

PPI Briefing Note 107 *Is State Pension knowledge too low for informed financial decisions?* – Roundtable write up

The Pensions Policy Institute (PPI) held a roundtable on 14th June 2018 to launch its Briefing Note: *Is State Pension knowledge too low for informed financial decisions?* supported by NatCen.

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

10 people representing a range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Chris Curry, Director, Pensions Policy Institute gave the Chair's welcome and thanked the NatCen for including the relevant pension questions in the November 2017 Wave and providing support during the research process.

Daniela Silcock, Head of Policy Research, Pensions Policy Institute, presented the findings of the research.

Steve Webb, Director of Policy Research and External Communications, Royal London, responded to the research and made the following points

- Most of the results were fairly predictable and were not a cause of worry.
- People should not necessarily be making long-term saving decisions when they are young. Automatic enrolment should lead to those on lower earnings accruing sufficient private pension savings without needing to know a lot about pensions.
- However, it is worrying that a large proportion of people do not know their own SPa. Men in particular are less likely to know their own SPa as women's SPa has received a lot of press coverage recently.
- The fact that some people do not expect to receive a State Pension is worthy of further investigation.
- People are very confused about the implications of ending contracting out. Even though the end of contracting out is a good thing, it is very complicated and confusing.

Chris Curry led a discussion, during which the following points were raised. The discussion does not necessarily reflect or represent the views of the PPI.

State Pension

- It might not matter if people do not understand the State Pension, especially as, by the time many people reach their State Pension age (SPa), the system is likely to have changed.
- The DWP notifies people of their upcoming State Pension entitlement, and encourages people to claim, three months prior to their SPa; would it be helpful to notify people earlier?
- The State Pension system will be much simpler in future; could this change peoples' attitudes to the system by increasing levels of trust in and understanding of the State Pension?
- Could technology help with communication by the DWP? For example, could people download a Government app which sends messages about SPa rises and reminders about the need to check entitlement levels?
- Employers have a lot of information about people's tax payments and income and could use this to piece together people's State Pension entitlement.
- It is surprising how many people do not qualify for a full State Pension. Many people lead chaotic lives and do not qualify for a full State Pension as a result of part-time work, cash in hand work, and/or migration in and out of the labour market.
- The State Pension is at a reasonable level, providing around 30% of working life income on average.
- An individual who was automatically enrolled and contributed for most of their life, should be able to achieve a relative level of adequacy by combining private pension income and State Pension income.
- There is general under-appreciation of how radical the State Pension changes are. While the transition period is undoubtedly complex, within ten to fifteen years the UK will have a much better, much simpler, State Pension.
- People are more likely to think that State Pension entitlement should be based on contributions than on needs. This reflects an attitude that the State Pension provides a return for a contribution, especially among older people. However, contributions are not straightforward, people pay higher or lower contributions based on earnings and some people receive credits rather than paying financial contributions.
- People are unlikely to recognise the risk pooling aspects of the State Pension.
- People believe that the State Pension should be "fair", but there is no consensus on what "fair" actually means.
- A minimum of 35 years for a full State pension is a good compromise between a universal State Pension and one which is completely based on contributions.
- People are likely to first learn about pensions from their employer through the automatic enrolment process. Would employers therefore be a good source for information on State Pensions?

- Clear simple messages regarding State Pensions would be the most helpful, for example, “check your SPa”, “value your State Pension”.

Pensions Dashboard

- The Pensions Dashboard will help by displaying people’s State Pension entitlement but it is unlikely to lead to the increased levels of knowledge and engagement expected by many people.
- If the Pensions Dashboard displays how much people accrue in State Pension entitlement each year, people may be more likely to connect their National Insurance contributions to a tangible benefit.

General knowledge and understanding of pensions

- Could those who learn about pensions through automatic enrolment start to view private pensions as the foundation and State Pensions as the top up?
- It might be easier to help people plan for retirement if they could select a target lifestyle and then see red, amber or green shading, indicating whether or not they are on target for meeting their goals.
- Those who stop working in their 50s are most at risk from making poor decisions based on a lack of understanding of when their SPa is or what level of income they may receive from State and private pensions.
- Fear or lack of trust in the system could result in people accessing State or private pension income as soon as they are allowed to, rather than deferring in order to build up savings/entitlement.
- HMRC makes saving difficult by imposing tax limits which people may inadvertently breach, for example, through Defined Benefit accruals. One way to make saving easier to understand would be to allow people to save in a vehicle which is not taxed, could be used casually through an app, and allows incremental saving by, for example, automatically deducting small contributions when people make purchases.
- People don’t understand how tax relief works and the Government contribution is not visible. The issue is compounded as not all schemes deal with tax relief in the same way and some people, earning at low levels, will not receive any tax relief. Clearing up the discrepancies in how schemes apply tax relief could make this benefit easier to understand.
- Have master trusts taken over the role of providing an earnings-related pension to low earners now that the Government has stopped providing an earnings-related State Pension?
- At what age should people know about State and private pensions? A mid-life M.O.T. at age 45/50 should be a good way to target people when they are most receptive to learning but also have time to make adjustments in saving habits.
- At the moment, people use financial advice or guidance only when they have a financial crisis. An ideal situation would be one in which people were used to using advice or guidance whenever they had a financial

problem or question, in the same way people would go to a GP if they had concerns about their health. However, the UK is unfortunately still rather far away from this position.