former employee risks (having to take on employee risks even if members are no longer in their current workforce)
  - Funding position risks (having requirements despite organisation's funding position)

- How do (would) they feel about bearing these risks
- How significant are they
- Which risks are of most concern / least concern; why
- What do (would) they do to manage these risks; PROBE different types of risk above
- How do they think these risks could be managed; PROBE different types of risk above
- How do they feel about sharing the risk with employees; PROBE different types of risk above
- What kind of things would they like to be able to do to (if they provided this scheme) to manage the risk of DB schemes; PROBE different types of risk above
- If they could design a DB scheme 'from scratch' what would it look like; PROBE different types of risk above

PROBE for each idea/ideas overall

- Pros/cons for employer and individuals (for individuals, how important is this for them)
- How would it work; under what circumstances
- What would need to happen to make it work; key factors
- Any barriers from doing this; what would help overcome these barriers
- Issues to do with the risk sharing approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)

PROMPT with example models below, where respondent brings up relevant ideas and as/when necessary

NOTE TO RESEARCHER: These models are not definitive, but just ideas that DWP are exploring (make clear to respondents).

We would like to an overview of the reactions to the models, but the concepts are the priority. Use these models as ways to prompt the respondent regarding the different risks above. Assess as appropriate.

(INFLATION RISKS): They would no longer have to index link benefits or provide survivor benefits (future accrual only)

(LONGEVITY RISKS): They would be able to change the scheme's normal pension age so pension provision age would be based on projected number of years in retirement rather than being tied to a fixed age that doesn't take into account changes to longevity (i.e. scheme pension age would be adjusted in line with changes to longevity assumptions)

(FORMER EMPLOYEE RISKS): They would only have to bear employee risks to current workforce as the employee's DB would be converted to DC if they leave the employer before retirement (amount of pension benefit they had accrued in scheme would be crystallised and cash value transferred to a nominated DC pension fund)

(FUNDING POSITION RISKS): Employers would not be required to index link but they would be able to choose to add additional benefits above a minimum level either as a discretionary one-off additional payment or for example by providing indexation when their funding position allowed (i.e. could fluctuate year to year)

For each idea,

- Reactions to the idea
- What are the pros / cons
- What benefits / disadvantages does it have for
  - Employers
  - Individuals – how important is this
- (If they had a DB scheme) Would they adopt this idea

  If yes

  - Under what circumstances
  - How would it work
  - What would they need to do

  If not

- why not, spontaneous, if necessary PROBE:
  - Issues to do with the risk sharing approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)
- What would help overcome these barriers
- What would promote interest
- Any other ideas that this risk could be managed/mitigated

3B. Views in relation to DC SCHEMES

NOTE TO RESEARCHER: If necessary, ***clarify DC schemes***, in which the employee pays in together with an employer's contribution to give a sum of money on retirement with which the employee can secure a pension income by buying an annuity. The amount of the pension pot on retirement is dependent on investment returns and is not guaranteed.

- Why do they have a DC scheme (if not covered above) – if applicable
- What are the pros and cons of this kind of scheme – for the company, for members
- How do they feel about the employee bearing the risk in this sort of scheme and having no certainty / guarantee in retirement
- What kind of risks / lack of certainties
- Spontaneous (note these) then PROBE:
  - Risk of savings pot on retirement being less than what they put in
  - Risk of single conversion event
  - No certainty on income while saving
  - Risk of capital and investment returns – no guarantee
- How much of a concern are these to them as an employer
- What do (would) they do – if anything, to help employees manage these risks; PROBE different types of risk above
- What could be done to manage these risks / provide more guarantee for employee ; PROBE different types of risk above
- If they provided a DC scheme (if respondent also has DC scheme, make reference to this) would they be interested in increasing certainty of retirement income for employees / helping them manage these risks
  - Why, why not
- If yes, what kind of guarantees would they want to provide / what would they like to be able to do ; PROBE guarantees relating to different types of risk above
- Taking this into account, if they could design a DC scheme 'from scratch' what would it look like; PROBE different types of risk above

PROBE for each idea/ideas overall

- Pros/cons for employer and individuals (for individuals, how important is this for them)
- How would it work; under what circumstances
- Who do you think would pay for the guarantee;
- Would they be willing to pay a fixed/known amount (gauge limits of amount willing to pay, where possible)
- Do they think cost should be borne by individual; any issues(gauge limits of amount they feel individuals should bear, where possible)
- What would need to happen to make it work

- Any barriers from doing this; what would help overcome these barriers
- Issues to do with the risk sharing approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)
- PROMPT with example models below, where respondent brings up relevant ideas and as/when necessary

NOTES TO RESEARCHER:

These models are not definitive, but just ideas that DWP are exploring – make clear to respondents.

We would like to an overview of the reactions to the models, but the concepts are the priority. Use these models as ways to prompt the respondent regarding the different risks above. Assess as appropriate.

Note that these ideas impose no additional risk on the employer but attempts to reduce risk to employees / provides more guarantee for them

***Researcher to prioritise risks of most concern** – as stated above*

(RISK of losing contributions paid in) *Model 1:* **there could be a money back guarantee for members so that they will be guaranteed to get back at retirement or death the contributions that they've paid into the scheme**

(RISK of capital and investment returns – no guarantees) *Model 2*: **member would have part of capital and investment return secured via the purchase of a guarantee**

(RISK of single conversion event and no certainty on income while saving) *Model 3*: **There is an idea that from, say from age 50, a promise is made about the level of retirement income. This promise builds up gradually each year, so certainty about the level of income increases on the approach to retirement. At retirement, the member receives the income which has been promised for life.**

[In case needed: The way this is achieved is that from e.g. age of 50, each year a portion of the member's fund would be used to buy (on member's behalf) an income insurance product which insures a minimum level of income. These yearly purchases combine to build up more certainty about income. At retirement the saver draws their pension directly from their fund (which remains invested) and only if their fund is reduced to zero does the income guarantee insurance kick in]

(RISK of single conversion event and no certainty on income while saving) *Model 4*: **contributions used for two purposes: a proportion used to purchase a deferred nominal annuity payable from pension age, the rest invested into a collective pool of risk seeking assets.**

