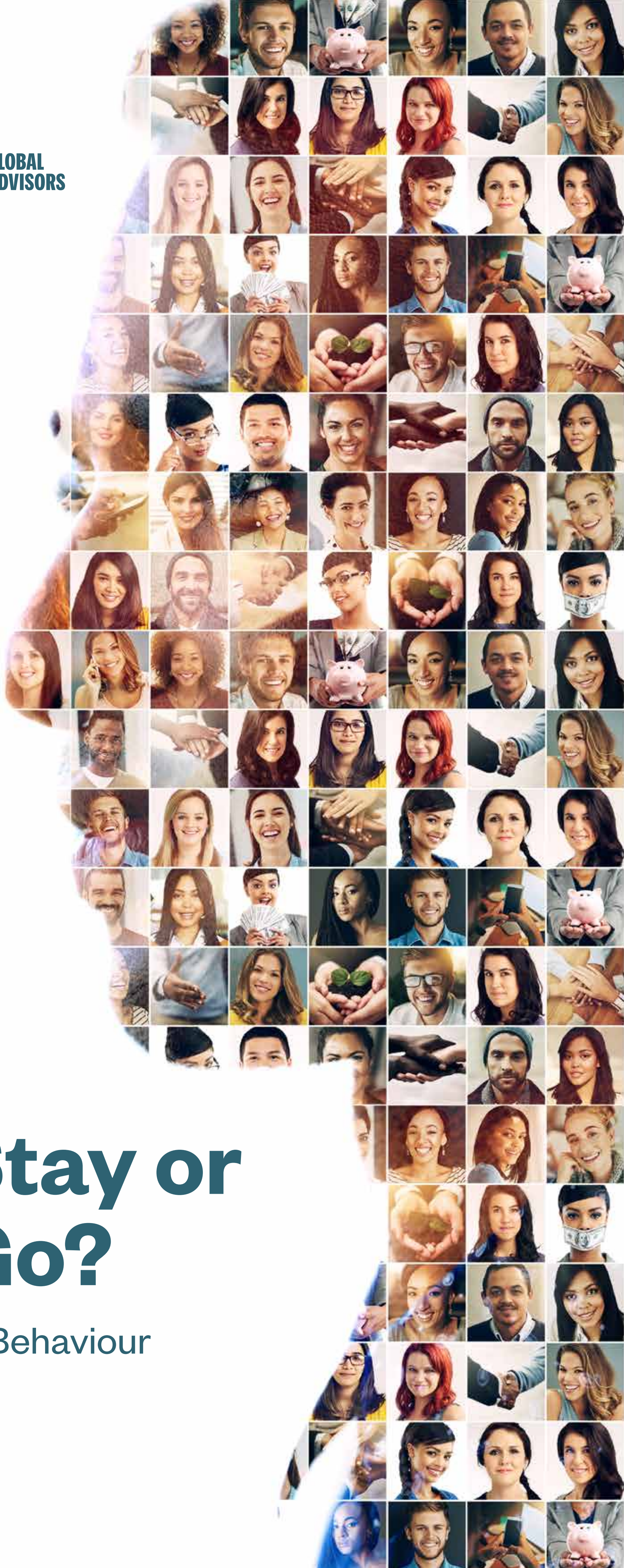

Should I Stay or Should I Go?

Understanding Opt Out Behaviour

Prepared by Ignition House
Sponsored by The People's Pension
and State Street Global Advisors
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Forewords

The People's Pension

Auto-enrolment has transformed the workplace pensions landscape, creating a mass DC pensions system for the first time in the UK. Ten million new pension savers, many of them in the bottom half of the income and wealth distribution is a great start. Nonetheless, one in ten of those eligible for auto-enrolment opt out and it's important to understand why if providers and government want to persuade these men and women over time to embrace workplace pensions as a means of saving for retirement. With the help of Ignition House, we have sought to understand in depth their reasons for doing so.

Prominent among the reasons expressed by our participants were first that opting out was merely a timing issue i.e. it hadn't been the right time to start saving into a workplace pension scheme; second, that every penny of their income was needed for immediate needs and wants; and also that the current modest contribution rates would not generate a retirement pot big enough to make a difference to their lives.

Viewed through the eyes of our sample at least, their employers did not make any efforts to really 'sell' the benefits of auto-enrolment saving to their staff. Those who worked for very large employers were the exception here. It is, of course, early days for auto-enrolment and as pot sizes grow so should the value all parties attach to the benefit.

Communication to employees of the rules of auto-enrolment also emerged as an issue. Many respondents expressed the belief that the rules demanded opting in to pension saving and were only vaguely aware if at all that employers contributions were 'free money'. Exposure to more accurate information and reframing of the benefits produced some a 'lightbulb' moment for some participants, in which auto-enrolment appeared a much more attractive option.

The challenge is that auto-enrolment is built on harnessing the inertia which seizes many of us when faced with the need to save for retirement. Those who have opted out have made an active decision to do so and as such active engagement is likely to be necessary to change minds. This research project suggests some possible routes to doing so.

Gregg McClymont
Director of Policy & External Affairs,
The People's Pension

State Street Global Advisors

Automatic enrolment is a success. The proportion of the UK working population saving in a private pension scheme has risen markedly since the policy was introduced in 2012. Contribution rates have recently increased from a combined employer/employee rate of 2% to 5%, and some commentators worried that this rise would drive an increase in opt outs. So far there are few signs of that.

