

Research report

A simpler State Pension: A qualitative study to explore one option for State Pension reform

by Andrew Thomas, Josh Hunt and Alice Coulter

Department for Work and Pensions

Research Report No 787

A simpler State Pension: A qualitative study to explore one option for State Pension reform

Andrew Thomas, Josh Hunt and Alice Coulter

© Crown copyright 2012.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at:
<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

Any enquiries regarding this document/publication should be sent to us at:
Central Analysis Division, Department for Work and Pensions, Upper Ground Floor, Steel City House,
West Street, Sheffield, S1 2GQ

First published 2012.

ISBN 978 1 908523 46 4

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

Contents

Acknowledgements.....	v
The Authors.....	vi
Summary.....	1
1 Introduction.....	6
1.1 Background to the research.....	6
1.2 Research aims and objectives.....	6
1.3 Methodology.....	7
1.4 Report outline.....	8
2 Consumer context.....	10
2.1 Economic volatility.....	10
2.2 Relationship with Government.....	10
2.3 Pensions and later life context.....	10
3 Planning for retirement.....	11
3.1 Understanding future income and expenditure.....	11
3.2 Planning for retirement.....	11
4 Views about the current State Pension.....	15
4.1 Understanding of the current State Pension system.....	15
4.2 Views about the simplicity, fairness and impact of the current State Pension system.....	18
4.3 Ideas for a new State Pension.....	19
5 Introducing the single tier system.....	21
5.1 Reactions to a ‘single tier’ pension.....	21
5.1.1 <i>The amount</i>	21
5.1.2 <i>Simplicity</i>	22
5.1.3 <i>Fairness</i>	22
5.1.4 <i>A ‘hybrid’ approach to the single tier</i>	23
5.2 The impact of Pension Credit and means testing on views about the single tier State Pension.....	24
6 Transition to the single tier system.....	26
6.1 Contracting-out.....	26

6.2	Views about transition.....	28
6.2.1	General views about transition.....	28
6.2.2	Views about transition – The alternative transition models	30
6.2.3	Building up a single tier pension	33
6.2.4	Overall reactions to the transition models	34
7	Perceived impact of the single tier pension system on planning for retirement	36
7.1	Views about the potential impact of the single tier State Pension on retirement planning	36
7.2	The link with automatic enrolment	38
8	Communications issues	40
8.1	Communicating the function of the State Pension.....	40
8.2	Views about names for the single tier State Pension system.....	40
8.3	Communicating the State Pension and contracted-out rights	40
8.4	Communicating transition messages	41
9	Conclusions.....	42
Appendix A	Focus group composition.....	44
Appendix B	Recruitment questionnaires and topic guides.....	46
Appendix C	Research stimulus materials.....	112

List of tables

Table A.1	Income levels and approach to retirement saving – segmentation	44
Table A.2	Income levels according to marital status and whether living in or out of London	45

List of figures

Figure 1.1	DWP’s Planning and Saving for Later Life segmentation.....	7
Figure 3.1	Retirement plans.....	12
Figure 4.1	A simplified version of the State Pension	16
Figure 4.2	What pensioners are thought to receive and require in retirement	17
Figure 6.1	Describing how contracted-out pensions are paid	27
Figure 6.2	Stimulus explaining extreme transition models	29
Figure 6.3	Option C	30
Figure 6.4	Option D.....	31
Figure 6.6	Stimulus illustrating how the single tier pension can be built up	33
Figure 6.7	Stimulus illustrating transition approaches	34

Acknowledgements

The Department for Work and Pensions (DWP) commissioned TNS-BMRB and The Futures Company in 2011 to carry out this research.

We would like to thank Andrew Thomas and Alice Coulter at TNS-BMRB and Josh Hunt and Amy Tomkins at the Futures Company for their expertise and flexibility throughout the project.

At the DWP we would like to thank Toby Nutley, Vicky Petrie, Simon Pannell, Catherine Nalty, James Holland, Sarah Moore, Claire Wilkie and James Erikson as well as other colleagues who contributed to the project at various stages.

We would also like to reserve a special thank you to all the members of the public who consented to take part in the research and contributed both their time and valuable insights.

The Authors

Andrew Thomas, TNS-BMRB, Director.

Alice Coulter, TNS-BMRB, Senior Associate Director.

Josh Hunt, The Futures Company, Associate Director.

Summary

Background

Demographic changes in the UK mean that life expectancy is increasing and the ratio of people eligible to claim the State Pension relative to the working population is rising. At the same time there has been a long-term decline in the level of private saving for later life. In response, the Government decided to introduce automatic enrolment, whereby eligible workers will be automatically placed into workplace pensions with an employer contribution unless they decide to opt out. To run alongside this initiative, the Government announced its intention to reform the State Pension so that it provides a foundation of support whilst encouraging people to take greater personal responsibility for planning and saving for later life.

In April 2011, the Government published a consultation paper '*A State Pension for the 21st century*'¹, which set out two options for reform: accelerating existing reforms so that the State Pension would evolve into a two tier flat rate structure more quickly; or more radical reform to a single tier flat rate pension.

Against this context, we were asked to explore attitudes to the single tier option as a hypothetical alternative State Pension. The first option was not included as it is based closely on the current system which has already been the subject of much research.

The complexities of the current multi-element State Pension typically mean that people are unaware of how much they will receive, when or how it is calculated. The single tier option, as set out on page 25 of *A State Pension for the 21st century*², would simplify the system by combining the elements into a single amount with eligible future pensioners receiving a flat rate of around £140 per week. This would be paid on an individual entitlement basis, and would be set above the current means-tested limit for the basic level of Pension Credit.

Research aims and objectives

As part of thinking about the optimal policy for a reformed State Pension and prior to taking any policy decisions the Department for Work and Pensions (DWP) commissioned this qualitative research to explore perceptions of whether the proposed single tier³ system was simpler and fairer than the current system and whether it offered certainty with regard to the amount that people will get that might impact on financial planning for later life. The research also explored views and understanding around a number of individual concepts such as means testing, qualifying years, automatic enrolment, contracting-out and the transition from one scheme to another, as well as language and communications testing.

¹ <http://www.dwp.gov.uk/docs/state-pension-21st-century.pdf>

² *ibid.*

³ We have used the name 'single tier' in line with option 2 in *A State Pension for the 21st century*, although in Chapter 7 reference is made to potential alternative names for a reformed State Pension system.

Methodology

A series of focus groups and larger workshops were set up to facilitate the stated aims and provided opportunities for people to respond to stimuli and debate potentially complex issues that they may not previously have engaged with in any depth.

Fieldwork took place between January and October 2011, and was conducted in four phases:

- Stage 1 – A pilot stage to test research tools. This involved two focus groups, each comprised of six middle income respondents aged 35-50, and was held in London.
- Stage 2 – Main-stage research incorporating 12 focus groups, each comprised of six to eight respondents. These took place in three locations (London, Birmingham and Manchester) with respondents recruited to reflect a spread of demographic characteristics and groups from DWP's segmentation of attitudes and behaviours around planning and saving for later life⁴. Four of these groups were comprised of respondents who indicated they were solely reliant on the State Pension for their future retirement income.
- Stage 3 – Follow-up research: i) two workshops, each comprised of 15 respondents, exploring transition issues arising from contracting-out of the additional State Pension and ii) three focus groups with young people, each comprised of six respondents and split by age (20-25; 25-30; 30-35).
- Stage 4 – Follow-up research incorporating six focus groups, each comprised of six to eight participants. Respondents were recruited to reflect a broad spread of demographic characteristics. The groups explored respondents' views about the issue of transition and their understanding and reactions to alternative transition models. The purpose of the discussions was to explore how people trade off benefits of speed and length of transition, fairness, simplicity and certainty in light of the different models. In addition, any respondent reactions to transition were noted in order to help inform any future need to communicate the issue effectively.

Key findings

Consumer context

The four stages of research were conducted at a time of great economic instability, political change and a changing pension arena.

Consumers were generally facing increasing prices against a backdrop of rising unemployment with many people facing job insecurity. The response for many consumers at a time like this was to rein in their expenditure and be more planned and considered in their household budgets. As a result of this, anything that seemed to offer people greater certainty and the ability to plan for the future was generally welcomed.

Throughout the research, there was also a narrative of cuts to public spending running in the background. Looking at any changes to State Pension policy, consumers were generally anticipating what was going to be cut or taken away, and how the Government was going to save money.

⁴ Thomas, A. Jones, J. Davies, S. and Chilvers, D., (2009). *Individuals' attitudes and behaviours around planning and saving for later life: Findings from qualitative and quantitative research*, DWP Working Paper 72.

Finally, a lot of media attention was given during the fieldwork to the changes to State Pension age (and the changes in decision about exactly when this would happen) and many of those employed in the public sector were facing changes to their occupational pensions. Furthermore, many of those with private pensions had recently seen the value of their investments drop sharply as a result of the global financial crisis and annuity rates were also declining. The consequence of all this was that respondents were generally cynical about the longevity of any changes announced. Many respondents believed that any changes to the State Pension would only be short-term, and that subsequent governments would probably change them again, thereby reducing any benefits in terms of the ability to plan ahead.

Perceptions of the current State Pension system

While approaches to retirement planning were very varied, the current State Pension system was generally found to be complex and confusing. There was very little idea about the current value of the State Pension, how it was calculated, or how much people might receive when they retire. The view that there may well not be a State Pension in the future, or if there is it will be at a much reduced level, was relatively widespread. For some, typically those further from retirement, this was a reason not to engage fully with the topic. Generally, it was felt that the State Pension alone would not be sufficient to provide a comfortable lifestyle in retirement, but would just cover the basics. This widespread view provoked a number of different responses: to ignore the issue and disengage; to plan for the future and make their own provision; or to conceive a vague plan to do something in the future.

As part of the research process, respondents were invited to suggest potential alternative structures for the State Pension. This was generally not an easy task as there were competing views about what and who it should be for. Generally, people felt that it should contain some combination of the following features:

- a safety net – enough to cover the basics (for everyone/deserving);
- some link to contributions/reward for working or effort;
- clarity about how much it will be worth to help people plan;
- those who have saved privately should not be penalised;
- those approaching retirement should not be denied what they are ‘owed’ – older generations should not be punished for the financial problems facing younger people.

There was little consensus about what an ideal State Pension system should look like or how the different elements could be traded off. However, respondents spontaneously started to weigh up the issues of fairness, simplicity, certainty, transparency and reward.

Introducing the single tier system

Respondents were introduced to an outline idea of a single tier – explaining that everyone who fully qualifies in this system would receive £140 a week; to qualify for this amount people would need to have 30 qualifying years of National Insurance contributions or credits.

They were broadly positive about the idea as it seemed simple and easier to understand than the current State Pension. This was seen as benefiting the individual (easier to understand) and the Government (easier to communicate and administer). Additionally, the amount was viewed as being slightly more generous than many had anticipated, and was seen to be sufficient to cover the basics. However, there were mixed views about fairness. On the one hand, everybody who had 30 qualifying years would receive the same, making it fair for anyone who had taken time out of paid employment; on the other hand those who contributed beyond 30 years would not be rewarded.

The amount of £140 was used for research purposes in order to test the policy proposition, no decisions have been made on the weekly amount of the single tier pension if it is implemented. A further assumption was that people would qualify for full level of State Pension at 30 qualifying years.

From the point of view of being able to plan ahead, respondents felt that having a greater degree of certainty about the amount of State Pension they could expect to receive, might help them plan better for the future although it would not address other barriers, such as other financial pressures, lack of immediate imperative and uncertainty around the best way to save. However, knowing what State Pension to expect could help make planning a more concrete matter and act as an incentive to consider how much income they would need in retirement.

In addition to the overall concept of the alternative system, some specific related issues were discussed in the research:

Pension Credit/means testing

Introducing the topic of means testing made the concept of the single tier more complex, particularly in relation to fairness. The advantages of a reformed system would be that fewer pensioners would need to apply for Pension Credit and that it would save money for the Government by reducing administration. However, the concept of Pension Credit amplified the perceived unfairness of the single tier, whereby people who had made little or no National Insurance contributions would receive virtually the same income as the basic level of Pension Credit is currently only slightly lower than the proposed amount of pension under the single tier.

The link with automatic enrolment

Respondents were introduced to the idea of automatic enrolment, and the connection between that and the single tier pension was explored. The idea of being automatically enrolled into a pension scheme provoked a variety of responses, from relief and gratitude to confusion, anger and frustration. This largely dictated how people felt about the two concepts together: those welcoming automatic enrolment could see the two ideas working well together, with the single tier acting as a foundation for personal savings via a workplace pension. Those who were less positive about automatic enrolment saw it as a potential replacement for the State Pension and were particularly averse to the risks associated with private pensions.

Younger respondents (aged 20-35 years)

Younger respondents generally felt that the single tier was a positive move. Simplicity and certainty would make forward planning easier in theory, although in practice there were many other issues that made it difficult to plan and to save for retirement. For these respondents the main problem was the lack of reward for those making contributions beyond 30 years, particularly in the context of the increasing State Pension age.

The ideas of the single tier and automatic enrolment were generally well received. To some extent, the combination was seen as making up for the perceived problem with the single tier system alone. The idea that the State Pension would cover the basics with a workplace pension derived from automatic enrolment funding a more comfortable lifestyle in retirement was seen as both logical and reasonable.

Contracting-out

In the event of moving from the current State Pension system to another, people who have previously contracted out of the State Pension system will receive an amount made up of

entitlement from the state plus an amount from the contracted-out element of their private or workplace pension. The third phase of this research explored understanding of contracting-out. Although understanding was mixed it was generally felt that the contracted-out element was completely separate from the State Pension. It was, therefore, felt that any attempt to explain that ‘£140 comes from the State Pension and part of your employer pension/private pension’, undermined the simplicity, certainty and fairness of the single tier. Messages that tried to combine state and employer/private pension pots were seen as potentially confusing or even misleading.

Transition

Respondents recognised that there would need to be some form of transition between the current and single tier State Pension. Using two possible transition options to form the basis of discussion, respondents were asked to consider issues of simplicity, fairness and certainty in relation to single tier. Overall, the complexities of transition undermine the simplicity and certainty of the single tier and people oscillate in their views between which of simplicity, fairness and certainty are the more important. At root, however, particularly in times of economic uncertainty, people trade certainty for simplicity and fairness.

Conclusions and recommendations

In an area that is rife with confusion and uncertainty, simplicity intuitively appealed to respondents. Facilitating fairness, however, is far from straightforward and discussions around this generated polarised and changeable views. The perceived trade-off between fairness and simplicity was seen as difficult to make, but simplicity was generally seen to be more important than fairness as a means of ensuring transparency and, therefore, comprehension (although questions remained as to whether it could be this simple in reality).

The certainty associated with simplicity could prompt people to think more seriously about planning for retirement, as they would have a more concrete idea of how much they will need to save to fund the lifestyle they want. The proposed single tier system could, therefore, increase the level of personal responsibility and empowerment for retirement planning, but other barriers remain in place that also impacts the actions people feel they can take. That said, considerable communications effort may be needed to ensure any real impact on people’s planning – customers for whom State Pension age is a long way off are unlikely to pay much attention to it personally.

In discussing the various transition models it is clear that their underlying complexity and the varying amounts of pension that arise undermines the overall simplicity and certainty of single tier. However, at root, people indicated that they are essentially individually focused and much less concerned about others – they want to avoid losing out themselves from reform; respondents are much less concerned about the simplicity and fairness of single tier – certainty, particularly for themselves, is generally much more desirable.

Finally, it is important to remember that elements in the policy detail will also have a significant impact on how it is viewed by customers:

- transition has the potential to obscure the benefits of simplicity and certainty;
- people who have contracted out of the State Pension view their State and private pensions as separate entities;
- the benefits of certainty can easily be undermined by cynicism that it may all change again. Anything offering greater certainty (for example, a guarantee for a certain number of years, cross-party support) will be important in encouraging people to act.