[NOTE TO RESEARCHER: In DC, there is a single conversion event risk as the individual will have risk of being subject to whatever rate happens to be at a single point in time. To spread this risk, these models take advantage of the fact annuity rates fluctuate over time to spread the single conversion event. These models are also trying to create more certainty in income before the retirement event (but without generating uneconomic commitments for providers (ie GARs etc).] EXPLAIN IF NEEDED

(RISK of pension pot volatility) *CDC*: **member's funds would be pooled into a collective rather than individual fund, thereby giving individuals wider range of investment opportunities and smooths the return (but there would not be a guarantee about the income – it could fall in extreme circumstances depending on the state of the fund)**

FOR EACH of the above, PROBE:

- Reactions to the idea
- What are the pros / cons
- What benefits / disadvantages does it have for
  - Employers
  - Individuals – how important is this
- Who do you think would pay for the guarantee? Would they be willing to pay a fixed/known amount?
- Do they think cost should be borne by individual?
- Would they adopt this idea
- If yes
  - Under what circumstances
  - How would it work
  - What would they need to do
- If not
  - why not, spontaneous, if necessary PROBE:
- Issues to do with the risk sharing approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)

- What would help overcome these barriers
- What would promote interest
- Are there any other ideas they have for providing greater certainty of the retirement income from DC schemes

3C. For employers with a HYBRID SCHEME

- Obtain description of their hybrid scheme
- What type of scheme had they moved from: DB or DC
- Why did they make this change
- What are the pros and cons of the scheme
- What are the benefits of moving from DB / DC to the hybrids scheme
- In moving to a hybrid scheme has it worked as expected
- Are there any further changes they would like to make; reasons

If moved previously from a DB scheme, follow topic guide for current DB schemes, as above

If moved previously from a DC scheme, follow topic guide for current DC schemes, as above

4. Overall reflections and the future (10 mins)

NOTE TO RESEARCHER: *The key aims for this section are...*

- *to look back over all discussed above and get final reflections on what would be ideal middle ground between DB and DC*
- *assess whether anything discussed appeals- what most, how likely to adopt and what would need to be in place for it to happen (key factors)*

Note time allocated – cover briefly

- Overall, what do they see as being an ideal middle ground between DB and DC schemes; thinking about all discussed above, if they were to design a pension scheme from scratch what would it look like
- To what extent should risk be shared – between members, employers, others
- To what extent should members / employers have certainty of their retirement income
- ***For those with hybrid schemes*** – how would it look different to their current scheme
- Appetite for risk sharing / increasing certainty: do these ideas appeal for a middle ground
- Why, why not
- What elements stood out (distinguish which – DB simple, DC plus)
- Realistically, what is the likelihood of their company adopting such an approach to pension provision
- If they foresee change, what would they be likely to do
- Reasons for/for not

Explore spontaneous and then probe:

- – Issues to do with the approach; what
- – Employee reaction
- – Cost (setting up, etc.)
- – Funding liability
- – Time
- – Perceived complexity
- – Regulatory issues
- – Other reasons (explore in detail)

- What key factors would a DB or DC risk sharing scheme need to include for them to consider adopting it?
- What flexibilities would be required
- What barriers
- Reasons for their views
- Summary of anticipated likely changes in future (reflect back on earlier)
- Is there anything else they would like to add

THANK AND CLOSE

EBC interview guide

<u>Overall objective</u> of the research is: to understand views about attitudes to and appetite for risk sharing in DB pension schemes and greater certainty of retirement income for DC schemes

<u>For EBCs (Employee Benefit Consultants) specifically</u>, the objectives are to understand:

- Pension scheme **decision making**:
  - How they decide what pension schemes to offer in their portfolio
- What type of **pensions** do they look at and what types do they envisage including in their offering in the future
- **Attitudes to risk**
- **Views** on **risk sharing** in DB pension schemes
- **Appetite** for risk sharing
- **Views on greater certainty in DC schemes**

NOTE TO RESEARCHER: *Use guide flexibly to reflect type and knowledge of EBC*

1. Introductions and background info (5 mins)

Researcher introduction

- Introduce self
- About TNS BMRB - independent research agency working on behalf of Department for Work and Pensions
- About research - to understand views on pension schemes and potential changes in this area
- Confidentiality / anonymity ; MRS guidelines
- Agreement to record the discussion
- 1 hour interview

Participant introduction; background info

- General characteristics of EBC
- Name, background of organisation
- Role in business; organisational set up

2. Attitudes and decision making around pension portfolio (10 mins)

- Views on **current pensions landscape**
  - Employer appetite for pension schemes; what types
  - Any changes in the types of pensions schemes employers out in place that they have observed; perceived drivers
  - Perceptions of need for reform of pension schemes
- **Current portfolio**
  - Description of current portfolio
    - differences by type of employer
  - Rationale for current portfolio
  - Views of current portfolio
    - What are key selling points / difficulties with selling/advising employers; differences by type of employer
- **How they make decisions about pension scheme offer in portfolio**
  - Who involved / responsible; how they work together
  - What are their key considerations when making decisions;
    - Spontaneous then PROBE: employers' needs/wants, market place, cost, risks (what), legislation, concern for outcomes for members (ensuring sufficient members' income in retirement)
- **How portfolio has changed (if at all)**
  - What changes – e.g. moving from DB to DC or other, changes to how schemes funded, how benefits paid/how value of benefits calculated
  - What prompted changes
    - Spontaneous then PROBE: employers' needs/wants, market place, cost, risks (what), legislation, concern for outcomes for members (ensuring sufficient members' income in retirement)
  - Any barriers to change
- **Any future plans / intentions to change pension portfolio**

NOTE TO RESEARCHER: *Cover very briefly*

  - Reasons for considering changes (e.g. competitors including range of schemes, interest from customers)
  - What are potential changes; how likely
  - What considerations (see above)
  - What barriers/potential barriers are there

3. Attitudes to risk and certainty (35 mins)

NOTE TO RESEARCHER:

The key aims of this section are to explore...

- *views on risks within different types of pension provision and how these might be managed*
- *views on employer willingness / appetite to share risk and provide greater certainty with pension costs/savings - views on how this might be done - and EBC views on and interest in this in relation to pension portfolio*
- *key factors it would need to include for them to consider adopting it in their portfolio*

The priority is to explore the ***concepts*** *, either spontaneously and/or using DA models as prompts and/or as and when necessary, depending on type of employer*

Thinking about their portfolio....