Around one in ten employees chooses to opt out of the pension scheme when they are automatically enrolled, and a similar proportion cease to save at a later date. We wanted to understand the drivers of these decisions and what can be done to increase take up. To this end, we commissioned research from Ignition House seeking insight from in-depth discussions with people who have decided not to save in their workplace pension scheme.

Surprisingly, we find many of the individuals who had opted out had positive views on workplace pensions and generally thought they were a good idea. Furthermore, affordability is not the key driver for opt-out decisions and, in fact, many feel that increased contribution rates make saving in a workplace pension scheme more worthwhile.

Many of the people who opted out did so because they thought the time wasn't right for them to be saving. But circumstances change and several of the respondents said they would join the pension scheme later. This underlines the importance of re-enrolment in raising participation rates. Many also wanted a better explanation of what the scheme would provide them.

We remain very supportive of the policy of auto-enrolment and are pleased to see ongoing high participation rates. We think there is scope to do better and are delighted to share this insightful research with you as part of the debate about improving the retirement outcomes for people in the UK. We look forward to discussing the conclusions and implications with you.

Alistair Byrne
Head of Pensions and Retirement Strategy, EMEA,
State Street Global Advisors

Executive Summary

We know from official statistics released by the Department for Work and Pensions that just under one in ten of those who are eligible have chosen not to take part in their workplace pension, but we currently have limited information on the drivers behind this behaviour and what the final impact of the last increase in contributions in April 2019 will be.

Ignition House conducted exploratory in-depth discussions with 22 people aged 22 to 60 who had been offered a workplace pension and had chosen not to join — our 'opt out' respondents — and a further 8 people aged 22 to 60 who had joined their workplace pension, but had chosen to stop their contributions — our 'cessation' respondents.

Our in-going hypothesis into this research, based in part on survey data collected through large scale schemes, was that people were choosing not to be a member of their workplace pension scheme simply because they could not afford it. What we found was that people's situations are much more nuanced than this; none of our cessation cases were due to affordability issues linked to increasing contribution rate, and opting out due to 'affordability' is very much linked to wanting to spend now, or saving for other priorities.

We found very limited evidence that employers were seeking to discourage people from joining the scheme, and the small number of cases we did come across appeared to be driven more by employer misunderstanding than a conscious attempt to encourage employees to opt out.

Whilst our respondents recognized the need to save for their retirement, and held generally positive views on workplace pensions, once they had made the decisions to opt out none could recall having any interventions to ensure they were fully ware of the decision they had made, nor could they recall having any further communications on pensions. The evidence from this relatively small group of people suggests that there is much more that can be done to help people fully understand the decision they are taking. Our sense was very much that all but the largest employers of the people we spoke to were treating workplace pensions as a tick box compliance exercise rather than an employee benefit and, as such, did not make any efforts to really 'sell' the benefits to their staff. Furthermore, respondents, particularly those in smaller firms, often felt that their employers were just as ignorant about pensions as they were.

As a consequence, we heard a lot of 'noise' about the safety of pensions, which was used as one of the reasons not to save. Worryingly, the recent TV campaigns to prevent pension scams at retirement seem to be reinforcing these negative views. Better information and reframing led to a number of respondents having a 'lightbulb' moment, once they realized exactly what they had said no to.

People recognise that their situations will change, and there was strong support for re-enrolment to 'nudge' them every three years as pension membership was very much recognised by those we spoke to as a 'push' rather than 'pull' event. Some even went as far as to say that they would like to be asked if they have changed their mind on a more regular, perhaps annual, basis. If that is not possible, then some connection to life events such as pay rises and promotions would be helpful.

The future impact of phasing is not clear cut; increased contribution will be out of reach for some, but for others contributing into a workplace pension at higher rates seems more 'worthwhile'. Careful communication is needed, as some of our respondents became more skeptical of pensions when they realized that employer and employee contribution rates were diverging which made them question whether this was the beginning of the end of employers' taking responsibility for helping staff to save for their future.

Key Findings

Respondents were typically left to make the decision themselves, with very little input from their employers

Whilst auto-enrolment leverages the human bias towards inertia, in contrast our opt out and cessation respondents have had to make a decision not to join their scheme. To do this, they either filled in a form, phoned their provider, or sent an email to confirm their decision. All have, to some degree, actively engaged with their workplace pension.

All could recall that their employer offered a workplace pension. However, their perception often was that they would have to make a choice as to whether they jointed that scheme or not. They also could recall receiving very clear messages about how to opt out. The process of opting out felt very easy and quick, but there was no attempt to persuade them to stay or to check they understood the 'benefits' they were giving up.

"There was no face to face explanation. It was literally just we have a pension scheme, so do what you want with it. I guess I would have liked more of a personal explanation when they did offer it, so I was more informed and had a better idea of what it does and how much they pay into it. I am sure it said in the letter, but it would have been better for me if it was actually verbally said."

Male, 22, Opted Out

"There was no communication, no explanation.... Obviously, I have taken a different road."

Male, 60, Opted Out

"I think it was in the initial contract and then I think I asked them also, what is going to happen; do I get this automatically; do I have to opt out? I think I got an email saying enrolment is automatic, and if you don't want to take it you have to email them."

Female, 38, Opted Out

We found very limited evidence that employers were seeking to discourage people from joining the scheme, and the small number of cases we did come across appeared to be driven more by employer misunderstanding than a conscious attempt to encourage employees to opt out.