1 Introduction

1.1 Background to the research

Demographic changes in the UK mean that life expectancy is increasing, with the ratio of people eligible to claim the State Pension relative to the working population rising. At the same time there has been a long-term decline in the level of private saving for later life. In response, Government has introduced automatic enrolment, whereby eligible workers are being automatically placed into workplace pensions with an employer contribution, unless they decide to opt out. To run alongside this initiative, the Government announced its intention to reform the State Pension so that it provides a foundation of support whilst encouraging people to take greater personal responsibility for planning and saving for later life⁵.

The complexities of the current multi-element State Pension typically mean that people are unaware of how much they will receive, when they will receive it or how it is calculated. One proposal as set out on page 25 of *A State Pension for the 21st century*⁶ is to simplify the system and provide greater certainty by combining the elements into a single amount with eligible future pensioners receiving a flat rate of around £140 per week. This would be paid on an individual basis, rather than currently by marital status, and would be set above the current means-tested limit for the basic level of Pension Credit. The aim would be to provide people with a stronger understanding of the State Pension – both to inform them that the state will provide a basic income that they will be able to rely on, and to help them make decisions about how much more they will need to save for their retirement.

The DWP's Green Paper 'A State Pension for the 21st century' also set out an option for a faster flat-rated system (which would accelerate the pace of existing reforms so that the State Pension evolves into a flat-rate, two-tier system more quickly). This system was not explored within this research although it is possible to draw parallels between faster-flat rating and the current system as they share a two-tier element.

1.2 Research aims and objectives

As part of thinking about the optimal policy for a reformed State Pension and prior to taking any policy decisions the Department for Work and Pensions (DWP) commissioned this qualitative research to explore perceptions on whether the proposed single tier⁷ system was simpler and fairer than the current system and whether it offered certainty with regard to the amount that people will get that might impact an financial planning for later life.

The research also explored views and understanding around a number of individual concepts such as means-testing, qualifying years, automatic enrolment, contracting-out and the transition from one scheme to another, as well as language and communications testing.

⁵ <http://www.dwp.gov.uk/consultations/2011/state-pension-21st-century.shtml>

⁶ <http://www.dwp.gov.uk/docs/state-pension-21st-century.pdf>

⁷ We have used the name 'single tier' in line with option 2 in *A State Pension for the 21st century*, although in Chapter 7 reference is made to potential alternative names for a reformed State Pension system.

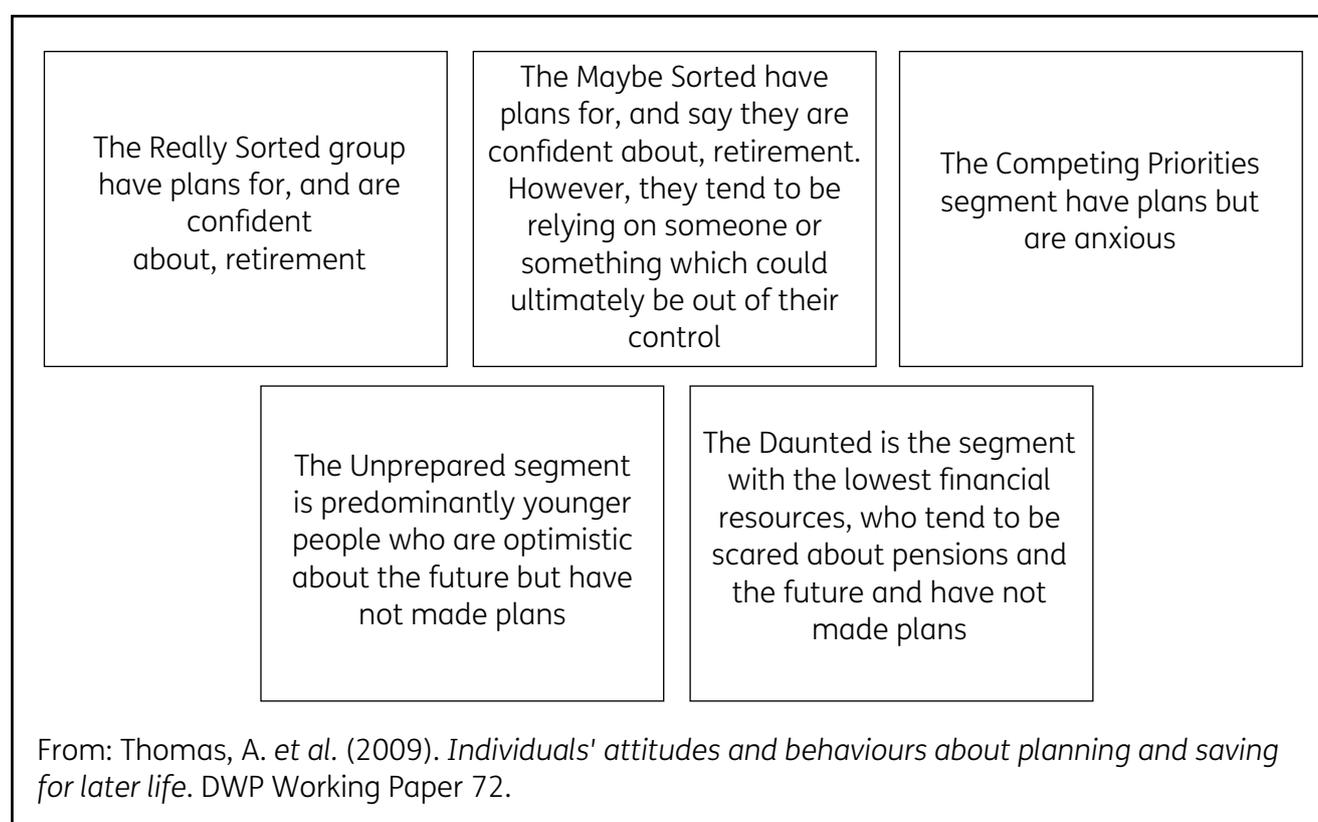
1.3 Methodology

The research was wholly qualitative in approach, using a series of focus groups and workshops to explore understanding about the present State Pension system and facilitate discussion about potential alternatives. This approach provided the ideal opportunity to present a wide range of stimulus materials and debate potentially complex issues that people may not previously have engaged with in any depth.

Sampling for this study was wide ranging in terms of age and income level, drawing from all those who might be entitled to receive the State Pension. There was also a deliberate emphasis on those who remain confused about their retirement finances or who have yet to plan their retirement financially, as these were considered to be the most relevant groups of people within the context of the pension reforms.

To achieve this, participants were selected according to characteristics from DWP's Planning and Saving for Later Life segmentation. This tool captures two important dimensions – financial confidence and retirement planning – which have been shown to be key issues for ensuring adequate finances in retirement.⁸ The segmentation comprises five types of people: Daunted, Unprepared, Competing Priorities, Maybe Sorted and Really Sorted (see Figure 1.1). The main focus of the research was therefore on the Daunted and Unprepared segments, with a secondary focus on those who have undertaken some planning but were perhaps not confident about their financial future (Competing Priorities and Maybe Sorted segments).

Figure 1.1 DWP's Planning and Saving for Later Life segmentation



⁸ Thomas, A. Jones, J. Davies, S. and Chilvers, D., (2009). *Individuals' attitudes and behaviours around planning and saving for later life: Findings from qualitative and quantitative research*, DWP Working Paper 72.

Participants were recruited using ‘free-find’ methods, a screening questionnaire being used to determine their eligibility for inclusion in the research. Fieldwork was conducted over the period January to October 2011 in four stages, each stage feeding iteratively into the next:

- **Stage 1** – A pilot stage to test the overall approach and research tools. This involved two focus groups, each comprising six middle income respondents aged 35-50, and was held in London.
- **Stage 2** – Main-stage research incorporating 12 focus groups, each comprising six to eight respondents. Respondents were recruited to reflect a broad spread of demographic characteristics and in order to build on previous pensions’ research the groups were structured according to DWP’s segmentation of attitudes and behaviours around planning and saving for later life⁹ (see Figure 1.1). Four of the focus groups comprised respondents who indicated they were solely reliant on the State Pension for their future retirement income. The focus groups took place in three locations (London, Birmingham and Manchester).
- **Stage 3** – Follow-up research comprising: two workshops with 15 respondents exploring transition issues arising from contracting-out of the additional State Pension; and three focus groups designed to explore the views of younger people, each group comprised of six respondents and split by age (20-25; 25-30; 30-35).
- **Stage 4** – Follow-up research comprising: six focus groups of six to eight participants. Respondents were recruited to reflect a broad spread of demographic characteristics. The groups explored respondents’ views about the issue of transition and their understanding and reactions to alternative transition models. The purpose of the discussions was to explore how people trade off benefits of speed and length of transition, fairness, simplicity and certainty in light of the different models. They also sought to gather insight into how to (or how not to) communicate the issue.

A profile of the research participants is provided in the next chapter, with the composition of the group discussions tabulated in Appendix A.

Each group discussion was moderated by an independent facilitator, using topic guides developed in conjunction with DWP. Copies of the screening questionnaire and topic guides may be found in Appendix B. A wide range of stimulus materials was used to encourage discussion and promote debate (see Appendix C). The findings were subject to a full content analysis, which forms the basis for this report.

1.4 Report outline

Following this introduction, the report comprises eight chapters:

- Chapter 2 provides an overview of the consumer context against which the research was conducted;
- Chapter 3 provides a profile of the research participants in terms of their plans for retirement;
- Chapter 4 explores the participants’ views about the current State Pension system and unprompted ideas for what an ideal State Pension system might comprise;
- Chapter 5 considers participants’ reactions to one proposed option for State Pension reform, a single tier pension, in terms of simplicity, certainty and fairness;

⁹ Thomas, A. Jones, J. Davies, S. and Chilvers, D., (2009). *Individuals’ attitudes and behaviours around planning and saving for later life: Findings from qualitative and quantitative research*, DWP Working Paper 72.

- Chapter 6 focuses on issues associated with the transition from one system to another, in particular exploring reactions to the principle of State Pension contracting-out;
- Chapter 7 explores the potential impact of the State Pension reforms on planning for retirement;
- Chapter 8 considers some of the language and communications issues involved in moving from the current to a single tier system; and
- Chapter 9 draws the findings together to highlight conclusions from the research.

Throughout the report, issues are illustrated with verbatim quotations drawn from transcripts of the group discussions.

2 Consumer context

This chapter looks very briefly at the consumer context and the environment in which the changes to the State Pension were discussed. The various stages of research were carried out over a period of nine months, and so this context did shift over the course of these stages. However, there are a number of constant themes which acted as a backdrop to the way consumers reacted to possible changes, relating to the uncertainty and volatility in the economy and more broadly in society.

2.1 Economic volatility

The fieldwork was conducted at a time of great economic instability, both globally and in the UK. The backdrop of the Euro debt crisis, instability in the US and continued volatility in the UK economy meant that people felt in a position of great uncertainty. Consumers generally were feeling the pinch, with unemployment rising and many people facing job insecurity. This was exacerbated by the rising cost of living, particularly in terms of energy, fuel and food. The response for many consumers in a time like this is to rein in their expenditure and be more planned and considered in their household budgets.

As a result of this, anything that seems to offer people greater certainty and the ability to plan for the future was generally welcomed.

2.2 Relationship with Government

The fieldwork was carried out at a time of great political change. Throughout the research, there was a narrative of cuts to public spending running in the background. In addition, cynicism about political and public life was running high, in the aftermath of the MPs' expenses and the News of the World telephone-hacking scandals.

This affected consumers both directly (in the case of public sector workers worrying about their jobs) and indirectly (with the expectation that public services would be rolled back and benefits become less generous and that unseen ulterior motives for change would probably be in play). Looking at any changes to State Pension policy, consumers generally, therefore, were anticipating what was going to be cut or taken away, and how the Government was going to save money.

2.3 Pensions and later life context

Finally, changes to the State Pension were explored against a backdrop of what seemed to consumers as ever-moving goalposts in terms of pensions and saving for later life. A lot of media attention was given during the fieldwork to the changes to State Pension age (and the changes in decision about exactly when this would happen). Additionally, many of those employed in the public sector were facing changes to their occupational pensions. Furthermore, many of those with private pensions had recently seen the value of their investments drop sharply as a result of the global financial crisis.

The consequence of this is that respondents were generally cynical about the longevity of any changes announced. Many respondents believed that any changes to the State Pension would only be short-term, and that subsequent governments would probably change them again, thereby reducing any benefits in terms of the ability to plan ahead.

3 Planning for retirement

This chapter provides a brief overview of the research participants in terms of the amount of money they thought they might need to live on in retirement and any financial plans they had.

3.1 Understanding future income and expenditure

People generally understood that retirement income could be made up from a number of sources, spontaneously mentioning the State Pension, private and workplace pensions, property (including property they and/or their families lived in, and property bought solely for investment purposes), and other savings and investments, such as ISAs and company shares. Indeed, for many, and particularly younger participants, pensions were seen as only part of their retirement package, with other investments, such as property and savings, seen as more flexible, tangible, and easier to understand than pensions. These various income sources were generally quite separate in people's minds, with little thought given to what their combined retirement income would be, or even what the individual elements would provide.

Indeed, across the sample of participants generally there was widespread uncertainty about their retirement income, not just in terms of what they expected to receive from their existing savings and investments, but also what they thought they might need to maintain their desired lifestyle during retirement. To some extent this reflects a lack of prior consideration, but it also highlights general confusion about financial expectations. When asked to estimate how much participants felt they would need in retirement, responses ranged widely from £75 to £500 per week, although typically falling around £200 per week. The range of estimates broadly reflected differing income expectations, whereby those who had existing plans in place, were closer to retirement age, and living in London tended towards higher estimates. In contrast, younger participants and those on low incomes tended towards lower estimates, perhaps reflecting their lower (and in some cases naive) lifestyle expectations:

'You don't need much when you're old. You won't be going out much, will you?'

(35-50, Medium income, Unprepared, Manchester)

In addition, there was considerable variation across the sample of participants in their knowledge of additional entitlements in retirement. While the Winter Fuel Allowance, and bus passes were well known, there was much less certainty about Housing and Council Tax Benefits, free prescriptions and Pension Credit. Those most aware of these entitlements tended to be older participants, or younger people with elderly relatives. Even so, although there was a general awareness of these entitlements, very few had any detailed understanding of the financial help that was available in retirement.

3.2 Financial planning for retirement

In order to consider how the pension reforms might impact on financial planning, the sample of participants was categorised according to their current approach to planning for retirement. Three broad groups emerged:

- those who had existing plans in place;
- those who intended to save in the future; and
- those who were resigned to being unable to save for retirement (see Figure 3.1).¹⁰

Figure 3.1 Retirement plans

Planners	Intending to plan	Resigned
Existing plans for retirement	Intending to start saving for retirement in the future	Resigned to being unable to save for retirement
Typically Competing Priorities and Maybe Sorted segments	Typically Daunted and Unprepared segments	Typically low income, and Daunted and Unprepared segments
Active planners more likely to be closer to retirement and saving regularly; passive planners more likely to be 35-50 with (frozen) work pension schemes	Intentions to make plans at some point in the future; may have frozen work pensions or cite property as ‘back up’ (but lack confidence in these plans)	May not have thought about their financial future; feel unable to save and resigned to reliance on the State Pension

Each of these three groups are considered in more detail:

- a) **Planners** – These participants had existing plans for retirement income and tended to be within the **Competing Priorities** and **Maybe Sorted** segments. These participants were either actively building up their retirement income (active planners) or had some plans in place but were not currently saving (passive planners):
- **active planners** – tended to be participants who were closer to retirement age and who were saving regularly through a combination of work and private pension schemes, alongside other investments, such as buy-to-let property and savings; and
 - **passive planners** – tended to be younger participants who had some plans already in place, such as frozen workplace pensions and other investments, and despite not currently saving regularly, were relatively confident about their future income.