3A. Views in relation to DB SCHEMES

NOTE TO RESEARCHER: *If necessary,* ***clarify DB schemes****, in which the employer promises to pay out a certain sum each year once the employee reaches retirement age normally based on number of years they have paid into the scheme and salary either when they leave or retire from the scheme.*

- What are the pros and cons of this kind of scheme – for the company, for members
- What do they perceive to be the risks associated with a DB scheme
  - Spontaneous then PROBE:
    - Inflation risks (index linking) or providing survivor benefits
    - Longevity risks (people living longer)
    - Former employee risks (having to take on risks even if members are no longer in their current workforce)
    - Funding position risks (having requirements despite organisation’s funding position)
- Views on these risks
  - How do they see employers reacting to such risks
    - How significant are they
    - How are they managing these risks
    - Which risks are of most concern / least concern; why
  - Do they feel there would be an appetite among employers to manage this risk differently ; what/why
  - Do they think that employers would be interested in schemes where they were able to share some of these risks
    - Why/why not

    - Which risks
  - Would they be interested in including in their portfolio schemes where risks were shared
    - Why/why not
    - (Could anything be done to encourage them to include shared risk in their portfolio?)
    - Which risks
    - What impact (if any) do these risks have on their decisions around including DB schemes in their portfolio
  - How do they think these risks could be managed; what would they like to see in place: PROBE different types of risk above
    - if they could design a DB scheme 'from scratch' what would it look like; PROBE different types of risk above

PROBE for each idea/ideas overall

- Pros/cons for employer and individuals
- How would it work; under what circumstances
- What would need to happen to make it work; key factors
- Any barriers from doing this; what would help overcome these barriers
  - Issues to do with the risk sharing approach; what
  - Employee reaction
  - Cost (setting up, etc.)
  - Funding liabilities
  - Time
  - Perceived complexity
  - Regulatory issues
  - Other reasons (explore in detail)

PROMPT with example models below, where respondent brings up relevant ideas and as/when necessary

NOTE TO RESEARCHER: These models are not definitive, but just ideas that DWP are exploring (make clear to respondents).

NOTE TO RESEARCHER: We would like to an overview of the reactions to the models, but the concepts are the priority. Use these models as ways to prompt the respondent regarding the different risks above. Assess as appropriate.

- (INFLATION RISKS): They would no longer have to index link benefits or provide survivor benefits (future accrual only)
- (LONGEVITY RISKS): They would be able to change the scheme's normal pension age so pension provision age would be based on projected number of years in retirement rather than being tied to a fixed age that doesn't take into account changes to longevity (i.e. scheme pension age would be adjusted in line with changes to longevity assumptions)

- (FORMER EMPLOYEE RISKS): They would only have to bear risks to current workforce as the employee's DB would be converted to DC if they leave the employer before retirement (amount of pension benefit they had accrued in scheme would be crystallised and cash value transferred to a nominated DC pension fund)
- (FUNDING POSITION RISKS): Employers would not be required to index link but they would be able to choose to add additional benefits above a minimum level either as a discretionary one-off additional payment or for example by providing indexation when their funding position allowed (i.e. could fluctuate year to year)
- For each idea
  - Reactions to the idea
    - What are the pros / cons
    - What benefits / disadvantages does it have for
      - Employers
      - Individuals – how important is this
  - (If they had a DB scheme) Would they adopt this idea
  - If yes
    - Under what circumstances
    - How would it work
    - What would they need to do
  - If not
    - why not, spontaneous, if necessary PROBE:
      - Issues to do with the risk sharing approach; what
      - Employee reaction
      - Cost (setting up, etc.)
      - Funding liabilities
      - Time
      - Perceived complexity
      - Regulatory issues
      - Other reasons (explore in detail)
    - What would help overcome these barriers
    - What would promote interest
- Are there any other ideas they have for managing the risks of DB schemes

3B. Views in relation to DC SCHEMES

NOTE TO RESEARCHER: *If necessary,* ***clarify DC schemes****, in which the employee pays in together with an employer's contribution to give a sum of money on retirement with which the employee can secure a pension income by buying an annuity. The amount of the pension pot on retirement is dependent on investment returns and is not guaranteed.*

- What are the pros and cons of this kind of scheme – for the company, for members
- How do they feel about the employee bearing the risk / lack of certainty about retirement income in this sort of scheme
  - What kind of risks / lack of certainties
  - Spontaneous then PROBE:
    - Risk of savings pot on retirement being less than what they put in
    - Risk of single conversion event
    - No certainty on income while saving
    - Risk of capital and investment returns – no guarantee
  - How do they see employers reacting to this
    - How concerned are they (employer; EBC)
      - (PROBE: have employers raised concerns about employees not being able to afford to retire)
    - How (if at all) do they manage it PROBE: managing retirement / workforce
    - Which risks are of most concern / least concern; why
- Do they think employers would be interested in having more schemes which increased certainty of retirement income for employees
  - Why, why not
  - If so, what kind of guarantees would they want to provide
- Would they be interested in having more schemes in their portfolio which increased certainty of retirement income for employees
  - Why, why not; If so, what kind of guarantees would they want to provide
  - Would they be able to market them
  - What impact (if any) do these risks have on their decisions around including DC schemes in their portfolio
- What could be done to manage these risks / provide more guarantees for employee ; PROBE different types of risk above
  - if they could design a DC scheme 'from scratch' what would it look like; PROBE different types of risk above

PROBE for each idea/ideas overall

- Pros/cons for employer and individuals (for individuals, how important is this for them)
- How would it work; under what circumstances
- Who do they think would pay for this guarantee
  - Do they think employers would be willing to pay a fixed/known amount (gauge limits of amount willing to pay, where possible)
  - Do they think cost should be borne by individual; any issues (gauge limits of amount they feel individuals should bear, where possible)
- If providers were willing to build and provide DC schemes with some form of guarantee , would they be willing to include these in their portfolio
  - If yes
    - Under what circumstances
    - How would it work
    - What would they need to do
    - Any issues
    - What would be the key selling points and/or difficulties with selling and/or advising employers; why
  - If not
  - why not, spontaneous, if necessary PROBE:
    - Issues to do with the risk sharing approach; what
    - Employer/Employee reaction
    - Cost (setting up, etc.)
    - Time
    - Perceived complexity
    - Regulatory issues
    - Other reasons (explore in detail)
  - What would help overcome these barriers
  - What would promote interest