"His (employer's) advice was don't take it, he was telling other people it's not a good thing to do, which was probably wrong! He said, it's a waste of money, if you take out this pension you won't get anything from the government, you will lose your rights to everything and it is not worth it."

Female, 52, Opted Out

That said, a couple of respondents who worked for micro-employers mentioned that they were somewhat worried about the employer's ability to pay the contributions. Although this worry had formed part of their decision, neither said that it was their key motivation. On probing, there was no indication that this concern had arisen from any interaction with their employer, nor had they discussed this fear with anyone in their firm. They were pleased to hear from the interviewer that employers can claim tax relief towards their contributions (something that they were not previously aware of) and having this information would have reassured them about their future job security at the time.

On the contrary, respondents felt they had to make a decision as to whether they should stay in or opt out. Respondents typically reported receiving an information booklet or pack which was up to them to read. It was the exception rather than the rule to hear about any forum where the benefits of workplace pensions were explained. The vast majority did not talk about pensions in the workplace, either with colleagues or line management.

"I was given a basic factsheet of what they do. Problem is, if I had an issue or wanted to speak to someone in HR I don't have the number, it is not really one of those organisations where I can ring up and speak to someone if I want to find out more information or if I have a problem. I have to go through my line manager. It is pretty faceless like that."

Male, 41, Opted Out

"I suppose areas which I am not clear about are things like when is my retirement age, how will it be paid how do they calculate it, and I don't think you can take it out in one lump sum. I am not sure who pays in. Maybe the employer does as well as me?"

Male, 32, Opted Out

Hearing respondents talk in this way, our sense was very much that all but the largest employers of the people we spoke to were treating workplace pensions as a tick box compliance exercise rather than an employee benefit and, as such, did not make any efforts to 'sell' the benefits to their staff. Furthermore, respondents, particularly those in smaller firms, often felt that their employers were just as ignorant about pensions as they were.

"I think if it was explained it a lot better, I would probably have taken it up. No one explains pensions to you, do they? They explain their work and ethics but no one goes into pensions. All I knew was that I was skint, I needed the money every month — and it was an extra £30 a month, which was a lot of money to me then with two kids. So, that is why I said no. But if I had thought, well the Government is putting in, the employer was putting in, that was practically free money! And that is what I have been missing out on all these years."

Female, 48, Opted Out

Respondents recognized the need to save for their retirement and had generally positive views on workplace pensions

Respondents across all age groups were very aware that they would need to provide for themselves in retirement. Younger respondents, in particular, expressed concerns that the State Pension would not be available to them and spoke positively about workplace pensions. There was good recall of the latest government sponsored TV advertising campaign promoting awareness of workplace pensions.

"I think pensions are a good thing to have, because obviously when you are retired, you want to have some sort of income."

Male, 22, Opted Out

"From my point of view, they are a very good thing because now everybody will have a pension, even if it is smaller, you are at least getting something."

Female, 41, Opted Out

"I think it is good that they exist for people to think about how they might survive in their older age."

Female, 34, Opted Out

"They are a good investment, especially if a company matches you or puts in more."

Male, 32, Opted Out

"I can't believe I haven't got a proper one as I know they are so important. I watch so much Victoria Derbyshire, Question Time, and I hear them talking about it all the time"

Female, 38, Opted Out

Although they are not contributing to a workplace pension right now, this was not always the case for everyone. Just 10 of the 30 we spoke to had never had a pension. Three were currently contributing to a personal pension.

The vast majority saw non-membership as a transient state and said that they hoped to join a workplace pension in the future, when they are more 'settled'. In line with recent PPI research , we found that the decision to opt out was not particularly correlated to income; it was more common to hear respondents across all income bands talk about their list of life priorities — buying a house, settling down and having kids - before starting to think about making pension provision.[1]

Similarly, we had a number of younger respondents who felt that their current employment was temporary in nature and that they would join a workplace pension when they had established themselves more firmly in their chosen career. That said, a number reflected on the fact that they had now been in their 'temporary' jobs for several years.

Looking to the future, most said that it was important to have a workplace in place by 40, but a small minority thought 50 was the 'right' age to start.

"Well my need for the cash is greater at the moment, it is something maybe next year I plan to look at."

Female, 38, Opted Out

"When you are in your late 30's early 40s you are not really thinking pensions, you are thinking paying your bills, life occurrences, children everything that is going on in your daily life, and I think pensions take a bit of a back burner. All of a sudden, you are mid-40s you start to realise, how long have I got left, what is this pension, what have I got?"

Female, 41, Opted Out

"I plan in four or five years' time to add another £5,000 to my salary, if not more. I know then I can quite comfortably put away £500 maybe £600, £700, whatever it might be, whereas I could never dream of doing that before."

Female, 34, Opted Out

"I feel that it's such a long time away, it doesn't really impact my life now so I don't feel affected by it all. I think the older I get the more I will be worried about it, as of now I am not concerned. Maybe I'll start thinking about it between 35 and 40."

Female, 27, Opted Out

[1] http://www.pensionspolicyinstitute.org.uk/publications/reports/ppi-phd-report-what-limits-pension-participation-amongst-threshold-adults-(aged-25-39-years)

A variety of reasons were given for opting out

Looking now at the reasons given for opting out, there were a couple of respondents who, on reflection, thought that they had made a bad decision and questioned why they had chosen to opt out.