¹⁰ NB: The sampling approach adopted for this research means that the **Really Sorted** segment was deliberately excluded (see Section 1.3)

It is important to note that in this group, participants' retirement plans frequently included expectations about property equity and inheritance. Therefore, despite their confidence (relative to other groups), these participants may be relying on sources of income that could be out of their control.

- b) **Intending to plan** – These participants were currently in a state of limbo, with an intention to save for retirement but either lacking motivation or confused about the best way to save. Participants in this group typically came from either the Unprepared or Daunted segments, reflecting the distinct reasons for their inadequate retirement plans respectively (motivation/confusion). While some people in this group already had some plans in place, such as frozen workplace pensions or other investments, participants lacked confidence that these would provide a sufficient retirement income. Indeed, this group were characterised by concerns about the return on investments specifically and the unpredictability of the financial services sector generally, frequently mentioning issues such as Equitable Life and pension plans that were declining in value.
- c) **Resigned** – Participants in this group felt unable to save for retirement and had resigned themselves to relying on the State Pension for their retirement income. They typically included low income participants from both the Daunted and Unprepared segments. While they may not have thought about their financial future in great detail prior to this research, they felt unable to put money aside. They took the view that they could not afford to save now and would have to reduce their standard of living in retirement:

'Well there is no way I can save. We barely make ends meet now so it's impossible. We will just have to rely on the state and cut down.'

(Low income, 50-State Pension age, Unprepared, Manchester)

Despite the fact that some participants were actively saving for retirement, initial reactions to questions about financial planning for retirement were not generally met with great enthusiasm, with participants describing a resistance to, and in some cases, a fear of the subject.

'When you think about the future, you worry about it. So I try not to think about it.'

(Low income, 35-50, Unprepared, Birmingham)

Resistance to retirement planning was most pronounced among younger participants, for whom retirement was considered 'a long way off' and who cited more pressing priorities to consider before retirement plans, such as housing and family costs.

For others, there was a fear about financial planning. This was for four main reasons:

- general concerns about the unpredictable nature of the financial services industry, with Equitable Life often being raised;
- the very low rate of return on savings;
- pressure on their disposable income due to the increased cost of living; and
- a general unease about 'confusing' financial issues (including, but not necessarily restricted to, pensions).

People on very low incomes and who had not made any financial plans for retirement were particularly fearful of thinking about their financial future. From media reports they understood that some pensioners live on relatively low incomes; they also feel that given their current low income and increasing expenditure they are unable to save. They fear that they too will not have enough

14 Planning for retirement

money to live on in retirement yet at the same time see no way out of their constrained financial situation.

In the light of these views, the following chapter considers people's views about the current State Pension in terms of how it is made up, its value and its role.

4 Views about the current State Pension

This chapter focuses on participants' views about the current State Pension system. Focusing initially on their spontaneous understanding of how the State Pension system worked and its role in providing a retirement income, participants were then presented with a simplified overview of its key components – basic State Pension and additional State Pension – with views sought about its simplicity and fairness.

4.1 Understanding of the current State Pension system

Widespread perceptions of the current State Pension system were that it was 'complex' and 'confusing'. Typically, participants had only a vague understanding about how it was made up, what it was for, how it was calculated, what it was worth and at what age they might receive it.

'[The current State Pension] is not very transparent is it? Because it's something that every worker has to do in Great Britain and we would expect it to be quite simple.'

(Male, 20-25, Birmingham)

Where participants expressed any knowledge, albeit 'patchy', this was in most cases based on experiences of relatives and friends who were currently receiving the State Pension.

People appeared to be most confident when discussing the **purpose of the current State Pension system**, which was assumed to be two-fold: firstly, to ensure that no pensioners lived in poverty, and secondly, to reward workers for their tax and National Insurance contributions. The priority accorded to these two purposes varied across the participants, broadly reflecting their views about what the State Pension should be for.

Participants had very limited knowledge about **how the State Pension was calculated**, revealing occasional awareness of some of the broader principles but very little of the practical details. For example, there was some awareness that the State Pension was linked to contributions, but only the more financially astute participants recognised a link to National Insurance contributions specifically. There was a sense that you 'build up' the State Pension entitlement over time, but not that this involved 30 qualifying years to reach the full basic State Pension entitlement, let alone the on-going link between contributions and the additional State Pension. There was also some awareness about being able to build up entitlement using National Insurance credits, but not about what this entailed or who would be eligible.

The State Pension was generally viewed as a single entity and there was very little awareness of its constituent parts – the **basic State Pension** and the **additional State Pension**. In particular, participants needed considerable prompting before acknowledging the additional State Pension, although this seemed to be better recognised as 'SERPS'. Even so, there was a general lack of understanding about SERPS (see Section 6.1). Beyond the vague link to contributions, mentioned above, there was very little understanding of how these distinct elements were calculated or indeed, why there were two elements at all.

'There can be too many variations within [pensions] whether it's State Pension or, you know, company pension or whatever, there are that many different bits of it that make it all up at the end of the day, it just gets too confusing.'

(Female, 35-50, Unprepared, Manchester)

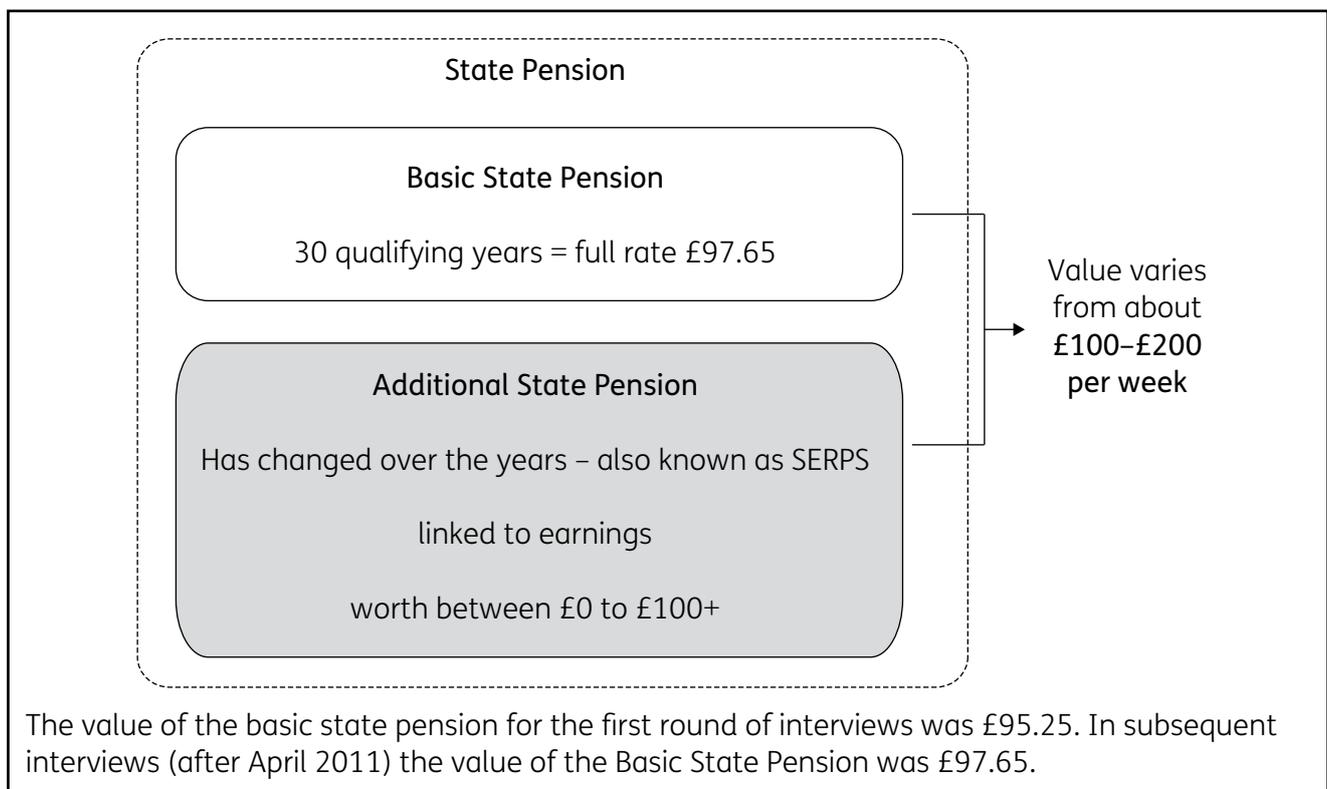
'I was younger and we were asked about opting out of SERPS. I just did it because everyone else was. I have no idea what that means.'

(Lower income, 35-50, Unprepared, Birmingham)

This perception of the State Pension as a single entity was further complicated by discussions of **Pension Credit**. The term 'Pension Credit' was not widely recognised and, once explained, was associated more closely with people's understanding of Income Support. The concept itself was not felt to be particularly complicated, reflecting people's knowledge about other means-tested benefits. However, the principle of this benefit proved controversial, particularly when considered alongside the potential cap on State Pension contributions (see Section 5.1.3).

As with other areas of knowledge about the current system, participants were very unclear about the **value of the current State Pension**. Estimates ranged from £40-200 per week, typically falling at around £100 per week. The broadest range of estimates was cited by younger people, for whom the value was perhaps less relevant given the length of time before their retirement and who were perhaps less able to draw on the experiences of relatives or friends who currently received the State Pension. There was some recognition that pensioners can get different amounts, but only vague awareness of the reasons for this. Discussions about the complexity of the system and the lack of clarity about how entitlements are calculated prompted some concern that pensioners may not get the right amount or all they were entitled to.

Figure 4.1 A simplified version of the State Pension



After being presented with a simplified version of the State Pension system (see Figure 4.1), there was a little more recognition that the State Pension had more than one component. When told the current value of the basic State Pension it was generally acknowledged that it would only be sufficient to cover the 'basics', and would therefore not provide for a 'comfortable' retirement. As long as the State Pension genuinely did cover the basics and no pensioners were left destitute, it was

generally thought to be up to individuals to find a way of managing or to make plans to provide for any additional comforts themselves.

‘At least we have got something later on in life to rely on that is guaranteed. It might not be a lot but you are going to have to learn how to manage.’

(Low income, 35-50, Daunted, London)

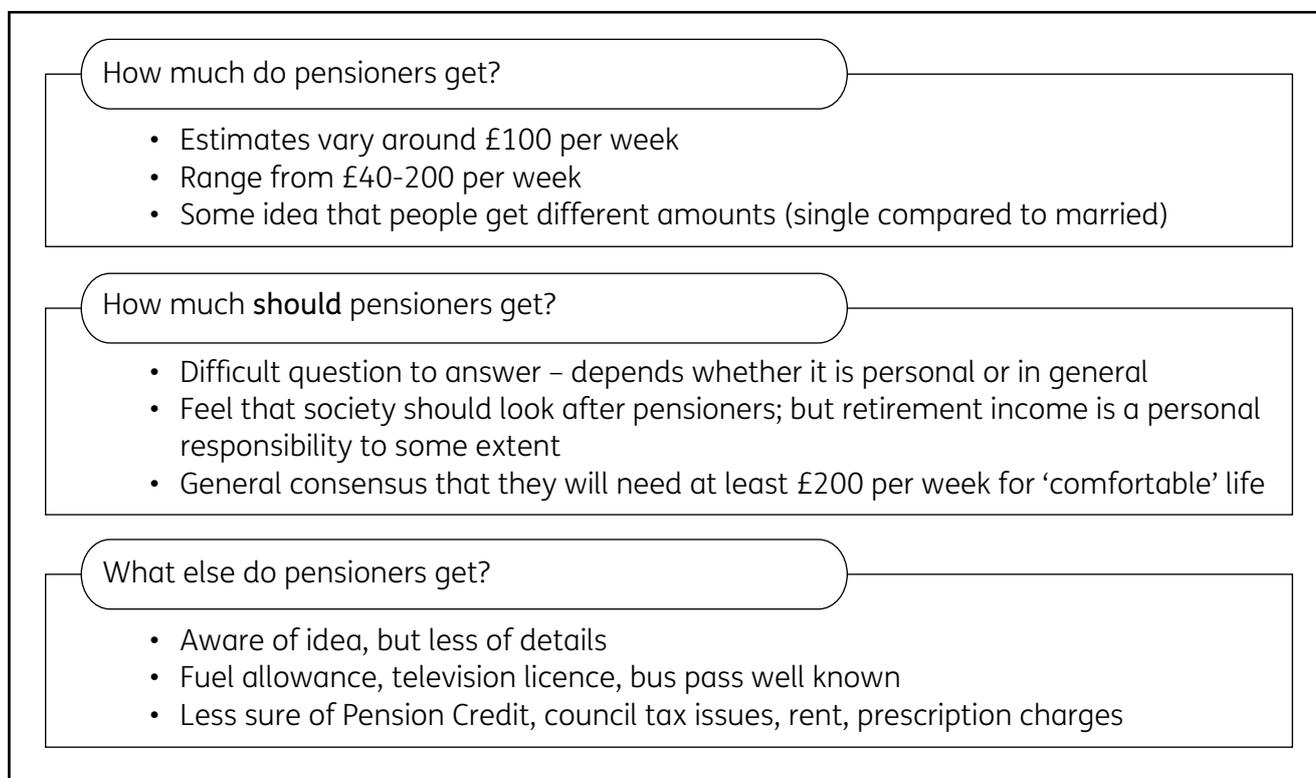
However, as noted in Section 3.1, participants generally estimated that they would need at least £200 per week for their retirement income. For those who would be solely dependent on the State Pension for their retirement income there was a general assumption of additional support with rent, council tax, and prescription charges. Those who were aware of Pension Credit knew that this qualified them for additional financial help.

‘I think that once you actually qualify for Pension Credit it kicks in other things doesn’t it, like your council tax and what have you, so your Pension Credit actually becomes more than that figure. If you don’t qualify for Pension Credit you pay your council tax, etc. So that can actually be worth a lot more for you. Now in the alternative does that mean nobody is going to qualify for any other benefits so the Government will benefit?’

(Medium income, 50-State Pension age, Maybe Sorted, Manchester)

Nevertheless, they also assumed that they would have to reduce their standard of living as they were unable to save (see Figure 4.2).

Figure 4.2 What pensioners are thought to receive and require in retirement



4.2 Views about the simplicity, fairness and impact of the current State Pension system

Participants were asked about their views of the current system, in terms of its simplicity, fairness and impact on planning for retirement.

Views about the simplicity of the current system were fairly united. As noted above, the current State Pension system was overwhelmingly felt to be confusing and complicated. This may be explained, at least in part, by the fact that participants had very limited knowledge and understanding about the State Pension prior to taking part in this research. However, the lack of certainty about how much participants thought they would receive from the State Pension and reactions to information about how the system currently operates, strengthened these perceptions of complexity.

'When I see that [current State Pension], I switch off. It's got too many options. It just starts to go over my head.'

(Lower income, 35-50, Unprepared, Birmingham)

In particular, calculating entitlement was felt to be particularly difficult.

'The problem with not knowing what you're going to get [under the current system] until a few years before you retire is that it's a bit late by then.'

(Higher income, 50-State Pension age, Maybe Sorted/Competing Priorities, London)

Those who had applied for pension forecasts from DWP (only a small number) had either struggled to understand the outcome or, in some cases, had struggled to receive an outcome at all. This difficulty was attributed to perceptions of an opaque calculation, which was compounded by the number of components that make up the State Pension. Debates around this area prompted cynicism about increased opportunities for errors, and even 'stitch ups' by the Government to withhold peoples' entitlement.