PROMPT with example models below, where respondent brings up relevant ideas and as/when necessary

NOTES TO RESEARCHER:

- *These models are not definitive, but just ideas that DWP are exploring – make clear to respondents.*
- *We would like to an overview of the reactions to the models, but the concepts are the priority. Use these models as ways to prompt the respondent regarding the different risks above. Assess as appropriate.*

- *Note that these ideas impose no additional risk on the employer but attempts to reduce risk to employees / provides more guarantee for them*
- ***Researcher to prioritise risks of most concern*** *– as stated above*
  - (RISK of losing contributions paid in) *Model 1*: **there could be a money back guarantee for members so that they will be guaranteed to get back at retirement or death the contributions that they've paid into the scheme**
  - (RISK of capital and investment returns – no guarantees) *Model 2*: ***member would have part of capital and investment return secured via the purchase of a guarantee***
  - (RISK of single conversion event and no certainty on income while saving) *Model 3*: **There is an idea that from, say from age 50, a promise is made about the level of retirement income. This promise builds up gradually each year, so certainty about the level of income increases on the approach to retirement. At retirement, the member receives the income which has been promised for life.**
    [*In case needed: The way this is achieved is that from e.g. age of 50, each year a portion of the member's fund would be used to buy (on member's behalf) an income insurance product which insures a minimum level of income. These yearly purchases combine to build up more certainty about income. At retirement the saver draws their pension directly from their fund (which remains invested) and only if their fund is reduced to zero does the income guarantee insurance kick in*]
  - (RISK of single conversion event and no certainty on income while saving) *Model 4*: **contributions used for two purposes: a proportion used to purchase a deferred nominal annuity payable from pension age, the rest invested into a collective pool of risk seeking assets.**
    [NOTE TO RESEARCHER: In DC, there is a single conversion event risk as the individual will have risk of being subject to whatever rate happens to be at a single point in time. To spread this risk, these models take advantage of the fact annuity rates fluctuate over time to spread the single conversion event. These models are also trying to create more certainty in income before the retirement event (but without generating uneconomic commitments for providers (ie GARs etc).]
    EXPLAIN IF NEEDED
  - (RISK of pension pot volatility) *CDC*: **member's funds would be pooled into a collective rather than individual fund, thereby giving individuals wider range of investment opportunities and smooths the return (but there would not be a guarantee about the income – it could fall in extreme circumstances depending on the state of the fund)**
- **FOR EACH** of the above, PROBE:
  - Reactions to the idea
    - What are the pros / cons

        - What benefits / disadvantages does it have for
            - Employers
            - Individuals – how important is this
            - Who do they think would pay for this guarantee
                - Do they think employers would be willing to pay a fixed/known amount (gauge limits of amount willing to pay, where possible)
                - Do they think cost should be borne by individual; any issues(gauge limits of amount they feel individuals should bear, where possible)
    - If providers were willing to build and provide them, would they be willing to include these in their portfolio
        - If yes
            - Under what circumstances
            - How would it work
            - What would they need to do
            - Any issues
            - What would be the key selling points and/or difficulties with selling and/or advising employers; why
        - If not
            - why not, spontaneous, if necessary PROBE:
                - Issues to do with the risk sharing approach; what
                - Employee reaction
                - Cost (setting up, etc.)
                - Time
                - Perceived complexity
                - Regulatory issues
                - Other reasons (explore in detail)
            - What would help overcome these barriers
            - What would promote interest
- Are there any other ideas they have for providing greater certainty of the retirement income from DC schemes

4. Overall reflections and the future (10 mins)

- Overall, what do they see as being an **ideal middle ground** between DB and DC schemes
  - To what extent should risk be shared – between members, employers, others?
  - To what extent should members / employers have certainty of their retirement income or costs of providing a pension scheme
- What do they think would be the **appetite among employers** for risk sharing / increasing certainty: do they think these ideas appeal for a middle ground
  - Why, why not
  - What elements stood out (distinguish which – DB simple, DC plus)
- What about for **their own portfolio** – what is their **appetite for such schemes**
  - Why, why not
  - What elements stood out (distinguish which – DB simple, DC plus)
  - Realistically, what is the **willingness** and **likelihood of adopting such schemes** into their portfolio in the future
  - Explore spontaneous and then probe reasons for/for not:
    - Employer appetite
    - Issues to do with the approach; what
    - Employee reaction
    - Cost (setting up, etc.)
    - Funding liability
    - Time
    - Perceived complexity
    - Regulatory issues
    - Other reasons (explore in detail)
  - What key factors would a DB or DC risk sharing scheme need to include for them to consider including in portfolio
  - What flexibilities would be required
    - What barriers
  - Reasons for their views
  - Summary of anticipated likely changes in future (reflect back on earlier)
    - (e.g. competitors including range of schemes, interest from customers)
- Is there anything else they would like to add

THANK AND CLOSE

Individuals' group discussion guide (all groups except Retired group)

Overall objective of the research is: **to understand views about risk sharing in pension schemes and explore the appetite for greater certainty with pension costs and savings**

For individuals specifically, the objectives are to understand:

- **Views and confidence around saving for retirement**
- **Awareness, knowledge and attitudes towards pensions**
  - what attracts/discourages people from saving in a pension scheme
  - what is the level of knowledge about what they will get in retirement
- **Awareness and understanding of risk involved with DB/DC schemes**
- **Willingness to accept risks in pension schemes**
  - what are they most concerned about with risk
- **Value and appetite for greater certainty of pension**
  - Value of and appetite for guaranteed level of income in retirement
- **Views and reactions towards different potential ways of sharing risk and providing greater certainty for individuals**
  - Reactions and appetite for these

Protocol (participant-facing introduction to the research):

- About the research: on behalf of DWP , to explore views on saving for retirement and pension schemes
- Length of discussion: 2.5 hours
- Audio recording
- Confidentiality and anonymity: their participation in and contributions to the research are kept strictly confidential, and they will not be identified to DWP