They were new joiners to their company and felt they had to make a decision during the induction process. Few appeared to be aware that they would automatically be put into the pension scheme and then they had the opportunity to opt out.

At this time, they knew little or nothing about pensions and said they were not in the right frame of mind to think through the pros and cons and to satisfy themselves they were doing the right thing. So, for them, the 'path of least resistance' was simply to say no.

"They just gave you a pack and then you have to read it and you have to decide to opt in or out and I thought well, I skimmed through it and thought no, I am lazy I just want someone to do it for me."

Female, 46, Opted Out

"When I first started there, they gave me all these forms opt in or opt out and I just said well, I am going to opt out. And I don't know why. Everyone is there at the induction, and you are taking a lot in, it's this and that and health and safety and then you are near the end and it is this about the pensions and like give us your bank details now, and it was too much for me to take in."

Female, 38, Opted Out

From the process descriptions we heard, it would appear that some employers are not following the correct procedures; they appear to be giving people the option to join the scheme at induction, rather than putting them in the scheme automatically. This is an issue that has recently been highlighted by the Pensions Regulator (tPR), although it is difficult for us to say for sure this is what actually happened from their accounts.[2]

For the rest, decisions were often driven by a number of reasons. Interestingly, the opt out decision was not always about affordability. Where affordability was mentioned, it was often in conjunction with low levels of trust and poor understanding.

n=22

Figure 1: Reasons given for opting out

Based on qualitative assessment of the responses of 22 opt out respondents. Multiple responses allowed. Common combinations were affordability & trust, trust & other resources, and affordability & poor understanding.

[2] www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2018.pdf

‘Affordability’ is linked to wanting to spend now, or saving for other priorities

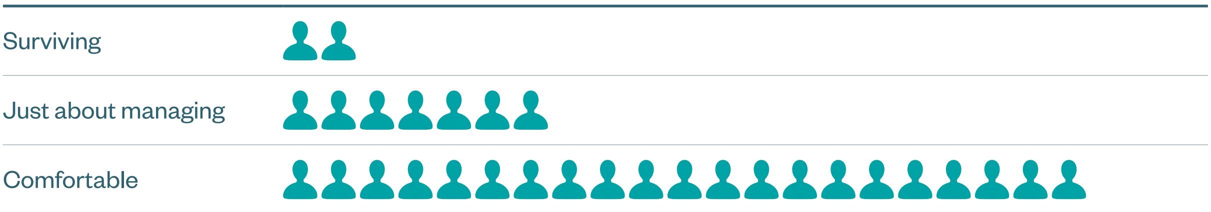
Seven of our opt out respondents specifically mentioned affordability as a reason not to join the scheme. However, the concept of ‘affordability’ is very subjective with respondents across the income spectrum giving this as a reason for their decision to opt out.

However, probing more deeply into their situation we found that just two of our respondents were struggling financially, reporting that they had no savings, had issues with debt, or were using revolving credit. None had missed any payments, such as rent, mortgage or utility bills in the last 6 months.

Many described themselves as ‘comfortably off’, evidenced by a savings buffer which could sustain them for at least 6 months if they lost their job, having little or no debt and habitually paying off credit card debts every month.

Figure 2: Financial resilience of opt out and cessation respondents in our research

n=30



Based on qualitative assessment of the responses.
Surviving no savings, struggling with debt and/or revolving credit card debt.
Just about managing savings for up to 3 months if out of work, mostly managing debt, mostly paying off credit cards.
Comfortable >6 months savings, paying off credit card debt every month.

The vast majority, 22 of the 30 respondents, were currently saving, although these savings were typically earmarked as short-term rainy-day savings, or savings for a specific purpose such as a deposit for a house. A handful were members of their employer’s Sharesave scheme. That said, most reported that they could not afford to make these savings and pay into their pension at the same time.

“With my company’s Sharesave scheme it is three to five years, which is a realistic time frame to put money in and get something back out, whereas with the pension I don’t want to wait 30, 40, 50 odd years. I don’t know what is going to happen in that time. I want to do something else, I want to go into property investment so I am looking to buy properties and rent them out.”

Male, 22, Cessation

“How old is the pension age now, 68? I know people say we are all living longer, but people could pass away from anything. 70 is a long way away - that is 50 years away. I could save a significant amount between now and then. I am thinking about doing my employers’ Sharesave scheme at the moment, that might be my pension, I don’t know, it seems like a better idea.”

Female, 24, Cessation

"When I moved into my own rented place, I never had money to put into a pension, so I always opted out. When I knew the pay rises I could get, I earmarked them for different things; first one was being comfortable by the end of month, then the next one being is able to do some savings, and then the last one I might be able to put my money into something. You need rainy day money first, for my family or paying for a house, then you need money for the future."

Male, 33, Cessation

"I would like to do a pension in the future, though at the moment living in London is very expensive with children and nursery care, I don't want to invest everything in the long term without missing out on the short term."

Male, 33, Opted Out

Half of our respondents were currently renting, and were saving to get on the property ladder. Respondents aspiring to be homeowners wanted to 'stop throwing money away' on rent, but also had a strong emotional desire to have more stability and security.

"If I would have anything in mind for my savings, it is savings for a deposit on a house, and that is the only thing I really have in mind."

Female, 27, Opted Out

One respondent mentioned that the main reason she opted out of her workplace pension was so that she would have a higher 'income' taken into account under the new mortgage affordability tests. Once her property purchase had been made, and this would no longer be a factor, she would consider joining her workplace pension.