'I'd always worry about being diddled [with the current system]. I prefer to know exactly where you are.'

(Higher income, 50-State Pension age, Maybe Sorted/Competing Priorities, London)

In terms of **fairness**, views were more mixed. The principle of the additional State Pension was felt to fit with the idea of the State Pension being a reward for working, and was therefore considered a fair approach to calculating entitlement. However, this fairness was to some extent undermined by the idea of Pension Credit, which ran counter to the principle of rewarding workers for their contributions. Further to this, Pension Credit was assumed to be a route into other benefits, meaning that people who had saved for their retirement would be relatively disadvantaged and miss out on additional help, particularly if they were near the income or capital thresholds. These concerns held true, albeit less comfortably, even if recipients of Pension Credit were considered to be 'deserving', such as people who were unable to work through ill health or disability. Even greater concern was expressed about providing support to people who were thought to have deliberately spent their life out of work and receiving state benefits.

In spite of these views, participants also maintained that the State Pension should act as a safety net to ensure that all pensioners are supported during their retirement. This appeared to be based on the idea that a fair society should look after the elderly, and that no one should live in poverty in old age. At the same time there was some debate about who should be entitled to receive the State Pension. On the one hand there was the view that the 'super-rich' should not receive the State

Pension because they do not need it. On the other hand, the super-rich have paid their contributions and are therefore entitled to receive it. The apparent contradiction between these distinct concepts of what is fair highlights the complexity surrounding principles of fairness in relation to the State Pension.

It was acknowledged by participants that the complexity and **uncertainty** of the current system was certainly one of the barriers to planning for retirement.

'It seems crazy that you don't know how much you're going to get until the moment before you get it.'

(Lower Income, 35-50, Unprepared, Birmingham)

Indeed, once participants became aware of the typical value of the State Pension, many vowed to start saving to make up the perceived shortfall between this and their expected income. However, as discussed earlier in Section 3.2 there were a number of barriers that they thought would undermine their good intentions.

4.3 Ideas for a new State Pension

Having discussed the current State Pension participants were asked as part of the research process to think about how they might design an alternative and what the key features might be. Not surprisingly participants, particularly younger participants, found it difficult imagine a revised or ideal system, but nevertheless considered that any alternative should have certain features. For the participants in this research the State Pension should:

- provide a safety net and be set at a level high enough to cover the basic costs of living;
- reward people for working through a link to the level of contributions they have paid;

'If we have paid in all our working lives, we need to make sure we get what we are owed.'

(High income, 50-State Pension age, Maybe sorted/Competing priorities, Manchester)

- be simple to understand with a single state source of retirement income. In this respect, participants thought that having the basic State Pension set at £97.65 and the basic level of Pension Credit at around £132¹¹ was completely illogical;

'Basically, at the moment everyone can have up to £132 because if you have got below it, if your State Pension is £97.65 and you have not got savings they are obviously going to give you the Pension Credit to top it up to £132. So basically you might as well say that everyone now is on a minimum of £132.'

(High income, 35-50, May be sorted, London)

'It should be really simple so when you reach that state, or even maybe five years or ten years before you reach that age you more or less get an idea... of how much you have got to live on in the future so you know whether to do something to top it up or you can spend a bit. You should have some idea before you reach that rather than get to 65 and think bloody hell I have got nothing, you know.'

(Lower income, Female, Unprepared, London, Reliant solely on the State Pension)

- provide clarity about how much the State Pension will be worth.

¹¹ This was the amount of the basic Pension Credit at the time of the interview.

In addition there were strongly held views about who should be entitled to a State Pension. Some participants were of the view that if a person has deliberately not worked during their lifetime, for reasons other than ill-health, disability, or caring, then they should not be entitled to a State Pension.

‘And if they haven’t worked, if they were long-term unemployed, not for illness or disability reason, if they just decided that they’re going to be that bloody minded that they’re not going to work at all then they shouldn’t be eligible.’

(Medium income, 35-50, Unprepared, Manchester)

On the other hand, people who had saved privately for their retirement should not be financially penalised; equally, those approaching retirement should not be denied what they are ‘owed’ – older generations should not be punished for the financial problems facing younger people.

Spontaneously, participants started to weigh up simplicity and fairness but found it difficult to come to a definitive conclusion. For example, while the lower income groups favoured clarity in the form of a universal safety net, others tended to be more concerned by fairness in the form of rewarding people for working through a link with their contributions.

Underpinning these views about single tier were more deeply engrained views about Government spending and the financial services industry. From the participants’ point of view there were concerns that the Government was looking to reduce reliance on the state and trying to deal with an ageing population. In so doing there were fears that they were likely to worse rather than better off. At the same time, they were concerned about how investments such as pensions and general savings were poorly performing meaning that the State Pension would be become more important in their retirement income.

5 Introducing the single tier system

This chapter explores participants' reactions to an alternative State Pension – the 'single tier' State Pension, which is one of the two options presented in the DWP consultation paper¹². In each of the research sessions, respondents were introduced to an outline idea of a single tier based on assumptions at the time. However, no policy decisions had been made. This outline was explored first before more in-depth investigation of the detail.

The outline explained the following:

- everyone who qualifies for the full State Pension would receive £140 a week;
- to qualify for this amount people would need to have 30 qualifying years of National Insurance contributions or credits;
- individuals cannot build up more than £140 per week;
- the amount is calculated on an individual basis – whether recipients are single, married or widowed.

5.1 Reactions to a 'single tier' pension

Initial responses to the idea of a single tier pension were broadly positive, particularly in comparison to the current State Pension. This positive reaction was particularly evident among respondents who had some knowledge of the complexity of the existing State Pension, and had experienced frustration with not knowing how much it was worth.

For respondents who knew little about the current State Pension, the alternative did not look to be anything particularly new or radical, especially as most had always thought of the current State Pension as being made up of a single amount.

Their response was driven by three main considerations: the amount, simplicity and certainty, and fairness.

5.1.1 The amount

The illustrative amount of £140 was the key piece of information that initially stood out most to respondents. For many this was slightly more than expected as most had estimated the State Pension to be significantly lower than this (Section 3.1). Additionally, the research was conducted at a time when there was a large amount of media attention regarding Government spending cuts, public sector pensions being scaled back, a general squeeze on benefit payments and the increasing difficulty in gap in income provision for retirement. This meant that respondents were generally anticipating a reduction in the value of the State Pension and were therefore generally surprised at the amount.

Despite the positive views about the amount that would be paid through the single tier, the general consensus was that £140 is not a generous amount, but might cover the basics for living in retirement and would keep pensioners out of poverty. This provoked four different responses:

¹² A State Pension for the 21st century – <http://www.dwp.gov.uk/docs/state-pension-21st-century.pdf>

- while there was relief that there would continue to be some financial support in old age, there was also frustration that this was a fairly meagre reward for a long history of National Insurance contributions;
- for those currently living on benefits, this might represent a slight rise in income, and represented relatively good news;
- for participants who indicated they would need a high level of income in retirement, the single tier was seen as insufficient; and
- the single tier was roughly in line with expectations, and therefore a possible encouragement to save more;

Whilst there was a generally positive view about the likely amount of the single tier, participants nevertheless found it hard to assess the value that £140 would represent in retirement, and the extent to which it would cover their expenses. This was due to a number of different factors:

- the difficulty in predicting how much they would need to live on in retirement;
- a lack of certainty about what else they could expect to receive (such as free bus travel, council tax discounts); and
- a lack of knowledge about how inflation impacts this figure.

5.1.2 Simplicity

Simplicity was a clear benefit of the single tier and stood out as an obvious improvement over the current system. A set, clear amount with just one mechanism for qualification was seen as much more straightforward. Being simple and straightforward was seen to aid comprehension. Respondents felt that a better understanding of the State Pension would give people more confidence in thinking about the future and a better starting point to plan from, which in turn was seen as offering peace of mind.

In addition to offering advantages to future recipients of the State Pension, simplicity was seen potentially to offer a benefit to the State. Respondents assumed that a simpler State Pension system would be simpler to administer and communicate to people, which in turn would lead to cost savings. This was often seen as the rationale for changing the system, as respondents generally struggled to believe that any changes would be made for the benefit of individuals.

The fact that the single tier appeared to be a significant simplification raised some questions among respondents. Without providing an explanation about why this is happening, respondents wondered whether there might be some kind of catch. It was generally seen as unlikely that all individuals would profit from this change, and so respondents were also curious as to who would lose out from the system. The question of whether a simpler system would be fairer or not was also raised.

5.1.3 Fairness

Respondents found it difficult to make a clear judgement about whether the single tier was fairer than the current State Pension or not. This was largely because respondents thought about fairness in different ways – how straightforward it was, its gender equality, or its ability to recognise the number of years a person had worked. Overall, the single tier was seen as fairer because it was:

- straightforward and therefore easy to understand for everyone, regardless of levels of financial literacy; and

- fairer as nearly everyone would receive the same amount: it is equitable. This was seen as an improvement on the current system in that it encompassed greater gender equality, and did not ‘penalise’ couples or people who had not been able to be in paid employment for all their working lives (such as people with disabilities or carers).

However, the way in which the requirement for a maximum total of 30 years National Insurance contributions contributes to the fairness of the single tier system was the subject of considerable debate amongst participants. Generally, views were mixed about whether this was fairer than the current system or not. Thirty years was generally seen as a sufficient length of time to acknowledge effort. However, participants with patchier contribution records (e.g. people who had been unemployed, parents who had stayed at home to look after children), thought that 30 years was a challenging target. There was not widespread knowledge of National Insurance credits, and when the idea of credits was explained to respondents, some were, to some extent, reassured but the lack of knowledge about how to check on your record meant that people were still unsure about whether they would qualify or not. Others, primarily those who were wedded to the idea of the State Pension fully reflecting their National Insurance contributions, raised a big question regarding the value of working and contributing beyond 30 years, with a view that inevitably there will be some winners and losers.

‘The people who lose out are the ones who’ve been earning a big wage for a long period of time...maybe they should have made provisions for their pension anyway.’

(Medium income, 35-50, Unprepared, Manchester)

Respondents tended to feel that the limit was rather arbitrary, and there did not appear to be any rationale for capping the number of qualifying years.

‘So with the alternative [State Pension] would you still have to pay the same amount of National Insurance even though you weren’t accruing any more? Well the way it looks there the Government is going to save money aren’t they, because we are still paying the National Insurance.’

(Medium income, 50-State Pension age, Maybe Sorted, Manchester)

Some of the differences in opinion about the merits of the single tier can be explained by participants’ differing attitudes to risk. Those who were more risk averse tended to have a more favourable view of the alternative system, because of its certainty – a defined income for a defined number of qualifying years. Even some respondents who felt that they might be better off under the current system preferred the peace of mind that this certainty would bring.

However, those who were more willing to embrace risk and uncertainty were more inclined to see the possible benefits of the current State Pension system and thought that the possibility of receiving more under the current system was worth the risk. This was particularly so for the higher earners who felt they would achieve a greater number of qualifying years and were willing to trade certainty off against the potential to get a higher State Pension in retirement.

5.1.4 A ‘hybrid’ approach to the single tier

For some participants, especially those on lower incomes and who were more risk averse, the trade-off between simplicity and fairness was not acceptable. They could not accept the idea of paying National Insurance contributions for more than 30 years without reaping some benefit. At the same time, while they recognised that automatic enrolment into a workplace pension scheme would potentially enhance their retirement income there were risks attached. This group of people wanted to be rewarded for working more than 30 years in a risk-free way – they wanted a simplified form

of the additional State Pension, where post-30 year contributions are recognised but are not salary-related as with the current system. They suggested that each additional qualifying year would ‘buy’ a defined additional amount of pension, irrespective of the level of National Insurance contributions paid. This would provide certainty, greater transparency in terms of the calculating the amount of pension to be received than the current system, and minimum risk to the individual.

5.2 The impact of Pension Credit and means testing on views about the single tier State Pension

During the research sessions, the idea of the single tier was introduced to respondents at first without reference to means-tested benefit and Pension Credit. Respondents were then introduced to the idea with the following explanation:

- The Government ensures that people should not have to live on a weekly income below £132.60.
- People who have an income below this after State Pension age can apply for Pension Credit to top up their income. Pension Credit is means tested – so your savings and any other sources of income are taken into account.
- Pensioners have to fill out an application form with details of different sources of income, to determine if they are eligible for Pension Credit. It is not added to their pension automatically.

Respondents had very little prior knowledge of Pension Credit and how it applies to the current State Pension system. For most, it was the first time they had heard of this idea, or the first time they knew any details. It therefore took a fair amount of time and discussion for people to feel they understood how the system worked.

Pension Credit muddied the waters in two ways: First, the current level of Pension Credit suggested to participants that the state was admitting that the State Pension was too low:

‘They’re actually saying [with Pension Credit] that what we’re actually giving you [basic State Pension of £97.65] isn’t enough.’

(Medium income, 35-50, Unprepared, Manchester)

Second, means testing and Pension Credit introduced an additional layer of complexity to respondents’ evaluation of the single tier, often meaning that issues such as fairness and simplicity were harder to weigh up. After some consideration, generally respondents could see two sides to the issue. On the one hand, it seemed that means testing was a disincentive to contribute and work towards 30 years of National Insurance contributions. As such, it appeared to undermine one aspect of fairness.

‘It’s a bit unfair for those that have put the time in, to only get £8 more.’

(Low income, 35-50, Unprepared, Birmingham)

‘I don’t think that’s fair personally. I don’t think it’s fair. I started working at 18. I have worked 41 years now, another ten to go. That’s going to be 51 years I’ve been working...[I] will have worked for 20 years for somebody else...Yes, so I should have the benefit for those 20 years, as simple as that, within the state.’

(Low income, 50-State Pension age, Unprepared, Manchester, solely reliant on the State Pension)

On the other hand, it appeared that Pension Credit reinforced the idea that the State Pension system is designed to be a safety net, helping those most in need of a source of income in retirement. Respondents could therefore see the value in having this in place, and that it could be seen as making the system fairer.

'If Pension Credit is only for people having a really rough time then it's fair that they should get help.'

(Medium income, Birmingham)

Following the introduction to the ideas of means testing and Pension Credit, the impact of the introduction of the single tier was explained. It was outlined to respondents that under the proposed new system, fewer pensioners would have to top up their retirement income with Pension Credit (roughly ten per cent of pensioners under the alternative system as opposed to around 40 per cent eligible in the existing State Pension system).

Respondents generally found it hard to comprehend exactly why this would be the case, and to what extent this was an advantage. This was largely because respondents were now being introduced to a large volume of new ideas and concepts, many of which they were considering for the first time. However, following discussion, a proportion of respondents could see three distinct advantages of a system which meant that fewer pensioners were reliant on means-tested benefit:

- it might mean that more pensioners would receive what they are entitled to, with fewer people missing out because of a lack of knowledge or access to the system;
- it would reduce the proportion of pensioners having to go through the potentially awkward process of applying for Pension Credit;
- it had the potential to reduce administration, saving time, money, and effort for both the Government and members of the public.

'So they don't burden themselves with an extra whole load of staff who have to deal with processing all those claims that are going to come in and have all the costings to do with that. It's £140. If you don't come up to £140, yes, then you can apply.'

(Medium income, 35-50, Unprepared, Manchester)

6 Transition to the single tier system

This chapter focuses on two inter-linked issues – contracting out and transitioning from the current State Pension system to single tier.

For many years it has been possible for people with workplace, personal or stakeholder pensions to contract out of the additional State Pension scheme¹³. In practice, this means that at retirement, the income that a person will receive will be made up of at least two components. These are the State Pension itself and the person's workplace, personal or stakeholder pension, part of which will have been funded by the contracted-out element of the State Pension. The third stage of the research looked in depth at people's understanding of contracting-out, as well as how this impacted on people's views of the single tier.