1. Introductions (5 mins)

Researcher introduction

- Introduce self
- About TNS BMRB - independent research agency working on behalf of Department for Work and Pensions
- About research - to understand views on saving for retirement and pension schemes
- Confidentiality / anonymity
- Agreement to record the discussion

Participants' introduction

- Tell us a bit about yourself
  - Name; household; what you do
  - Interests; what you like to do in your spare time

2. Attitudes and decision making around saving for retirement and pensions (20 mins)

Saving for Retirement

EXERCISE: Researcher to ask respondent to fast forward in time and think about retirement and what they think that will be like for them. Then show **STIMULUS A** *(***'retirement' images***) and ask which image/s best match / depicts what they think their retirement will be like*

- Which best shows **what they envisage their retirement to be like**; why

Researcher to EXPLAIN All of these activities cost different amounts (e.g. round the world trip would cost you money, taking your dog for a walk in the countryside is free!).

What we'd like to ask you to do now is to think about **how much you think you'll need to live off in retirement** , and **how confident** you are that you'll have what you need.

EXERCISE: Researcher to HAND OUT **STIMULUS B – fill out sheet***, and ask respondents to fill out individually] – give them 5 minutes*

- How did they find that exercise; easy / difficult to predict or guess
  - How much have they thought about / considered this
- Whose responsibility do they see it as to ensure they have enough to live off
  - PROBE: Role of government; role of employer; role of individual
  - What do they expect each to be doing
- How do they feel about saving for retirement; how important / necessary
- What did they think State Pension amount is

  Researcher to EXPLAIN : The state pension is currently being reformed; will be around £150/week maximum (approx figure)

  - Reactions; any surprises
- Do they feel they will have enough for retirement (refer to ***STIMULUS A*** and ***B***)
  - Why/ why not
  - Is this a concern for them; why/why not
  - Any changes to their views after seeing SP amount
- What (if anything) are/have they been doing (select as appropriate) to plan for retirement PROBE: how they expect these will make up the difference between SP and amount they expect to live off
  - PROBE if necessary: savings, property, pensions

- What influenced/s these decisions
  - PROBE if necessary: people; media, other
- How confident are they that they can make up the difference between how much they feel they need to live off in retirement and how much they are likely to have
- Have their views about / actions relating to saving for retirement changed over time
  - If yes, why and in what ways
- Do they *know* what they will have to live off in retirement (refer to *STIMULUS A* and *B*)
  - If so; how PROBE: different types of retirement planning
  - What makes them think that; what gives them this certainty
  - What do they use as indicators of amount needed / amount they will have in retirement ; how do they assess
  - For those currently/previously in pension, PROBE: annual statements – do they understand this, what guarantees are there
- How important is it for them to be certain how much they will have to live off in retirement; why/why not
  - What degree of certainty is enough for them
    - Have their views changed over time

Pensions

- Thinking about **pensions** specifically,
  - what comes to mind when they hear ‘pensions’ [RESEARCHER TO FLIP CHART]
    - PROBE: what drives these associations

[NOTE TO RESEARCHER: some of the following section may already be covered above; tailor as necessary)]

*[For **NEVER SAVED**]*

- Reasons for not having a pension
- What do they think about pensions as a way of saving for retirement; why
- Would they consider getting a pension in the future; why/why not
  - What attracts / discourages them to save in a pension scheme
  - What would prompt them to get one
- What do/ would they look for from their pension scheme; spontaneous then PROBE: cost, simplicity, trustworthy, knowing how much they will get, certainty, transparency, security

*[For **PREVIOUSLY** contributing to pension groups]*

- Reasons for not contributing to a pension currently
- What do they think about pensions as a way of saving for retirement; why
- How far have their decisions re pensions impacted their life; in what way

- Would they consider getting a pension/ contributing to a pension in the future; why/why not
  - What attracts / discourages them to save in a pension scheme
  - What would prompt them to get one
  - What do/would they look for from their pension scheme PROBE: cost, simplicity, trustworthy, knowing how much they will get, transparency, security
- (If not covered above) Do they feel their pension will give them enough for retirement; why/ why not
  - How do they assess what is a sufficient pension value

*[For **CURRENTLY SAVING** into a pension groups]*

- Why are they in a pension scheme
- What attracts / discourages them to save in a pension scheme
  - What do they look for from their pension scheme PROBE: cost, simplicity, trustworthy, knowing how much they will get, transparency, security
- What do they think about pensions as a way of saving for retirement; why
- How far have their decisions re pensions impacted their life; in what way
- What are their expectations / hopes for their pension; why
- Any intentions for their future regarding pensions e.g. stopping, increasing contribution etc.; reasons
- (If not covered above) Do they feel their pension will give them enough for retirement; why/ why not
  - How do they assess what is a sufficient pension value

3. Types of pension (30 mins)

Awareness and knowledge of pension schemes

- Do they know **what types of pension schemes there are available**
  - PROBE: workplace/ occupational schemes
  - What do they know about them; where from (sources of information)
  - Do they know what differences are between these types
  - What do they perceive/know as advantages/disadvantages between these types
    - *For CURRENT and PREVIOUSLY Groups only*: Do they know **what kind of pension** scheme/s they are/were contributing towards
- PROBE if they knew prior to recruitment
- What do they know about the scheme/s they are in

Types of workplace/occupational pension schemes

[RESEARCHER TO EXPLAIN:]

We are going to focus on **workplace/ occupational pension schemes**. These fall into two main types: **Defined Benefit** (also called Final Salary) and **Defined Contribution**

[Researcher to hand out **STIMULUS C (Scheme Summaries + illustration)** *and talk through*

- Spontaneous reactions; any surprises – prior awareness
- (For DC) did they know they needed to buy an annuity in retirement
- (IF applicable) How does it make them feel about the pension schemes they are/were in

[Researcher to **split into mini groups** and ask them to discuss the following. Hand out **STIMULUS D (pros and cons fill out sheet)** to fill out]

- What do they think the **pros** and **cons** of DB and DC schemes are
  - For the pros, can you see any benefits/advantages
  - For the cons, can you see any downsides/disadvantages

Think about these from the perspective of

- The employer
- The individual

[Mini groups to feed back after 10 minutes]

4. DB (35 mins)

Information Building

[RESEARCHER to explain and hand out ***STIMULUS E*** *(DB benefits and downsides & summary slide (overleaf).]*

In a DB scheme the employee benefits from a very generous scheme (typically higher contributions than DC), and they know what they will get in retirement. The employer on the other hand has to bear various costs and many of those are uncertain– due to many reasons, such as:

- paying in line with inflation
- paying in line with inflation even if employee leaves company
- people living longer – i.e. they have to pay longer
- however the investment funds perform, they still have to pay what they promised to their employee

DB schemes are very expensive scheme to run, exposing employers to a lot of cost volatility and burden with regard to regulations. As a result many have closed or are thinking of closing and they are in fast decline.