Many worried about the 'safety' of pensions

Despite generally positive views about the need to save for retirement there was a pervasive feeling amongst our respondents that pensions were somehow 'not safe' and that unlike savings, pensions are not guaranteed. To some extent this is explained by loss aversion, but on probing several different factors emerged which had helped to shape this view.

As we have found in previous research , older respondents referred to historic DB issues such as the Maxwell scandal, and more recently BHS, which had tarnished their perception of pensions and given the impression that as schemes were 'closed' this meant that members had lost all of their money.

"It's like you hear of these companies going under, 'oh there is nothing left in the pensions' — the same happened with Woolworths when they went under."

Female, 52, Opted Out

However, younger respondents were also worried about what would happen to their money in the long-term, especially as it is locked away without access for many years. They had questions about what would happen to the money if they left their employer, or if they died before being able to access their fund.

"I am slightly wary, of where my money is actually going, and if something happens in the future which might cause me to lose all of my money. My thing is, I put all of this money in, and I could be working till 85 anyway and never see a penny of it! Or something could go terribly wrong in the world, and I don't see a penny of it."

Female, 34, Opted Out

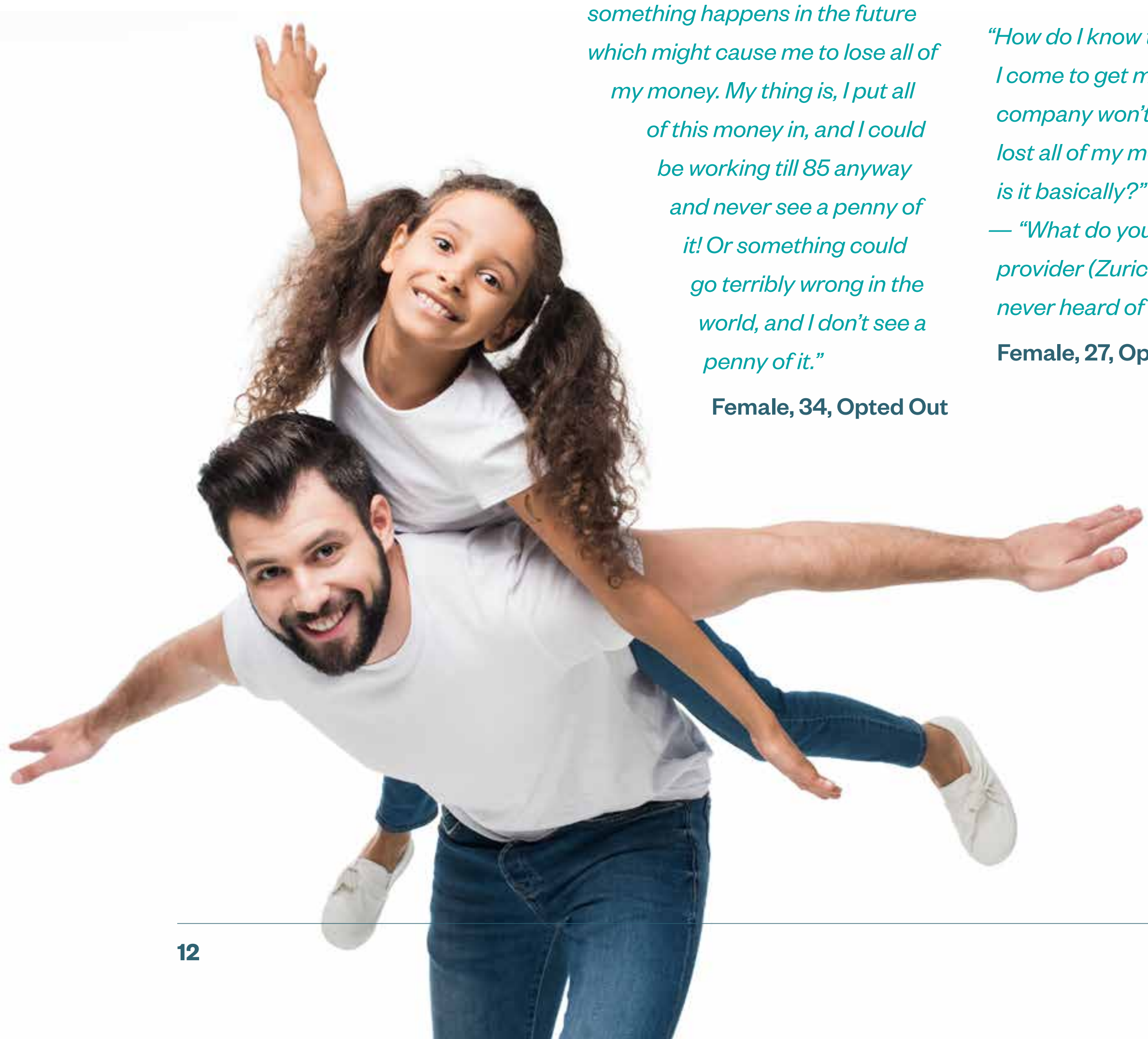
"If you are entitled to your pension in your 50's or 60's or whatever, if anything happens to you before that point, what happens to the pension? Where does all that money go to?"

Female, 28, Cessation

Across all age groups, respondents expressed concerns about the security of the provider as they often did not recognize the name as a household brand, or were aware that some AE providers were relatively new to the market. None were aware of the protections that are in place for pension money, even though they had a good understanding of the FSCS for their savings.