After the introduction of single tier there will be a period of transition due to the need to take account of the pensions people have already accrued under past systems and ensure people do not lose out on these past accruals. The fourth stage of the research focused on the reactions of participants to the idea of having a transition period as well a number of potential transition models.

6.1 Contracting-out

In the third stage of the research, some of the sessions explored the implications for those who had contracted out of the additional State Pension. It was explained to respondents that in the event of moving from the current State Pension system to the single tier, people who have previously contracted out of the State Pension system would receive a pension that is made up of their entitlement from the State plus an amount from the contracted-out element of their private or workplace pension.

Discussion of contracting out was initially quite difficult because of a lack of knowledge about the concept.

'I've not actually heard of contracting out, is that basically they are going to contract it out to sort of like private companies?'

(30-55, London workshop)

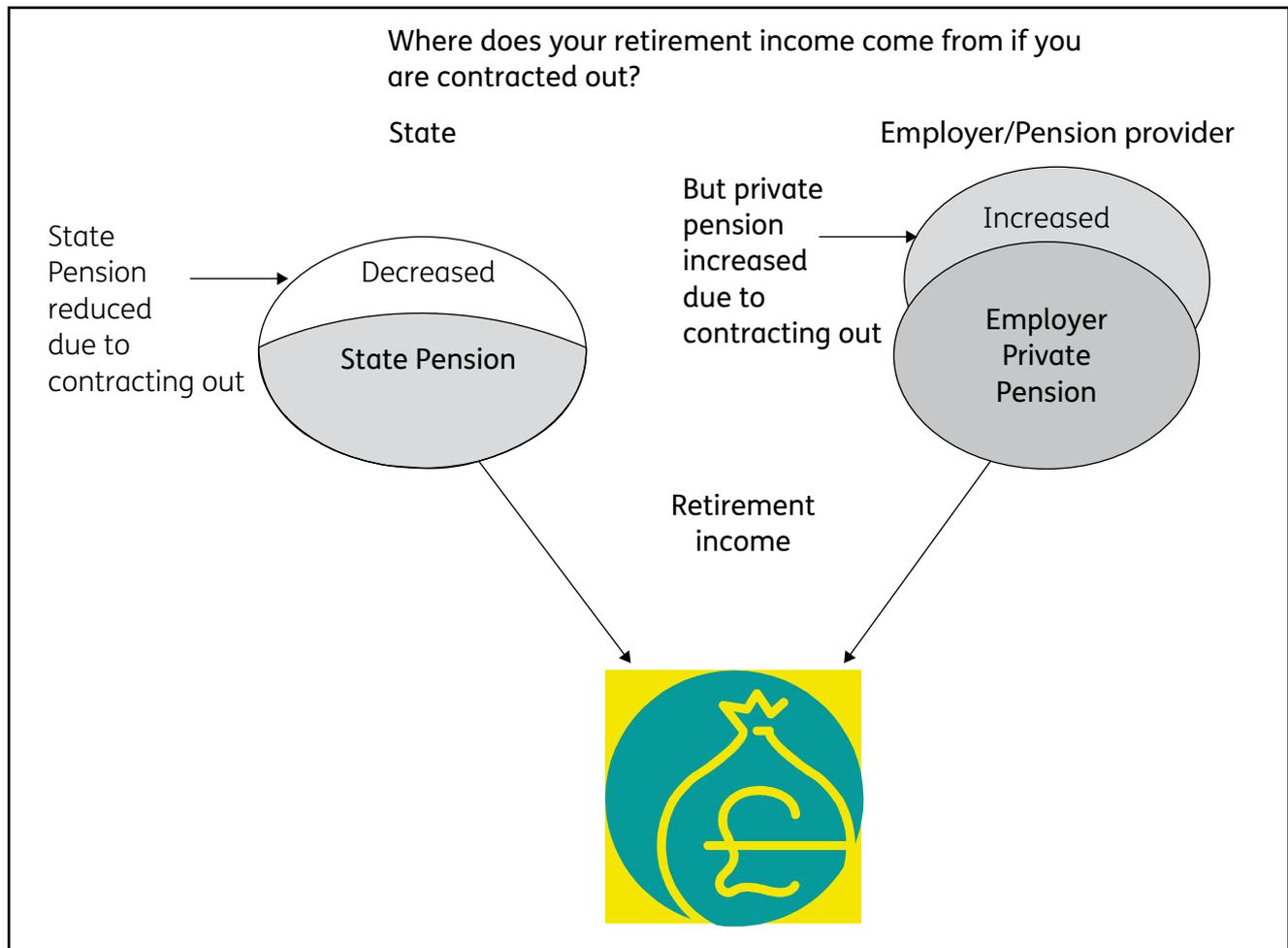
Indeed, as the discussions progressed, some participants did not know if they had contracted out of the additional State Pension scheme; others realised that they had done so, but had forgotten all about it.

'My problem is, I don't know whether I've contracted out of SERPS or not. I've no idea how I could find that out.'

(Higher income, 50-State Pension age, Maybe Sorted/Competing Priorities, London)

Various ways of communicating the issue of how contracted-out pensions are paid were explored with respondents who had at some point in their lives contracted out of the State Pension (see Figure 6.1 for an example).

¹³ Contracting out of the additional State Pension changed in 2012. From 6 April 2012, it is no longer possible to contract out through a money purchase arrangement.

Figure 6.1 Describing how contracted-out pensions are paid

Communicating how contracting out impacts on the composition and amount received from a State Pension proved to be a challenging issue for respondents. This was in part because of mixed levels of knowledge about how contracting out works, but also because of the complexity of many individuals' circumstances, particularly those who had gone through different periods of being contracted in and contracted out of the additional State Pension.

'I've heard that if you put money into a personal pension it gets taken out of your State Pension.'

(Lower income, 35-50, Unprepared, Birmingham)

Among those with a reasonable level of understanding of contracting out, it was generally recognised that the contracted-out element of their retirement income was **completely separate** from the State Pension. This is largely because people see it is a completely separate 'mental pot' of money and they have chosen to treat it very differently. It was, therefore, felt that any attempt to explain that the single tier amount '*comes from the State Pension and part of your employer pension/private pension*' was extremely confusing. Overall, the messages explored in the research that tried to combine state and employer/private pension pots were seen as unacceptable and misleading. In this respect, participants felt very strongly that trying to communicate the amount of the single tier by combining earnings from the State and personal or workplace pensions totally undermined the simplicity, certainty and fairness of the single tier.

Participants acknowledged that the issue of how contracted-out contributions would be handled with a single tier pension was a tricky one, as it involved the communication of a number of complex issues. Communication messages that acknowledged some of the complexity, but also set out the issue in line with how respondents generally think about their pensions savings (i.e. earnings from contracted-out private pensions being completely separate from the State Pension) were seen as more honest and useful.

Under single tier, contracting-out will no longer be possible. People who currently contract out pay reduced National Insurance contributions; when contracting-out is no longer possible their National Insurance contributions will revert to the contracted-in level (an increase from their current position). Very few respondents recognised this. When it was explained to them, their initial complaints about paying National Insurance contributions for longer than the 30 year qualifying period were reawakened.

It was very clear participants were keen not just to receive generic information about how contracting out affects State Pensions, but also information that was personalised to their specific circumstances and National Insurance record, and that provided a clear explanation of what the financial consequences were for them.

6.2 Views about transition

In order to understand the issue of transition more fully, the fourth stage of the research had this as its focus.

DWP asked us to explore two potential transition models, both taking into account the number of contracted-out years a person has on their pension record in the calculation of their State Pension. However, prior to discussing these specific models, the general idea of transition was discussed.

6.2.1 General views about transition

The research participants were introduced to the idea of transition and were told that the following would apply:

- no one will lose out;
- National Insurance contributions and credits already paid will be recognised;
- any changes would apply to future pensioners only, existing pensioners would be unaffected.

Generally, this seemed a logical way to bring in a new system and most participants assumed that this would be the case. There were very few questions about how the new system would transition in, although some recognised the impact of contracting-out and acknowledged that there might be complex issues regarding the recognition of National Insurance contributions already made. Following further discussion of the topic, respondents who began to think through the practicalities of the transition to the new system could see that a transition period would, to some extent, undermine the benefits of simplicity and certainty of the alternative system; specifically, that it could take a long period of time before everyone received the same amount from the State Pension scheme.

Among a small section of respondents, the issue of transition was an important one to address. These respondents tended to be close to State Pension age, and were, therefore, anxious to know whether the contributions they had already accrued would be honoured, but were generally reassured that this would be so.

Having discussed the general issue of transition with respondents, they were then asked to consider two transition options that varied in the speed with which people were brought into the new pension system – an ‘Immediate introduction’ and ‘Gradual introduction’ of single tier. The purpose of discussing these issues was not as potentially viable solutions, but to get respondents to consider some of the issues involved with transition. These were introduced verbally and the pros and cons discussed; material was then provided (Figure 6.2) to prompt thoughts about the consequences of these transition approaches. In order not to prejudice people’s opinions by presenting them with named scenarios, these options were referred to as Options A and B, respectively.

Figure 6.2 Stimulus explaining extreme transition models

Show card 8 Options A & B	Transition from the current State Pension to the alternative State Pension	
<p>All new pensioners receive a full State Pension of £140 from 2016</p>	<p>Only people starting work for the first time in 2016 can receive a full State Pension of £140</p>	
<ul style="list-style-type: none"> • All new pensioners with 30 years of National Insurance contributions receive £140 straight away. • No complicated calculations. • People who have paid different amounts of National Insurance because they contracted in/out will receive the same State Pension. • Some people who have built up more than £140 will lose out on what they have been entitled to. • Two people with the same histories but born a day apart could get different pensions. 	<ul style="list-style-type: none"> • Does not interfere with people who are already building up their State Pension. • There are no winners or losers who get more/less than they were expecting. • People get what they ‘sign up’ to when they start paying National Insurance. • Everyone entering the workforce would have the new pension and receive the same amount. • It would be a very long time – 40 to 50 years away – before the alternative State Pension starts being paid. 	

Option A (Immediate introduction) was, overall, well received as it brought about reform in a quick and straightforward manner, even though respondents recognised that there was some lack of fairness by introducing single tier in this way as it could penalise those people with the potential to receive a higher State Pension. Against a background of increasing economic uncertainty and workplace pension scheme volatility, the considered view was that it was better for people to receive a State Pension of £140 sooner rather than later and not to worry about any unfairness.

‘There’s always going to be winners and losers in everything. If you get into it too much it just gets far too complicated.’

(35-49, Never contracted out, Birmingham)

By contrast, the ‘Gradual introduction’ transition scenario was seen as being completely fair as it recognised fully a person’s National Insurance contribution record but it was far too slow and ‘*not a genuine option for reform*’. This option was seen as ‘*a vote loser*’; it may be simple but it removed any degree of certainty for the existing workforce.

6.2.2 Views about transition – The alternative transition models

Following the discussion of the two extreme transition options of ‘Immediate introduction’ and ‘Gradual introduction’ of single tier, two alternatives were introduced. These were referred to as Options C and D, respectively. The order in which these two models were introduced to respondents was rotated so as to negate any order effects – three groups heard about Option C first, three groups heard about Option D first.

The two transition scenarios were introduced with both textual and graphical information (see Figures 6.3 – Option C; 6.4 – Option D).

Figure 6.3 Option C

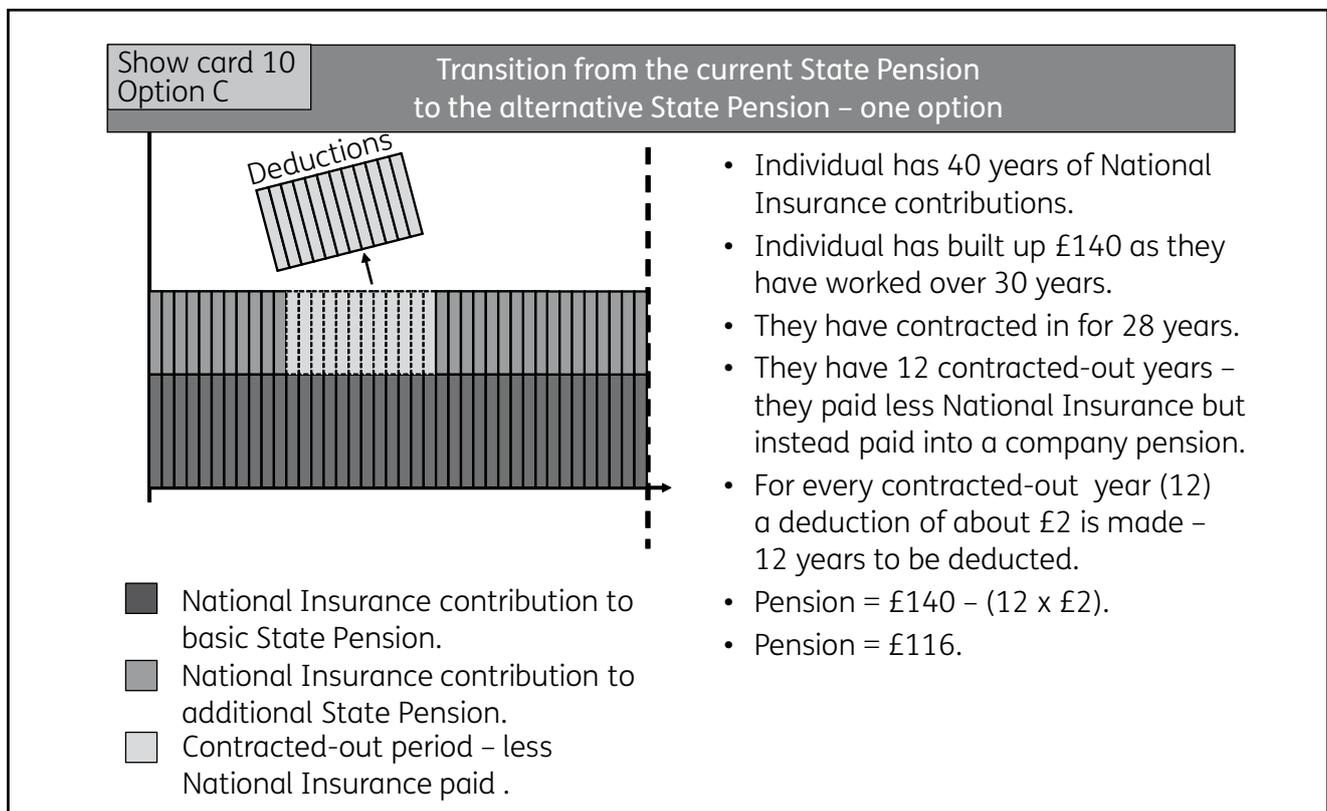
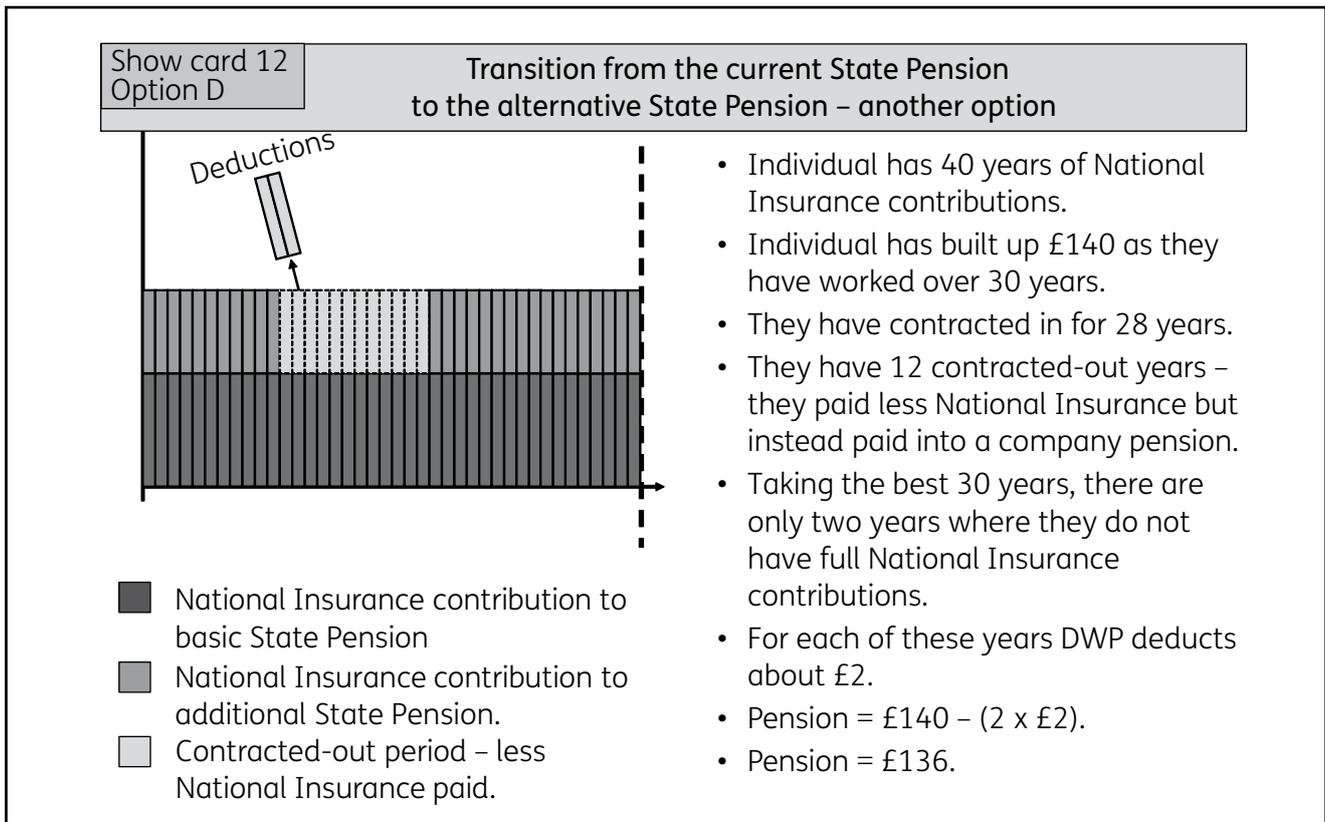