[Talk through risks]

- Spontaneous reactions; any surprises – prior awareness

- How do they feel about the employer taking on these uncertainties
  - Any concerns
- How does this information make them feel about the pension schemes they are/were in – if applicable

Ideas

- What do they think could be done to help employers with these uncertainties *(refer back to employer risks - **STIMULUS E**)*
- Would they be willing to share some of the uncertainties to help employers and continue to receive a certain income in retirement; why / why not
  - Which might they be able to take on
- If they were in a DB scheme and their employer was going to close, which of these would they be willing to share in order for them to keep the scheme open

Models

The Government have some ideas of ways to help employers and to ensure individuals continue to receive a certain income in retirement. These are just ideas, not definitive

*[RESEARCHER to explain and hand out **STIMULUS F** (**DB simplified models + summary of balance (overleaf)**) and go through each and explain]*

- When employee starts retirement, employers would no longer have to increase pension in line with inflation – **but can provide additional benefits if funding position allows - if investments perform well that year**
- Employers would be able to change the scheme's normal pension age – instead of a fixed age which doesn't take into account changes in longevity, they would be able to base it on projected years in retirement
- Employers would only take on the risk of their current employees, so if someone left the company their DB scheme would be converted to a DC scheme

Feedback

- View on these ;
  - which (if any) acceptable / not acceptable; why
  - how it compared with own ideas
- How they feel about sharing these uncertainties (PROBE which) with their employer; willingness to do this
  - (Esp for those currently / previously in DB): would they be willing to accept this balance if it meant their employer would otherwise stop their DB scheme
  - Ask them to rank them in order of which most important; if they could choose one in order to keep DB in existence which would it be

5. Tea/comfort break (10 mins)

6. DC (40 mins)

Recap on DC scheme and pros/cons (see previous section)

Information Building

*[Researcher to explain and hand out **STIMULUS G** (**DC benefits and risks & summary (overleaf)**.)]*

In a DC scheme, the advantages/ benefits are the other way round – the employer this time does not have any uncertainties as they just put in their contribution.

The employees however have to bear various uncertainties – the most significant of these is the fact that they don't know what their retirement income is going to be until they buy their annuity as investment returns and annuity rates fluctuate (refer to **STIMULUS G), they may get out less from their pension pot than what they put in**. There is no promise of their retirement income for them like there is with DB.

Furthermore, it is estimated that 50% of people are not saving enough for retirement. So this, coupled with people not knowing what they're going to get is something the Government are increasingly worried about.

[Talk through risks]

- Spontaneous reactions; any surprises – prior awareness
- How do they feel about the employee having all these uncertainties
  - Do they share any of these concerns
    - Which most; why

Ideas

*EXERCISE: [Researcher to **split into mini groups** and ask them to discuss the following and fill **STIMULUS H (feedback sheet)***

What do they think could be done to help employees have more certainty of their retirement income (refer back to STIMULUS G)

- What kind of certainties would they like ; why and which are most important
- How would they suggest they do this

[Feedback on these]

Models

*[Researcher to hand out **STIMULUS I (DC plus models and summary of balance (overleaf)** and go through each and explain]*

DWP have some ideas

- to address risk of savings pot on retirement being less than what they put in: money back guarantee which makes sure you won't get out less than the contributions you put in
- to address risk of having no guarantee around capital and investment returns, having a guarantee of a minimum return on investment
- to address risk of being subject to the annuity rate at the specific time by being given a promise of a minimum level of income in advance of retirement which builds up over that time so one would be more sure about retirement income as you go towards retirement)

Feedback

- View on these ;
  - which (if any) appealed/didn't appeal ; why
  - how it compared with their ideas
- How do they feel about these kind of guarantees (PROBE: each); how much value/ how important / appealing
  - One that is different from a DB (if applicable)
- These might come at a cost
  - Who do they expect to pay for it
  - How willing would they be to pay for it; how much
    - PROBE: how would they be willing to pay e.g. one off payment as they near retirement or through contribution deduction
    - Is the certainty worth paying for
- Any other ideas
- Impact of greater certainty of retirement income on feelings about pensions
  - E.g. confidence about retirement saving
- Would having a greater certainty of retirement income change their approach to saving for retirement; if so ; how

7. Overall views and reflections (10 mins)

All these ideas have been designed to be a 'middle ground' between the two main workplace/ occupational pension schemes currently in place: to provide **more certainty of cost** for employers (from DB side) and more **certainty of retirement income** for employees (DC side)

- Overall views

  [Researcher to focus on DB if DB group, DC if DC group]

  PROBE: what stood out, why
- Any other ideas for this 'middle ground' (from either side) – ***show STIMULUS J***
- Would they like to see these in the pension schemes available (PROBE for those currently/ previously – in their own schemes); why/ why not
- [For those who have never saved in pension] Are they more likely to go into a pension scheme
- What they would now look for in a pension scheme; any changes
- Any changes in how they feel about
  - Saving for retirement
  - Pensions

Does it or would it prompt them to do anything different if they were in

8. Thank and close

- Any other questions

Individuals' group discussion guide (Retired group)

Overall objective of the research is: **to understand views about risk sharing in pension schemes and explore the appetite for greater certainty with pension costs and savings**

For individuals specifically, the objectives are to understand:

- **Views and confidence around saving for retirement**
- **Awareness, knowledge and attitudes towards pensions**
  - what attracts/discourages people from saving in a pension scheme
  - what is the level of knowledge about what they will get in retirement
- **Awareness /understanding of risk involved with DB/DC schemes**
- **Willingness to accept risks in pension schemes**
  - what are they most concerned about with risk
- **Value and appetite for greater certainty of pension**
  - Value of /appetite for guaranteed level of income in retirement
- **Views and reactions towards different potential ways of sharing risk and providing greater certainty for individuals**
  - Reactions and appetite for these

Protocol (participant-facing introduction to the research):

- About the research: on behalf of DWP , to explore views on saving for retirement and pension schemes
- Length of discussion: 2.5 hours
- Audio recording
- Confidentiality and anonymity: their participation in and contributions to the research are kept strictly confidential, and they will not be identified to DWP

1. Introductions (5 mins)

Researcher introduction

- Introduce self
- About TNS BMRB - independent research agency working on behalf of Department for Work and Pensions
- About research - to understand views on saving for retirement and pension schemes
- Confidentiality / anonymity
- Agreement to record the discussion

Participants' introduction

- Tell us a bit about yourself
  - Name; household; what you do - if retired, how long retired for
  - Interests; what you like to do in your spare time

2. Attitudes and decision making around saving for retirement and pensions (20 mins)

Saving for Retirement

NOTE: for those who have not yet retired, adapt guide accordingly

*Researcher to ask respondents to think about retirement: what they thought that would be like for them (prior to retiring) and what it is like for them now (for those not yet retired – ask them to think about what they think it will be like). Then show **STIMULUS A** (**'retirement' images**) and ask which image/s best match / depicts these (and if their expectations and reality are different)*

- Which best shows **what they envisages their retirement to be like and what it is like now**; any differences – why
- Before retirement, had they thought about/ considered how much they would need to live off
- How confident were they that they would have what they would need
- How do their expectations compare to how much they need to live off now
  - What has their experience of retirement been, financially
- Do they feel they have enough for retirement (refer to **STIMULUS A and B**)
  - Why/ why not
  - Is this a concern for them; why/why not
  - Significance of State Pension
- Whose responsibility do they see it as to ensure they have enough to live off
  - PROBE: Role of government; role of employer; role of individual
  - What do they expect each to be doing
  - How do they feel about saving for retirement; how important / necessaryHave their views about / actions relating to saving for retirement changed over time
    - If yes, why and in what ways
- What (if anything) did they do to plan for retirement
  - PROBE if necessary: savings, property, pensions
- What influenced/s these decisions
  - PROBE if necessary: people; media, other

- Did they *know* what they would have to live off in retirement ;
- If so; how PROBE: different types of retirement planning
- What made them think that; what gave them this certainty
- What did they use as indicators of amount needed / amount they will have in retirement ; how do they assess
- For those previously in a pension, PROBE: annual statements – do they understand this, what guarantees are there

- Do they know now what they have for the rest of their retirement
  - How does this compare to what they thought they had
- How important do they think it is to have certainty about how much one has to live off in retirement; why/why not
  - Any changes in views pre/post retirement
  - How far in advance would they have liked this certainty
  - Looking back, would they have wanted to do anything differently re saving for retirement ; why / why not

Pensions

- Thinking about pensions specifically,
  - what comes to mind when they hear ‘pensions’ [RESEARCHER TO FLIP CHART]
    - PROBE: what drives these associations

[NOTE TO RESEARCHER: some of the following section may already be covered above; tailor as necessary)]

- What do they think about pensions as a way of saving for retirement; why; why /why not; views about this now; any changes
- Reasons for contributing / not contributing into a pension in the past
  - What attracted / discouraged them to save in a pension scheme in the past ; views about this now; any changes
- What were their expectations/hopes; how does that compare to ‘reality’ now;
  - For those drawing from pensions
    - What has their experience been like
    - What do they like/dislike about their pension
  - What communications did they receive about their pension; when; was it at the right time; impact
    - What communications would they have liked
  - How have their decisions impacted life in retirement; would they change anything in retrospect – why/why not

3. Types of pension (30 mins)

Awareness and knowledge of pension schemes

- Do they know **what types of pension schemes there are available**
  - PROBE: workplace/ occupational schemes
  - What do they know about them; where from (sources of information)
  - Do they know what differences are between these types
  - What do they perceive/know as advantages/disadvantages between these types
    - *For those who previously were in a pension scheme only:* Do they know **what kind of pension** scheme/s they /were contributing towards
- PROBE if they knew prior to recruitment

What do they know about the scheme/s they are in

Types of workplace/occupational pension schemes

[RESEARCHER TO EXPLAIN:]

We are going to focus on **workplace/ occupational pension schemes**. These fall into two main types: **Defined Benefit** (also called Final Salary) and **Defined Contribution**

*[Researcher to hand out STIMULUS C (**Scheme Summaries + illustration**) and talk through*

- Spontaneous reactions; any surprises – prior awareness
- (For DC) did they know they needed to buy an annuity in retirement
- (IF applicable) How does it make them feel about the pension schemes they are/were in

*[Researcher to **split into mini groups** and ask them to discuss the following. Hand out **STIMULUS D (pros and cons fill out sheet)** to fill out]*

- What do they think the **pros** and **cons** of DB and DC schemes are
  - For the pros, can you see any benefits/advantages
  - For the cons, can you see any downsides/disadvantages

Think about these from the perspective of

- The employer
- The individual

[Mini groups to feed back after 10 minutes]

4. DB (35 mins)

Information Building

[RESEARCHER to explain and hand out ***STIMULUS E (DB benefits and downsides & summary slide (overleaf)****.]*

In a DB scheme the employee benefits from a very generous scheme (typically higher contributions than DC), and they know what they will get in retirement. The employer on the other hand has to bear various costs and many of those are uncertain– due to many reasons, such as:

- paying in line with inflation
- paying in line with inflation even if employee leaves company
- people living longer – ie they have to pay longer
- however the investment funds perform, they still have to pay what they promised to their employee

DB schemes are very expensive scheme to run, exposing employers to a lot of cost volatility and burden with regard to regulations. As a result many have closed or are thinking of closing and they are in fast decline.