"How do I know that by the time I come to get my pension, the company won't have gone bust and lost all of my money? How secure is it basically?" INTERVIEWER — "What do you know about your provider (Zurich)?" "Nothing, I have never heard of them."

Female, 27, Opted Out



"I wasn't sure how the pension companies invest the money and if they can go bust and lose everything."

Female, 32, Opted Out

"I think it is very unsteady, the whole money situation, I don't think any money is safe if you invest it in stocks and shares, and I think if you do, you have to be able to afford to lose it. It could wipe out the NEST pension couldn't it? There is no guarantee you will get anything back. My money is in ISAs now, I don't know why, I just think they are safer than pensions. They are in a bank and the bank carries you for so many thousands of pounds, so I would be covered, whereas with the pension, I don't think I would be."

Female, 52, Opted Out

By and large, these were nagging doubts rather than a key driver for their decision. Nevertheless, this lack of trust is a common theme which seems to span all generations. Worryingly, the recent TV campaigns to prevent pension scams at retirement seem to be reinforcing these negative views.

"And all the scams going on and people transferring their pension money to people, and actually there is even an ad on TV at the moment. I would assume that that is being paid for by the state or one of the associations or bodies. If it has got to that level, where they are actually warning people and spending loads of money on TV ads, isn't that more reason to be frightened a little bit of pensions?"

Male, 60, Opted Out

There were just two respondents who had such a deep mistrust of pensions that this had been their primary motivation for opting out. For both, their views had been shaped by people who they looked up to in the workforce. Despite having good jobs with generous pension schemes throughout their careers, they had always opted out and felt that these views were very firmly entrenched and nothing could change their mind.

"My lecturer told me that my pension scheme was only to benefit two people; the pension company and the Government. What you put in is not necessarily the same as what you would get out and if the country went to war you would lose all your money. My tax manager and the lawyer at work said 'do not go into it, put your money into property instead.' For them to say that, I won't ever do it."

Female, 28, Cessation

Some respondents think that they can do better, typically by investing in property

Linked to this sense of mistrust is the common perception that there are better opportunities 'out there' and that, in the longer-term, property would be the better financial decision.

The vast majority of people expressing these views had no idea how pension money was invested, nor what the returns had been over the last few years.

"I chose the bricks and mortar route to hopefully provide revenue after 65."

Male, 60, Opted Out

"Later on, I intend to invest in a buy to let property and use capital for that, as the housing market is always the best one to be honest."

Male, 32, Opted Out

Respondents paying into their own pensions had not fully thought through their decision

Three respondents had opted out of the workplace pension, but were currently paying into their own schemes. They each had a different story to tell — but all had not given much thought to the decision, and in particular the value of the employer contribution.

Figure 3: Case studies of the three respondents currently paying into their own pensions

Ed, aged 28

- Works full time
- Married
- Homeowner

Ed works for a large employer who offers a generous matched pension scheme run by Zurich, a company he is aware of. He opted out of the scheme as he pays £80 per month into AXA Self Invest, which was recommend to him by a friend who works there.

"No, I don't know whether the Zurich scheme is better. I didn't make any comparison of charges or investments. I didn't know you could pay into both. Maybe I'll look in to it, especially when the employer pays in 3%."

Jane, aged 56

- Works part time
- Married
- Homeowner

Jane is comfortably off. She did not pay into a pension in her 20 and 30s and is now playing catch up. She opted out of the pension as she was not sure it would be "*worth it*" if she gave up work in the next few years and didn't want the hassle of two pensions.

"If you look at it as a saving account my employer pays into, then that is an eye-opener isn't it. Maybe I should think again!"

Kathy, aged 41

- Works full time
- Married
- Homeowner

Kathy is comfortably off. She is less financially astute than her husband, who manages their finances. They have a buy-to-let property and savings. She was offered a NEST pension, but opted out as she is currently paying £250 into a Scottish Widows pension set up by an IFA.

"NEST, who are they? I've never heard of them. They are probably not as secure as Scottish Widows."

Despite making an active decision not to join their workplace pension, respondents were hazy on what they were actually saying no to

The majority of our opt out respondents were aware that they and their employer would have to make a contribution to their workplace pension. That said, there were very low awareness of current minimum contribution rates. Only a couple were aware that minimum contribution rates are increasing further — but they could not say to what level.

There were a number of respondents with employers paying above the minimum but, on probing, they had not realised their scheme was so generous. If this had been better promoted by their employer, they would have thought twice about what they were giving up.

Figure 4: Opt out respondents' awareness of contributions

n=22

Based on qualitative assessment of the responses of 22 opt out respondents.

Much were fewer were aware of the tax relief, and this came as a surprise to many that there was this extra "bonus" from the Government. Armed with this knowledge gave respondents a slightly different perspective, with some (particularly the 40% tax payers) thinking that this might have been enough to tip them into making a different decision.

"Well I just saw pension contributions as another tax. Though now you put it like that, that my contributions are just one piece of the pie, I might have to have a rethink. Especially as a 40% taxpayer, it makes it sound more appealing."

Male, 42, Opted Out

None of our cessation cases were due to increasing contribution rates

Of the eight respondents who had ceased paying into their pension scheme, four were simply people who had not managed to opt out within the one-month timeframe or had subsequently found out that it was not compulsory to be a member. The rest gave very similar reasons for this decision to the opt out cases, centred around affordability and trust. One was moving abroad in the near future and questioned what would happen to the money when they left the country. The remaining three decided that they could do better elsewhere.