Figure 6.4 Option D



Respondents in the group discussions varied considerably in their speed and ability to understand these transition models. The level of financial capability and the extent to which they understood the concept of contracting out were clearly important determinants in their level of understanding. Nevertheless, the combination of text with graphical explanations proved to be very effective in communicating the key aspects of each model.

The pros and cons of each transition option are shown in Figure 6.5 and discussed.

Figure 6.5 Respondent perceptions of the pros and cons of each transition option

	Option C	Option D
Pros	<ul style="list-style-type: none"> • Intuitively makes sense. • Easy to understand concept. • Relatively simple calculation. • Easy calculation for DWP. 	<ul style="list-style-type: none"> • Intuitive if conceived as ‘cherry picking’. • More generous than Option C. • Double counting National Insurance contributions makes up for poor private pension performance. • Scale of deductions has (relatively) limited impact on certainty.
Cons	<ul style="list-style-type: none"> • Lack of understanding why all contracted-out years are taken into account, when only 30 years required. • For the same contribution record, the amount of State Pension deducted is high compared to Option D. • Scale of deductions undermine certainty. 	<ul style="list-style-type: none"> • Description technically more complex. • More expensive for Government.

Overall, respondents presented with the transition Option C first found it easier to understand the principles involved in both options, compared to those who were first presented with Option D.

Option C made good sense to people, both technically and in terms of the principle of recognising people’s individual National Insurance contribution records. Compared to Option D, the calculation that would be made was clearer and simpler because it was a case of simply counting the number of contracted-out years and subtracting them from the total number of contribution years. It was also seen as an easier, and therefore cheaper, calculation for DWP to make.

However, there was a lack of understanding of the overall rationale for this approach. If a person only required 30 years of National Insurance contributions, some respondents questioned why **all** the contribution years were being taken into account, hinting that Option D’s approach would be more rational.

In addition, the scale of reduced State Pension resulting from the calculation considerably undermined people’s sense of pension certainty, even when reminded that DWP would provide them with the greater of two calculations – one under the current State Pension system and one under the alternative scenario.

‘It’s definitely fairer as people who have paid in have that taken into account, but it’s more complicated for people to understand.’

(35-49, Never contracted out, Birmingham)

Option D was seen as a more difficult concept to understand, especially for the less financially capable. However, some respondents hit on the idea of ‘cherry picking’ the best contribution years which immediately made the concept simpler to others. Apart from being more complicated and more expensive for DWP, respondents generally saw this option in a more favourable light, although

there was some cynicism about the generosity of the approach in the current climate of reducing Government expenditure. Overall, for the same contribution record, Option D was more generous; deductions were much smaller compared to the Option C approach which meant that there were less concerns expressed over the certainty of the amount of State Pension they would receive.

‘At the end of the day, [when you retire] you go from a working salary to £140 a week – it’s going to have a massive knock-on effect. Anything we can do to contribute to people who have contributed themselves is going to be a good thing.’

(35-49, Never contracted out, Birmingham)

In previous stages of the research there had been a desire for fairness and for people’s contribution records to be taken into account. However, people had changed their views about fairness. This may, in part, be due to the fact that stage 4 of the research included a number of public sector, or ex-public sector workers, together with the increasing economic uncertainty and pension scheme variability that were increasingly concerning people. Respondents were generally much less concerned about reducing the State Pension for people who had contracted out of the state system, taking the view that the Option D approach was helping to make up for the poor performance of workplace and private pension schemes.

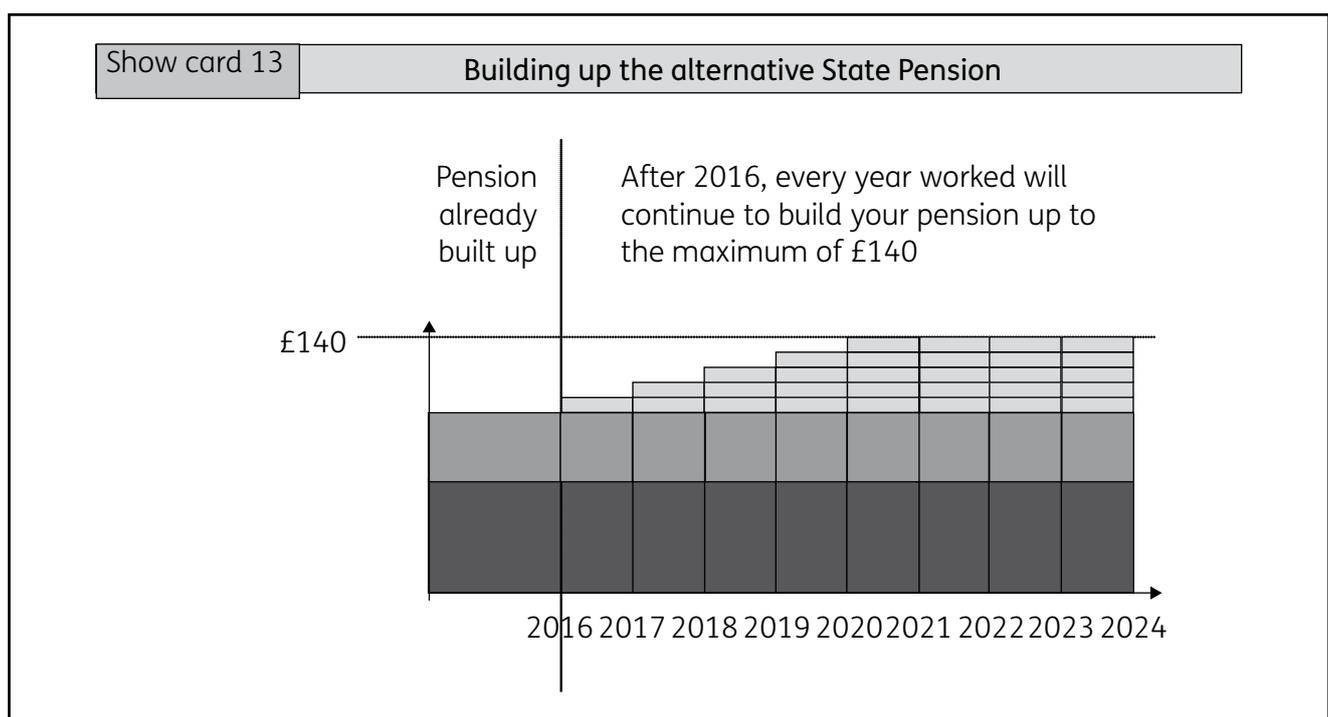
‘The private pensions aren’t performing anyway, and we were led to believe they would. [Under Option D] they’re guaranteed their £140.’

(50-60, Previously contracted out, Birmingham)

6.2.3 Building up a single tier pension

Some people will not have achieved a full £140 under either the current or single tier pension systems. Under Option C and Option D there will be an opportunity for people to build up their State Pension (Figure 6.6), thereby seeing some form of financial recognition for contributions paid and/or credits received after 2026.

Figure 6.6 Stimulus illustrating how the single tier pension can be built up



Reactions to the ability to build up a single tier pension to £140 was highly valued, especially when it was explained that people who were currently contracted out would experience an increase in their National Insurance contributions from their currently reduced level to the contracted-in rate under single tier (see Section 5.1); they welcomed the fact that additional working years would add to their State Pension and allowed the facility to build up to £140.

'It still encourages people to work longer doesn't it, which is what they want, because it's an ageing population.'

(35-49, Never contracted out, Birmingham)

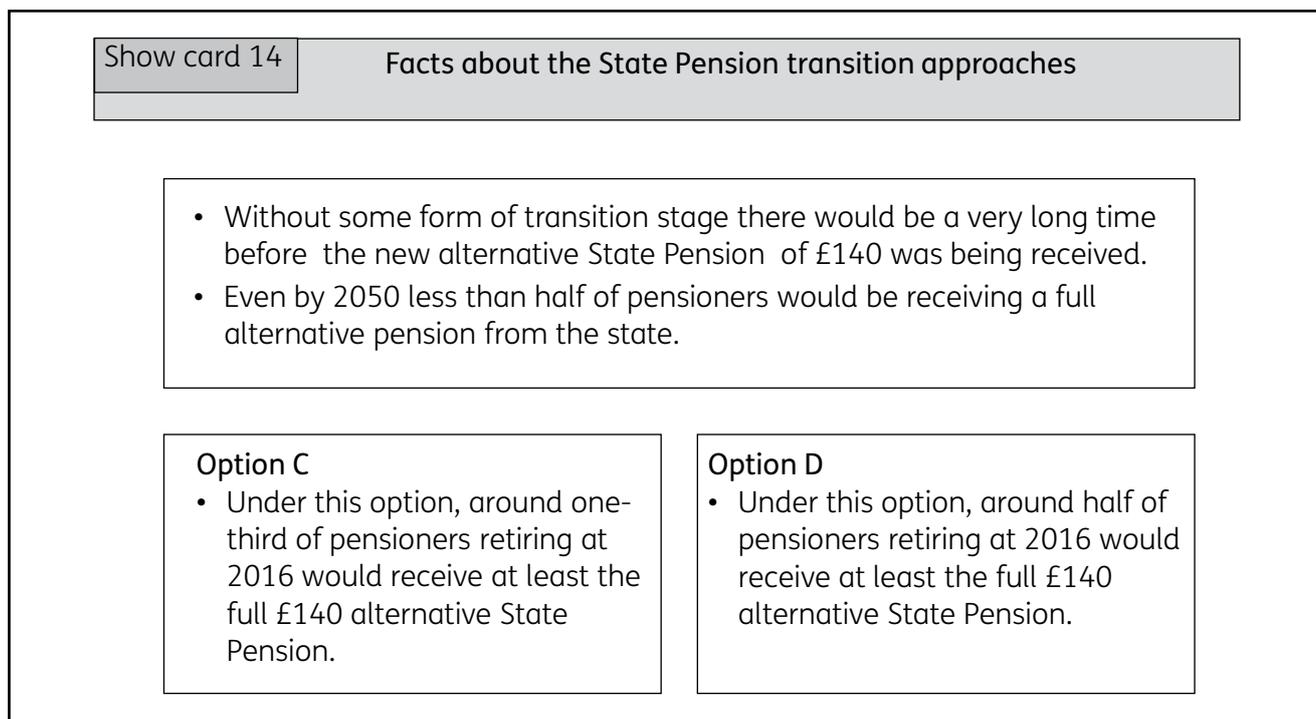
However, enthusiasm for the facility to build up the State Pension is very much tempered by the limit of £140. As in the earlier stages of the research, respondents were keen on the idea of the more years they work, the greater their State Pension – *'getting out what you put in'*. The limit of £140 means that people who may only need, say, two years of contributions to reach the £140 limit, but have ten years to State Pension age, feel somewhat aggrieved that their continued National Insurance contributions are being 'wasted'¹⁴.

Assuming that the 'build up' facility is a future option, respondents were keen that they are informed of the level of pension they have built up as soon as possible after the introduction of the single tier so that they can make informed choices about whether, and how long, they may need to work in order to gain the full £140.

6.2.4 Overall reactions to the transition models

Further information was provided to respondents that showed how pensioners generally would benefit under the various transition models (Figure 6.7).

Figure 6.7 Stimulus illustrating transition approaches



¹⁴ This reflects the fact that few respondents recognise that National Insurance contributions are used to pay for a variety of state services and not just the State Pension.

Respondents oscillated in their views about the relative importance of simplicity, fairness and certainty. While respondents initially thought that an 'Immediate introduction' transition would be the simplest to implement and provide the greatest degree of certainty, there was concern about its lack of fairness. This was partly because it would not take into account prior National Insurance contribution records, and partly because it gave people little time to make up any shortfall, especially those close to retirement age.

'Telling someone when they retire that they're two years short is going to be the biggest blow. Give me five years' notice and I can plan for that. Have a cut off point, but have a five or ten year notice period to allow people to forecast.'

(Lower income, 35-49, Never contracted out, Birmingham)

Both Option C and Option D made sense to people, once they had been through the process of understanding how the State Pension system and contracting out work. Both were seen as good, generous options, with Option D seen as being the most generous to both individuals and to pensioners generally, as more pensioners benefit under this option.

Despite the clarity of the materials used to describe the transition options, their underlying complexity and the varying amounts of pension that arise undermine the overall simplicity and certainty of the single tier. However, at root, people indicated that they are essentially individually focused and much less concerned about others. Providing the calculations are undertaken in the same way for everyone, that individuals are given a clear indication of what their own State Pension pot is worth, as well as a clear indication of what they need to do to attain a full £140, respondents are much less concerned about the simplicity and fairness of a single tier – certainty is generally much more desirable.

7 Perceived impact of the single tier pension system on planning for retirement

Participants in the research identified a large number of barriers to planning ahead – such as income level, complexity of pensions, and attitudes to risk. Although the current State Pension system was not specifically mentioned as an issue it is clear that the lack of certainty about the amount likely to be received contributes to these barriers rather than alleviates their effect. This chapter therefore focuses on how the single tier might impact on people's approach to pension planning. As Automatic Enrolment¹⁵ into a workplace pension scheme started to roll out from 1 October 2012 the potential behavioural impact of the pension reforms and Automatic Enrolment were also explored.

7.1 Views about the potential impact of the single tier State Pension on retirement planning

A system that is seen as complex and does not allow people to know how much they can expect to receive in retirement was thought to make it more difficult for people to think about their future. From the point of view of being able to plan ahead, respondents felt that having a greater degree of certainty about the amount of State Pension they could expect to receive might help them plan better for the future.