[Talk through risks]

- Spontaneous reactions; any surprises – prior awareness
- How do they feel about the employer taking on these uncertainties
  - Any concerns
- How does this information make them feel about the pension schemes they are/were in – if applicable
- **PROBE: views in light of their experiences of retirement**

Ideas

- What do they think could be done to help employers with these uncertainties *(refer back to employer risks- STIMULUS E)*
- Would they be willing to share some of the uncertainties to help employers and continue to receive a certain income in retirement; why / why not
  - Which might they be able to take on
- If they had been in a DB scheme and their employer was going to close, which of these would they be willing to share in order for them to keep the scheme open
- PROBE: views in light of their experiences of retirement

Models

The Government have some ideas of ways to help employers and to ensure individuals continue to receive a certain income in retirement. These are just ideas, not definitive

[RESEARCHER to explain and hand out ***STIMULUS F (DB simplified models + summary of balance (overleaf))*** *and go through each and explain]*

- Employers would no longer have to increase pension in line with inflation –**but can provide additional benefits if funding position allows- if investments perform well that year**

- Employers would be able to change the scheme's normal pension age – instead of a fixed age which doesn't take into account changes in longevity, they would be able to base it on projected years in retirement
- Employers would only take on the risk of their current workforce, so if someone left the company their DB scheme would be converted to a DC scheme

Feedback

- View on these ;
  - which (if any) acceptable / not acceptable; why
  - how it compared with own ideas
- How they feel about the idea of sharing these uncertainties (PROBE which) with their employer; willingness to do this **PROBE: views in light of their experiences of retirement**
  - (Esp for those previously in DB): would they be willing to accept this balance if it meant their employer would otherwise stop their DB scheme
  - Ask them to rank them in order of which most important; if they could choose one in order to keep DB in existence which would it be

5. Tea/comfort break (10 mins)

6. DC (40 mins)

Recap on DC scheme and pros/cons (see previous section)

Information Building

*[Researcher to explain and hand out **STIMULUS G (DC benefits and risks & summary (overleaf).**)]*

In a DC scheme, the advantages/ benefits are the other way round – the employer this time does not have any uncertainties as they just put in their contribution.

The employees however have to bear various uncertainties – the most significant of these is the fact that they don't know what their retirement income is going to be until they buy their annuity as investment returns and annuity rates fluctuate **(refer to STIMULUS G), they may get out less from their pension pot than what they put in**. There is no promise of their retirement income for them like there is with DB.

Furthermore, it is estimated that 50% of people are not saving enough for retirement. So this, coupled with people not knowing what they're going to get is something the Government are increasingly worried about.

[Talk through risks]

- Spontaneous reactions; any surprises – prior awareness
- How do they feel about the employee having all these uncertainties
  - Do they share any of these concerns
    - Which most; why

Ideas

EXERCISE: [Researcher to ***split into mini groups*** *and ask them to discuss the following and fill* ***STIMULUS H (feedback sheet)***

What do they think could be done to help employees have more certainty of their retirement income *(refer back to STIMULUS G)*

- What kind of certainties would they like to see / would they have liked in retrospect (if applicable) ; why and which are most important
- How would they suggest they do this

[Feedback on these]

PROBE: views in light of their experiences of retirement

Models

[Researcher to hand out ***STIMULUS I (DC plus models and summary of balance (overleaf)*** *and go through each and explain]*

DWP have some ideas

- to address risk of savings pot on retirement being less than what they put in: money back guarantee which makes sure you won't get out less than the contributions you put in
- to address risk of having no guarantee around capital and investment returns, having a guarantee of a minimum return on investment
- to address risk of being subject to the annuity rate at the specific time by being given a promise of a minimum level of income in advance of retirement which builds up over that time so one would be more sure about retirement income as you go towards retirement)

Feedback – for all of these PROBE: views in light of their experiences of retirement

- View on these ;
  - which (if any) appealed/didn't appeal ; why
  - how it compared with their ideas
- How do they feel about these kind of guarantees (PROBE: each); how much value/ how important / appealing
  - What kind of guarantees would they have liked
  - One that is different from a DB (if applicable)
- These might come at a cost
  - Who do they expect to pay for it
  - How willing would they be/ would they have been willing to pay for it; how much
    - PROBE: how e.g. one off payment as they near retirement or through contribution deduction
    - Is the certainty worth paying for
- Any other ideas

- Impact of greater certainty of retirement income on feelings about pensions
  - E.g. confidence about retirement saving
- Would having a greater certainty of retirement income change their approach to saving for retirement; if so ; how

7. Overall views and reflections (10 mins)

All these ideas have been designed to be a ‘middle ground’ between the two main workplace/occupational pension schemes currently in place: to provide **more certainty of cost** for employers (from DB side) and **more certainty of retirement income** for employees (DC side)

- Overall views

  [Researcher to focus on DB if DB group, DC if DC group]

  PROBE: what stood out, why
- Any other ideas for this ‘middle ground’ (from either side) – show **STIMULUS J**
- Would they have liked to see these in the pension schemes they had (if applicable) (PROBE for those currently/previously – in their own schemes); why/ why not
- [For those who had never saved in pension] Would this have made them more likely to go into a pension scheme
- Any changes in how they feel about
  - Saving for retirement
  - Pensions
- Would it have prompted them to do anything different if they had been in place

8. Thank and close

- Any other questions

Appendix C
Summary of analysis approach

We adopted a content analysis approach to analysing the data. Content analysis is the traditional method of qualitative analysis, involving discussion between researchers, review of transcripts and intuitive identification of themes and connections in the findings. It is an ideal method for producing insightful outputs, as it draws on the experience of researchers, and the thoughts and hypotheses that occur to them during fieldwork as well as those that emerge during the formal analysis stage.

In addition to content analysis, we used a framework approach, known as Matrix Mapping to add rigour to our outputs without losing the benefits of intuition and creative thinking. This is well known and a highly respected analytical process in government circles. The process dovetails with content analysis, beginning with a familiarisation stage in which notes from the interviews and group discussions are reviewed and a thematic matrix for arranging findings is developed. The next stage is charting, when the findings from each group discussion are summarised according to the themes in the matrix. We used the resulting tables to identify patterns, contrasts and similarities between the perceptions, accounts or experiences of different respondent types. The framework approach highlighted themes and other pieces of insight that might be missed if we focused solely on individual accounts.