"I didn't feel like I'd need the pension, so I'd rather have the money and try and save it myself"

Male, 32, cessation

The perception that they 'can do better' elsewhere has led to some curious investment choices.

Figure 5: Case study of a 'can do better' respondent

Stuart, aged 31

- Works full time
- Married
- Homeowner

Stuart works full time for a large company with a generous matched scheme. He is sceptical of pensions and thinks that he can do better. He has put his money in four shares, which he thinks is a well balanced, medium risk portfolio.

"I joined the workplace scheme, because it looked like a good deal, a no brainer, but then I found out more and got more and more disillusioned. It looks like they are guaranteed, but they are not. You can't find out where your money is going. So, I decided to do it myself. I have shares in two banks, shares through Sharesave at my company and shares an oil company."

Better information and reframing led to a number of respondents having a 'lightbulb' moment

Throughout our discussions, respondents were exposed to basic information about changes to contribution rates, about how much the employer contribution and tax relief is worth and about the size and governance structures surrounding DC pensions.

These were often new pieces of information to our respondents, who had made their decisions very quickly based on very low levels of awareness and understanding; a decision made using their System 1 thinking which enables them to jump to conclusions without knowing the full facts.

We tested a number of interventions to see if, in theory, these would have any impact to slow people down and start to use their more logical System 2 thinking, specifically:

- Reframing employer contributions as a 'pay increase' they have turned down
- Reframing employer contributions and tax relief as akin to a 'return' or a 'bonus' for those who think they can do better elsewhere
- Playing on the notion of 'social norm' by highlighting that 9 out of 10 people have joined their workplace pension
- Framing contributions in real numbers not percentages
- Reframing a pension as a savings account into which the employer contributes for the over 55s

Further work with a much larger sample will be needed to explore the potential to change real behaviour but, indicatively, we certainly observed that messages such as these have the power to make people stop and think twice about opting out.

"Well now you talk about it like that, that is an interesting way of looking at it. I never said I would opt out forever — maybe I'll look at it again next year."

Male, 28, Opted Out

"Well when you put it like that, it definitely bothered me, I wondered whether I had made the right decision and whether other people at the company had stayed in and I wondered if they were doing the right thing and that I was missing out."

Male, 60, Opted Out

"Yes, when you put it like that (pension being equivalent to a pay increase) yes it does make it more attractive."

Female, 41, Opted Out

Interviewer: *"What would the investment gain need to be from your saving scheme to outweigh the impact of the employer's contribution, tax relief and any potential investment growth?"*

*"**Interviewee:** Well, yes quite significant I would say."*

Female, 41, Opted Out

"So, when I actually sit down and think about it, and as you have highlighted all the benefits of having a pension, the Government contributions, the details of how it can grow and who contributes, it makes it seem like a better option."

Female, 32, Opted Out

Strong support for a 'nudge' every three years

Many of respondents expected to be better off in the very near future due to anticipated pay rises, reduced expenses (typically related to childcare) and career moves. At which point, the majority said that would consider opting in again.

"In my mind I am hoping that in a few years' time I will have a bit more spare cash to put in more. It is a good thing, as you will quickly see the benefits of opting in."

Female, 34, Opted Out

"I think in three years' time my situation will, hopefully, be fundamentally different. I hopefully will have a house, so saving for a deposit will be non-existent, if not significantly less. So that will change things and I think I will be more open to the workplace pension then."

Male, 28, Opted Out

Just seven out of the 30 were aware that they would be re-enrolled in their scheme every three years. There was strong support for this, as pension membership was very much recognised by those we spoke to as a 'push' rather than 'pull' event. Some even went as far as to say that they would like to be asked if they have changed their mind on a more regular, perhaps annual, basis. If that is not possible, then some connection to life events such as pay rises and promotions would be helpful.

"I think it is a good thing as life changes very quickly, you might have moved house or separated, so life occurrences can change so every three years. For them to give you a kick and say we are putting you back in, do you want this or not? You might be in such a better situation and able to opt in, or you might have more information about it. So, I think it is a very good thing."

Female, 41, Opted Out

"I think it is fine by me, if it is every three years it will happen periodically it will serve as a good reminder."

Male, 28, Opted Out

The future impact of phasing is not clear cut, but some respondents became more skeptical of pensions when they realized that contribution rates were diverging

Both employer and employee contribution rates are increasing automatically, so for our cohort of opt out and cessation cases their next decision point is likely to be when rates are at 5% for employees and 3% for employers. There is not sufficient sample here to give a definitive view on how phasing will pan out, but it is by no means clear that this will definitely lead to increased opt out rates as we heard our respondents express both positive and negative views.

On the positive side, for some the increased employer contributions somehow made pensions feel more 'worthwhile' and could be sufficient to tip the balance away from other forms of savings, or incentivise them to save more.

"I think well, I am contributing more but then so are they and you get the tax relief as well, so that is something."

Female, 46, Opted Out

"So, 1% didn't sound like much, but 8% sounds a lot more attractive."

Male, 40, Opted Out

"That does seem attractive, and if my salary is to increase as well then I would consider it too."

Female, 27, Opted Out

For others, the increased rates made pensions feel even more inaccessible. They wanted to know whether there was any flexibility to the system which would allow them to start lower and ramp up, rather than going in at 5% straight away.