'I now know what I've got to plan to [single tier]...with the other one [current State pension], I'm unaware, a bit nervous, frightened.'

(Medium income, 50-retirement age, Daunted, London)

'I think it's great to be told how much it is [single tier]. I don't feel much has been said about the [current] State Pension. At my age, I should be thinking about this kind of thing.'

(Lower Income, 35-50, Unprepared, Birmingham)

It was therefore felt that the single tier system explored in the research could have a positive impact on people's ability to plan, by giving them a more concrete, definite starting point. Knowing how much they could expect to receive from the State generally meant that people could make a more definite decision about what lifestyle they would like in later life and therefore what they would additionally have to do to achieve it.

'In some respects it probably will [help people plan] because at least they'll know then and they'll know what they have to do additionally to help towards their future, do you know what I mean. I mean for like basic pay people it would probably help, rather than people in big jobs.'

(Medium income, 35-50, Daunted, Birmingham)

¹⁵ Automatic enrolment will mean that eligible workers will be automatically placed into their employer's qualifying pension scheme without any active decision on their part, although they will have the right to opt-out.

The extent to which the single tier would affect planning differed a little according to respondents' current state of planning and preparedness:

- For respondents who had **definite plans**, the single tier generally acted as confirmation that they were doing the right thing to be saving for retirement and often gave them a better idea of how much they would need to save themselves.

'It's interesting seeing that amount. It makes you think. I've never really thought of the State Pension as part of my retirement income anyway. Whatever I get from the State is only pocket money.'

(Medium income, 50-State Pension age, Maybe Sorted, Manchester)

- For those with **loose plans or intentions**, a more definite amount brought the future into sharper focus and potentially reduced some of the barriers to financial planning that were connected to uncertainty. Knowing how much they might receive from the State could potentially be a spur to turning plans into action.

'If you know what you're getting from the start it's a sort of building block, you can plan what you need for your lifestyle.'

(Medium income, 35-50, Daunted, Birmingham)

'I suppose if you were thinking about saving it might tip you over...or it could make you more relaxed as you know you've got something to start from.'

(Medium income, 35-50, Competing Priorities, Birmingham)

- For respondents **without any plans for retirement**, discussion of the single tier reinforced the belief that the current State Pension only covers the basics. It was felt that this might provoke people into thinking more seriously about how to make other plans to save, although they often mentioned a low income as a key barrier to turning such thoughts into action.

'I think you'd start saving more if you knew this.'

(Low income, 50-State Pension age, Daunted, Birmingham)

'The other one [single tier] sets the platform, so if you want your luxuries, you know what you have to step up to get your desired standard of living.'

(Medium income, 35-50, Competing Priorities/Maybe Sorted, Birmingham)

Despite having the potential for making retirement income more certain and concrete, and therefore, impacting on people's intention to plan more, respondents generally felt there would still be many factors that made it difficult to save for later life.

'You can't afford to put it [money] by can you if you get a low wage.'

(Low income, 35-50, Daunted, London)

The single tier does not address many of the practical reasons why people find it hard to plan, such as other financial pressures, lack of immediate imperative and uncertainty around the best way to save.

Nevertheless, single tier **does** provide a clear indication of what the State will provide, allowing people to make their own decisions as to whether and how they make additional plans for their retirement. For those who consider that their retirement plans are already in place, single tier

provides a confirmation that the State Pension is only likely to cover the basics; for those with loose plans, or no financial plans at all, single tier can act as a wake-up call by providing a concrete indication and a 'building block' that people can rely on and make further plans, if they feel they are in a position to do so.

'[On single tier] I can trust it, I can rely on it, I can budget for it.'

(Medium Income, 50-retirement age, Daunted, London)

7.2 The link with automatic enrolment

Respondents were introduced to the idea of automatic enrolment, and the connection between this idea and single tier was explored. The idea of automatic enrolment was introduced with the following information:

- employed people not already in a workplace pension scheme, earning over £7,500¹⁶ and aged between 22 and State Pension age will be automatically enrolled into a workplace pension scheme;
- workers can opt out;
- workers contribute four per cent of salary (£41 per month for someone earning £18,000 per year);
- total contributions amount to eight per cent of salary with additions from employers and tax relief¹⁷.

The idea of being automatically enrolled into a pension scheme provoked a variety of reactions from respondents. These ranged from relief and gratitude, to confusion, and to anger and frustration:

- participants who were relieved were generally glad that something was being done and that they (or others) were being encouraged to save and that it was largely being done for them;

'It is making you responsible from an early age, it's no good when you are 18 and you think you are indestructible, you get to 50 and suddenly you have wasted 40 years, you know 30 years, so that is good.'

(Low income, 50-State Pension age, Unprepared, Manchester)

- those who were angry were generally suspicious of the timing of the State Pension reform and thought that the motives were more about Government cost-cutting rather than a nudge towards greater financial security. They were also opposed to the idea of being 'forced' into a scheme that was not of their choosing:

¹⁶ This figure was the proposed earnings threshold at the time the research was carried out between January and October 2011. The actual threshold is currently £8,105 for 2012/13 and this will be increased to £9,440 in 2013/14. See *Automatic enrolment earnings thresholds review and revision 2013/14* (DWP 2012).

¹⁷ Employer and employee contributions will be phased in from October 2012 to a minimum total contribution of eight per cent of qualifying earnings by October 2018. The minimum employer contribution will initially be one per cent. This will rise to a minimum employer contribution of two per cent in October 2017 and to a minimum of three per cent by October 2018.

'I mean the Government have been saying that everybody should be forced to go into a pension scheme. That's okay if they will turn round and tell you how much they are definitely going to give you at the end of your working life when you qualify for your old aged pension. So if the Government is going to bring in compulsory pensions for everybody they have got to turn round and tell them exactly how much you are going to get.'

(Medium income, 50-State Pension age, Maybe Sorted, Manchester)

- for a third group of participants, there were reactions of confusion and uncertainty, with questions about the affordability of such a change and how it would work in practice.

Participants' feelings about automatic enrolment largely dictated how they felt about the two concepts together. Those who were positive and welcoming of the idea of automatic enrolment could see it working well with changes to the State Pension, with the single tier acting as a foundation which would then be supplemented by savings made through a workplace pension. The two ideas seemed to work well together and complement one another.

'It makes you think about planning for the future, doesn't it? You'd have to make a conscious decision to come out of it, wouldn't you? It jolts you into doing something.'

(Medium income, 35-50, Unprepared, Manchester)

Those who were less positive about automatic enrolment were generally looking for the negative implications and saw automatically enrolled pensions as a potential replacement for the State Pension. Most of the negative reactions were driven by aversion to the risks associated with private pensions. These views were typically held by people who had either lost money, or knew people whose expectations had not been met, through their private pension arrangements.

'I'm not a gambler really – I like to know what I'm getting.'

(Medium income, 50-State Pension age, Daunted, Manchester)

Younger respondents (aged 20-35) generally saw a good fit between automatic enrolment and a single tier. This was largely because they could see the benefit to them of accruing financial savings over a longer period of time. Spontaneously, many younger respondents offered the view that the single tier would cover the basics and an automatically enrolled pension would help provide for a more comfortable lifestyle in retirement. Based on the minimum contribution levels into an automatically enrolled pension scheme, the more savvy or ambitious questioned whether this combination alone would be enough to provide the retirement lifestyle they might want and saw this as a starting point to providing for retirement rather than a complete solution.

8 Communications issues

This brief chapter considers the key communication issues arising out of the research and focuses on three aspects: how the function of the State Pension might be communicated; participant views about a range of names for the alternative State Pension; and the communication of the State Pension in relation to contracted-out pensions and transition approaches. Communication was not a particular focus of any of the research, but a number of issues emerged throughout the course of conducting the study which are useful to report here.

8.1 Communicating the function of the State Pension

The way in which respondents described the idea of the single tier related largely to the benefits of simplicity and certainty. Descriptors used included ‘simple’, ‘straightforward’, ‘basic/covers the basics’, ‘guaranteed’, ‘transparent’, ‘predictable’ and ‘maximum’. Respondents thought that having something that applied ‘across the board’ would give people ‘peace of mind’. It should be noted, however, that many of the descriptors relate to how respondents would like the alternative State Pension to work. There is a slight danger of over-promise with some of the descriptors (such as ‘straightforward’), that the reality may not fully live up to the desired theory.

‘For goodness sake let’s have it simple without all this rigmarole and parliament talk.’

(Low income, 50-retirement age, Unprepared, London)

8.2 Views about names for the single tier State Pension system

A number of different possible names for the single tier were explored in the research. While no one name emerged as clearly the most obviously suitable to participants, reaction to the alternatives explored may help shape how the idea could be communicated to the public. The words ‘flat rate’ were seen as broadly descriptive of the concept, and therefore, accurate. However, it was not seen as inspiring description and conveyed little of the benefit. The word ‘national’ was deemed more appropriate than ‘universal’, the latter being seen as inaccurate as not everyone would in fact get the same amount of State Pension. Participants liked the idea of descriptions which alluded to the concept of certainty, as this was seen as a key benefit of the single tier. Although some respondents could see the sense in the word ‘foundation’ as a descriptor, it was felt that it was possibly too prescriptive about the function of the State Pension. For some, being a foundation is realistic, and how they think about the State Pension. For others, however, particularly those on lower incomes, it was seen as placing too much responsibility on the individual with the State trying to relinquish its duty.

8.3 Communicating the State Pension and contracted-out rights

Participants were very wary about the motives behind any change to the State Pension. In a climate of budget cuts, there was a feeling that any change is likely to result in a less generous State Pension, and that some people will lose out. It is very important, therefore, that communication of changes is very straightforward and transparent, and works from a starting point of people’s limited existing understanding of how the State Pension, and pensions more generally, work. Any attempts to communicate that either burden people with too much detail immediately or that run counter to the way in which people currently conceive pensions as working could severely undermine the benefits of a reformed system. It was, therefore, felt that any attempt to explain that ‘£140 comes from the State Pension and part of your employer pension/private pension’, undermined the simplicity, certainty and fairness of the single tier. Messages that tried to combine State and employer/private pension pots were seen as potentially confusing or even misleading.

8.4 Communicating transition messages

A need for a period of transition if a single tier system was introduced was acknowledged by respondents. It was felt that the period of transition should be neither too long, as this defeats the purpose of the reform, not too short, as this makes it difficult to plan for the future and take any corrective action, should their calculated State Pension be less than they expected.

Explanation of the transition alternatives requires an understanding of how both the current State Pension and the concept of contracting out works. Overall, respondents indicated that they are not generally interested in the detail of how their State Pension is calculated but that it needs to 'look right' and that the amount they will receive is clearly stated. If there is an option to build up their single tier pension, this too should be clearly stated.

The transition models described in Chapter 5 both use the term 'deducting' contracted-out years from an initial pension pot of £140. While the explanation provides clarity, some respondents felt that this way of describing the calculation effectively looked like the Government were '*giving with one hand and taking away with the other*'. People are generally loss averse and therefore, any explanation of how the single tier pension is calculated should take this into account.

9 Conclusions

Overall, there was a broad acceptance of the idea of a single tier State Pension scheme; though it is important to note that, when the research was conducted, this was just one of the reform options Government was considering. While the figure of £140 was not thought to be over-generous, it was generally more than people were expecting.

Most discussions about pensions with the general public are characterised by confusion and uncertainty, and these discussions were no different. However, when introduced to the idea of the single tier, its simplicity intuitively appealed to respondents. Facilitating fairness though is far from straightforward and discussions around the 30 year cap generated polarised and changeable views. While there was discussion around ‘winners’ and ‘losers’, the general view was that those who would lose out from the removal of the additional State Pension were likely to be higher earners who would have made private arrangements anyway. Consequently, although the perceived trade-off between fairness and simplicity was seen as difficult to make, simplicity was generally seen to be more important than fairness as a means of ensuring that pensioners receive the money to which they are entitled (although questions remained as to whether it could be this simple in reality).

In discussing the various transition models it is clear that their underlying complexity and the varying amounts of pension that arise undermine the overall simplicity and certainty of the single tier. However, at root, people indicated that they are essentially individually focused and much less concerned about others; respondents are much less concerned about the simplicity and fairness of single tier – certainty is generally much more desirable.

The certainty of a defined level of State Pension, combined with its overall simplicity, could prompt people to think more seriously about planning for retirement. Partly, this is due to the realisation that the State Pension will only provide for the basics of life and partly, it then provides a more concrete idea of how much they will need to save to fund the lifestyle they want. To a degree, single tier can act as a wake-up call to think about one’s financial future.

Having made people aware during the research process of the level of the State Pension, the certainty of the proposed single tier system could increase the level of personal responsibility and empowerment for retirement planning. It is important to recognise though that other barriers continue to remain in place that will impact on the actions people feel they can take. That said, there will need to be considerable effort around raising knowledge and awareness to ensure any real impact on people’s retirement planning. This is especially so for those for whom the State Pension age is a long way off.

The idea of the single tier State Pension and automatic enrolment appear to work well together, especially in the minds of younger people. The single tier tends to be seen as providing just the basics of life – a foundation, or building block – on which to build the lifestyle they aspire to through enrolment into a workplace pension scheme.

It is important to remember that elements in the policy detail will also have a significant impact on how single tier is viewed by customers and therefore, great care will be required in how the pension reforms are communicated:

- Transition and the issues around contracting-out have the potential to completely obscure the benefits of simplicity and certainty that the single tier brings.

- People who have contracted out of the additional State Pension view their State and private pensions as separate entities. Any attempt to convey the message that ‘£140 comes from the State Pension and part of your Employer/Private Pension’ fundamentally undermines the simplicity and certainty that the single tier initially conveys.
- People are highly cynical about why the Government wants to change the State Pension system and see this as purely a cost-cutting exercise, rather than an initiative designed to simplify a complex system.
- The benefits of certainty can easily be undermined by cynicism that it may all change again. Anything offering greater certainty (for example, a guarantee for a certain number of years, cross party support, etc.) will be important in encouraging people to accept the pension reforms and take greater responsibility for financing their retirement.

‘Don’t alter it yet again, because the number of times it has altered in my lifetime I really couldn’t add up. Every couple of years something new comes in. A new form comes in, or this is withdrawn, or a new benefit comes out and you top up here.’

(Low income, 50-retirement age, Unprepared, London)

Appendix A

Focus group composition

Table A.1 Income levels and approach to retirement saving – segmentation

Phase	Age	Income level	Approach to retirement saving – segmentation		
			Daunted	Unprepared	Competing Priorities/ Maybe Sorted
Pilot January 2011 2 groups London	35-50	Medium	NA	NA	NA
Phase 2 End January/ mid February 2011 12 groups	35-50	High			London
		Medium	Birmingham	Manchester	Birmingham
		Low	London Solely reliant on State Pension	Birmingham Solely reliant on State Pension	
	50-State Pension age	High			London
		Medium	Manchester Solely reliant on State Pension	London Solely reliant on State Pension	Manchester
		Low	Birmingham	Manchester	
Phase 3 June 2011 2 workshops (Birmingham/ London only)	35-55	Mix (at least four each of high, medium, low income groups)	Mix (at least three each of Daunted, Unprepared, Competing Priorities/Maybe Sorted)		
3 mini-groups (Birmingham/ London only)	20-25				
	25-30	Medium		Mix	
	30-35				
Phase 4 October 2011 6 groups (Birmingham/ London only)	35-49	All low-medium income		NA	
50-60	2 groups: Never contracted out		2 groups: Previously contracted out	2 groups: Currently contracted out	

Income levels were arranged in bands and varied according to marital status and residence in, or outside, London as shown in the following table.