"It is a good thing, but for those on a lower income it might be a bit of a pinch."

Female, 34, Opted Out

"I think even fewer people will want to, or be able to do it, it is just not viable. I imagine there are loads of people under 40 in 20s or 30s who can't afford to do it, wages are not high enough and the cost of living is just so high."

Female, 37, Opted Out

A handful became quite angry about the divergence between employer and employee rates, and questioned whether this was the beginning of the end of employers' taking responsibility for helping staff to save for their future.

"I think it is quite negative really, as everything should be matched. So, if I am putting in 3% then you should in 3%, otherwise it is not fair. How can I be left out of pocket? I feel in a way, 3% will cut down to be nothing in the future and it will be you putting in 8% and the workplace won't be putting in after a while and it will fizzle out. I wouldn't want that to happen."

Female, 24, Opted Out

Conclusions

There is universal agreement that AE has been very successful, with nine in ten eligible members joining their workplace scheme. These statistics clearly demonstrate that people want to make provision for their retirement, and we certainly found that our opt out and cessation respondents share this view.

Perhaps surprisingly, we found that affordability was not always the key driver for the decision to opt out. Very few of our respondents were struggling financially, and most were making savings elsewhere. However, these savings were ear-marked for a specific purpose, and many said that they could not afford to do both. We were stuck by the fact that pensions were quite far down the life 'bucket list' with events such as buying a home taking priority over saving for retirement. This reminds us that people do not operate in silos, and that there are wider social issues at play.

For our younger respondents, those under 35, pensions often felt like 'becoming a grown-up', something they were not quite ready for yet. This very much ties in with the concept of the 'established adult' discussed in psychology literature and highlighted in the work carried out by the PPI.

With these issues in mind, we were not surprise to hear our respondents expressing strong support for a flexible sidecar savings, which delivers an accessible pot of money alongside long-term pension saving. We would also suggest that providers might consider producing slightly different communications for these threshold adults highlighting the benefits of starting early, even with small amounts. None of the respondents we spoke to could recall seeing any numbers which told them how much more that would have to save in the future for each pound they spend today.

Our respondents found the process of opting out to be very quick and simple, but at no stage in the process did employer or provider check that they fully understood what they were say no to, nor did they ask 'are you sure? Simple interventions such as using social norms, re-framing employer contributions and increasing awareness of tax relief, have the potential to make people think twice about their decision, but these 'nudges' are really the icing on the cake.

By far, re-enrolment is likely to have the biggest impact on future participation rates. Our respondents recognised that it is incredibly unlikely they will wake up one morning and want to join their scheme and that they will need a nudge to do it. Most were not aware of re-enrolment, but all were pleased to hear that they would be put back into the scheme automatically and asked to make a choice to opt out again. Every three years is fine, but some would like to be asked annually as personal situations can change quite a lot, even in a short space of time. However, once they were out of the system, none could recall receiving any further information about workplace pensions from their employer or designated provider.

It would appear from their accounts of the process that many respondents felt that opting out was a decision they had to make, rather than a process where they would be put in to their employer's scheme automatically and then had to decide to come out. This suggest that there needs to be better communication to increase awareness of the right procedures. We strongly support tPR's activities in helping (smaller) firms to ensure they have put the correct processes in place.

We generally hear noise in all of our research about whether pensions are 'safe', and this again emerged as a theme amongst our respondents. Of particular concern was the unintended consequence that the current TV ads designed to make the over 50s aware of pension scams under the new freedoms is reinforcing this sense of mistrust amongst younger workers.

Based on the findings from this work, we have no evidence to suggest that opt out rates will increase further with the next stage of phasing. The limited impact to the move from 1% to 2% seems to indicate that people are managing to make the additional savings. Furthermore, the timing of the next shift to 5% will be masked by changes to the income tax regime which will soften the blow. Some of our respondents saw the increase as a positive step forwards as savings into a pension at the higher rates suddenly seems 'worthwhile', so we may even see rates fall slightly. Of more concern was the reaction of some respondents to the divergence of the employer and employee contributions, which they see as the thin end of the wedge. We would sound a strong note of caution about the Government tinkering with any future employer contribution 'holidays' as a result of Brexit.

Methodology

We know from official statistics released by the Department for Work and Pensions that just under one in ten of those who are eligible have chosen not to take part in their workplace pension, but we currently have limited information on the drivers behind this behaviour and what the final impact of the last increase in contributions in April 2019 will be.

To burrow beneath these headline figures, Ignition House conducted exploratory in-depth discussions with 22 people aged 22 to 60 who had been offered a workplace pension and had chosen not to join — our 'opt out' respondents — and a further 8 people aged 22 to 60 who had joined their workplace pension, but had chosen to stop their contributions — our 'cessation' respondents.

The people we spoke to had a variety of backgrounds and experiences. We recruited a mix of people by age and gender, and those working for small and larger employers across a broad mix of sectors.

Qualitative Research Sample

Gender	
Male	13
Female	17
Age	
Under 30	12
30-54	14
55 and over	4
Employer size	
Large	15
Medium	15
Currently saving	
Yes, current saving	22
No, not currently saving	8
Have savings	
Yes, have some savings	28
No, have no savings	2
Pension provision	
No pension provision	10
Have a pension that they are not contributing to	20
Have pension they are contributing to	3
Housing tenure	
Home owner (with or without mortgage)	15
Renting	12
Leaving rent free (with parents)	3

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