Table A.2 Income levels according to marital status and whether living in or out of London

Household Income – Living in London	A – living alone	B – living with partner
Up to £20k	Low	Low
£21k-£30k	Medium	Low
£31k-£40k	High	Low
£41k-£60k	High	Medium
£61k +	High	High

Household income – Living outside London	A – living alone	B – living with partner
Up to £15k	Low	Low
£16k-£24k	Medium	Low
£25k-£30k	High	Low
£31k-£49k	High	Medium
£50k +	High	High

Appendix B

Recruitment questionnaires and topic guides

Stage 1 – Recruitment screening questionnaire

Project objectives

- Test new proposed State Pension system.

All respondents

- No respondents to work within Pension or Finance Industry or for DWP:
 - Additionally, no respondents to work in either Advertising/TV/Marketing/Market Research/Journalism/PR/Innovation/Business Consultancy.
 - No respondents to have attended a market research discussion in last six months.

Group criteria

- Two x times hour groups with six respondents per group.
- Two groups in London (viewed facilities).
- Recruit ages – 35-50 for both groups.
- Recruit a mix of gender per group.
- All working – no unemployed, students or homemakers.
- Recruit on medium household income for both groups (£21k-30k living alone, £41k-60k couples).
- Recruit on basis of relying entirely on the State Pension (preferably)/relying mostly on the State Pension.

Proposed schedule

Date	Time	Number	Overview of sample	Location
W/C 10 January 2011	6.00pm	1	<ul style="list-style-type: none"> • All aged 35-60 • Mix of gender • All working • All to earn medium household income 	
	8.15pm	2	<ul style="list-style-type: none"> • All aged 35-60 • Mix of gender • All working • All to earn medium household income 	

RECRUITER READ OUT:

I am asking for your help in a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to find out about a new proposed State Pension system.

The research is being conducted on DWP’s behalf by **The Futures Company** an independent research organisation.

Would you be willing to participate in a **group discussion**? We would like to speak to you, to hear more about your experiences. If you choose to take part in a focus group it will last for approximately **two hours** and **will take place at**. Any travel costs you incur can be claimed at the interview.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Q1.	What is your name?

Q2.	What is your address?
	Postcode

Q3.	What is your phone number?
	Home
	Work
	Mobile

Q4.	Gender?
	Male
	Female

48 Appendices – Recruitment questionnaires and topic guides

Groups – recruit a mix of gender per group

Q5.	Are you at present?		
	Married/Cohabiting		
	Single		
	Divorced/Separated		

RECORD

Q6.	What is your age?		
	< 30		Close
	31 – 50		Recruit
	51 +		Close

Q7.	What is your current working status?		
	Employed full time		Recruit
	Employed part time		
	Self employed		
	Unemployed		Close
	Housewife/not working		
	Student		
	Retired		

ALL MUST BE WORKING

Q8.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	a. Living alone		
	b. Living with partner		
		A – living alone	B – living with partner
	Up to £20k	Low	Low
	£21k-£30k	Medium	Low
	£31k-£40k	High	Low
	£41k-£60k	High	Medium
	£61k +	High	High

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the pilot.

For all respondents recruit medium household incomes

Do not recruit low or high incomes for any respondents

Q9.	Which, if any, of these industries: Read out all options		
	a. Do you or any of your family or close friends work in? (tick all that apply)		
	b. Does the company you, or any of your family or close friends work for or supply products or services to the industry?		
		A	B
	Advertising		
	TV		
	Marketing		
	Market Research		
	Journalism		
	PR		
	Innovation		
	Business consultancy		
	Finance or Pensions		
Department for Work and Pensions			

Close if respondent answers yes to any of the above at a or b

Q10.	Have you ever attended a market research discussion (e.g. focus groups, interviews)?	
	Yes, more than twice	Close
	Yes, once or twice	Go to Q. 12
	No	

Q11.	When did that discussion take place?	
	In the last six months	Close
	More than six months ago	GO to Q.13

Q12.	What was the subject of that discussion?
	Write in

Close if related to finance and pensions

Q13. Assessment of willingness to engage in conversation and try new things				
I'm going to read you a list of statements and I'd like to know how much each does or does not describe you personally. For each statement I read please tell me if you agree completely with the statement, agree somewhat, disagree somewhat or disagree completely with the statement				
	Agree Completely	Agree Somewhat	Disagree Somewhat	Disagree Completely
a. I am comfortable sharing my views on things to other people				
b. Every now and then I enjoy a good discussion				
c. I usually have an opinion on a given subject				

All must agree completely/agree somewhat to all statements

Q14.	We would like to invite you to take part in a market research discussion to talk about the type of information you might need when planning for your retirement. There will be an incentive for your time. Would you be willing to take part?		
	Yes		
	No		

If no probe for reason

Recruitment

If not recruiting: I am sorry to say that you actually fall outside of the range of people that we need to recruit as part of this study. **Apologise for taking up respondent's time. If asked, explain that report is likely to be available early next year from the research publications section of the DWP website. Thank and close.**

If recruiting: We would very much like to interview you as part of this study. The interview would take no longer than 2 hours at.

Confirm contact details and arrange appointment date/time.

Read reassurance on confidentiality: I can assure you that anything you tell me will be treated in confidence by the [contractor name] project team. It will not be attributed to you, either in our presentations or in the final project report which will be published by DWP. **Ensure that respondent is clear on this, and allow them to ask any questions.**

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Stage 2 – Recruitment screening questionnaire

Methodology

- 12 x 2 hour group discussions.
- Recruit seven for six for viewed groups.
- Recruit six for six for in-home groups.

General criteria

- 50:50 male/female mix.
- Good mix of singles and couples in each group.
- At least two singles per group.
- All aged 35 – Retirement Age (see group specific quotas below)
- Retirement age – 60 years for females/65 years for males.
- Mix of income levels (see group specific quotas below).
- Ensure a good mix of full and part time working.
- Mix of segments (see definitions below):
 - Daunted.
 - Unprepared.
 - Competing Priorities.
 - Maybe Sorted.

Schedule

Date	Time	Number	Overview of sample	Location
Tuesday 8 February 2011	6.00pm	1	<ul style="list-style-type: none"> • All aged 35-50 years • Low income • Daunted • All to be solely reliant on the State Pension at retirement 	London TNS BMRB
	8.15pm	2	<ul style="list-style-type: none"> • All aged 35-50 years • High income • Mix of Competing Priorities/ Maybe Sorted 	
Wednesday 9 February 2011	6.00pm	3	<ul style="list-style-type: none"> • All aged 35-50 years • Medium Incomes • Unprepared • All aged 50-retirement age 	Manchester TNS BMRB
	8.15pm	4	<ul style="list-style-type: none"> • Low income • Unprepared 	

Schedule Continued

Date	Time	Number	Overview of sample	Location
Thursday 10 February 2011	6.00pm	5	<ul style="list-style-type: none"> • All aged 50 – Retirement Age • Medium income • Daunted • All to be solely reliant on State Pension at retirement 	Manchester TNS BMRB
	8.15pm	6	<ul style="list-style-type: none"> • All aged 50 – Retirement Age • Medium income • Mix of Competing Priorities/ Maybe Sorted 	
Wednesday 16 February 2011	6.00pm	7	<ul style="list-style-type: none"> • All aged 35-50 years • Medium Income • Daunted • All aged 50 – Retirement Age 	Nottingham TFC
	8.15pm	8	<ul style="list-style-type: none"> • Low income • Daunted 	
Thursday 17 February 2011	6.00pm	9	<ul style="list-style-type: none"> • All aged 50-retirement age • High income • Mix of Competing Priorities/ Maybe Sorted • All aged 50 – Retirement Age 	London TFC
	8.15pm	10	<ul style="list-style-type: none"> • Medium income • All to be solely reliant on State Pension at retirement 	
Monday 21 February 2011	6.00pm	11	<ul style="list-style-type: none"> • All aged 35-50 years • Medium income • Mix of Competing Priorities/ Maybe Sorted • All aged 35-50 years • Low income 	Nottingham TFC
	8.15pm	12	<ul style="list-style-type: none"> • All to be solely reliant on State Pension at retirement • Unprepared 	

Note to recruiter: All respondents must be recruited face to face. Database recruitment is not suitable for this project.

I am asking for your help in a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to find out about Government proposals for a new workplace pension system.

The research is being conducted on DWP’s behalf by TNS BMRB/The Futures Company an independent research organisation.

Would you be willing to participate in a **group discussion**. We would like to speak to you, to hear more about your experiences. If you choose to take part in a group discussion it will last for approximately **two hours and will take place at xxx**.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

Everyone who participates in a **group discussion will be given a gift**, as a small token of thanks.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Q1.	Gender?		
	Male		
	Female		

Recruit a mix of gender per group

Q2.	Are you at present?		
	Married/Cohabiting		
	Single		
	Divorced/Separated		

Ensure a good mix of singles/couples

At least two singles per group

Q3a.	What is your age?		
	< 30		Close
	31-35		
	36-40		
	41-45		
	46-50		
	51-55		
	56-65		Go to 3B
	65 +		Close

Recruit to quota

Q3b.	Are you currently receiving your State Pension?		
	Yes		Close
	No		

None to be currently receiving their State Pension

54 Appendices – Recruitment questionnaires and topic guides

Q4.	What is your current working status?		
	Employed full time		
	Employed part time		
	Self employed		
	Unemployed		
	Housewife/not working		
	Student		Close
	Retired		

Ensure a good mix

Q5.	Do you work in the Public Sector e.g. for a Central or Local Government Department?		
	Yes		Close
	No		

For London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	c. Living alone		
	d. Living with partner		
		A – living alone	B – living with partner
	Up to £20k	Low	Low
	£21k-£30k	Medium	Low
	£31k-£40k	High	Low
	£41k-£60k	High	Medium
	£61k +	High	High

Recruit to quota

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. we only want to ensure an income band appropriate for the pilot

For outside London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	a. Living alone		
	b. Living with partner		
		A – living alone	B – living with partner
	Up to £15k	LOW	LOW
	£16k-£24k	MEDIUM	LOW
	£25k-£30k	HIGH	LOW
	£31k-£49k	HIGH	MEDIUM
	£50k +	HIGH	HIGH

Recruit to quota

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the pilot.

Q7.	Can you tell us which one of the following statements most accurately describes your source of income for retirement? For respondents who are unsure at this time please probe for what they expect to be their source of income during retirement.		
	a. I'm relying entirely on my State Pension		
	b. I will mostly rely on my State Pension but have a small pension/some savings to help me out		
	c. I won't really need to rely on the State Pension because I have other plans in place (pensions/property/investment)		

Groups 1, 5, 10 and 12: all to be relying on State Pension at retirement

Segment questions:

Q8a.	Would you say that you currently have plans in place for funding for your retirement?		
	No		Go to 8B
	Yes		Go to 8C

Q8b.	Thinking about the statement 'I expect to be much better off in the future' . Can you give me a score out of 10 where 1 means you are not that sort of person at all and 10 means you are definitely that sort of person									
	1	2	3	4	5	6	7	8	9	10
	Recruit as daunted go to Q9							Recruit as unprepared go to Q9		

Q8c.	Thinking about the statement 'I am confident that I will have enough put by to live on in my retirement' . Can you give me a score out of ten where one means you strongly disagree and ten means you strongly agree									
	1	2	3	4	5	6	7	8	9	10
	Go to q8d			Go to Q8e			Go to q8h			Go to Q8l

56 Appendices – Recruitment questionnaires and topic guides

Q8d.	Thinking about your current situation and current retirement plans, would you say you were worried or confident about the future?		
	Worried		Recruit as competing priorities go to Q9
	Confident		RECRUIT AS DAUNTED Go to Q9

Q8e.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement 'I really don't want to think about it'		
	Disagree		Go to Q8f
	Agree		Go to Q8g

Q8f.	Can you give a score out of ten for how confident you feel you can make the right decisions to provide for your retirement? One means that you don't feel at all confident and ten means that you are very confident									
	1	2	3	4	5	6	7	8	9	10
	Recruit as daunted go to Q9					Really sorted – close				

Q8g.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement 'I expect to live in a very similar way to how I live now'		
	Disagree		Recruit as competing priorities go to Q9
	Agree		Recruit as maybe sorted go to Q9

Q8h.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement 'I will do all the things I don't have enough time to do now like hobbies or seeing friends'		
	Disagree		Go to Q8i
	Agree		Go to Q8j

Q8i.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I’m really looking forward to being retired’		
	Disagree		Recruit as maybe sorted go to Q9
	Agree		Really sorted – Close

Q8j.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I can’t imagine what it will be like’		
	Disagree		Really sorted – close
	Agree		Go to Q8k

Q8k.	Thinking about the statement ‘I just take each day as it comes’. Can you give me a score out of 10 where 1 means you are not that sort of person at all and 10 means you are definitely that sort of person									
	1	2	3	4	5	6	7	8	9	10
	Really sorted – close					Recruit as unprepared go to q9				

Q8l.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I’m really looking forward to being retired’		
	Disagree		Recruit as maybe sorted go to Q9
	Agree		Really sorted – close

Q8a – 8l: Close if really sorted – otherwise recruit to quota

58 Appendices – Recruitment questionnaires and topic guides

Q9.	Which, if any, of these industries: Read out all options	
	c. Do you or any of your family or close friends work in? (tick all that apply)	
	d. Does the company you, or any of your family or close friends work for or supply products or services to the industry?	
	A	B
	Advertising	
	TV	
	Marketing	
	Market Research	
	Journalism	
	PR	
	Innovation	
	Business consultancy	
	Finance or Pensions	
	Department of Work and Pensions	

Close if respondent answers yes to any of the above at a or b

Q10.	Have you ever attended a market research discussion (e.g. focus groups, interviews)?	
	Yes, more than twice	Close
	Yes, once or twice	Go to Q11
	No	Go to Q13

Q11.	When did that discussion take place?	
	In the last six months	Close
	More than six months ago	Go to Q12

Q12.	What was the subject of that discussion?	
	Write in	

Close if related to finance and/or pensions

Q13.	Assessment of willingness to engage in conversation and try new things				
	I'm going to read you a list of statements and I'd like to know how much each does or does not describe you personally. For each statement I read please tell me if you agree completely with the statement, agree somewhat, disagree somewhat or disagree completely with the statement				
		Agree Completely	Agree Somewhat	Disagree Somewhat	Disagree Completely
	d. I am comfortable sharing my views on things to other people				
	e. Every now and then I enjoy a good discussion				
	f. I usually have an opinion on a given subject				

All must agree completely/agree somewhat to all statements

Q14.	We would like to invite you to take part in a market research discussion to talk about the type of information you might need when planning for your retirement. There will be an incentive for your time. Would you be willing to take part?		
	Yes		
	No		

If no probe for reason

Recruitment

If not recruiting: I am sorry to say that you actually fall outside of the range of people that we need to recruit as part of this study. **Apologise for taking up respondent's time. If asked, explain that report is likely to be available early next year from the research publications section of the DWP website. Thank and close.**

If recruiting: We would very much like to interview you as part of this study. The group discussion would take no longer than two hours at XXX.

Confirm contact details and arrange appointment date/time.

Appointment date:

Appointment time:

Name:

Contact details:

Read reassurance on confidentiality: I can assure you that anything you tell me will be treated in confidence by TNS BMRB/The Futures Company project team. It will not be attributed to you, either in our presentations or in the final project report which will be published by DWP. **Ensure that respondent is clear on this, and allow them to ask any questions.**

I will confirm to you soon which of my colleagues at TNS BMRB/The Futures Company will conduct the group discussion.

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Stage 3 – Recruitment screening questionnaire

Methodology

- 1 x workshop of 15 lasting 2.5 hours.
- 2 x mini-groups of six young people (total of 12 participants) – each last 1.5 hours.

All respondents

- No respondents to work within Pension or Finance Industry or for DWP.
 - Additionally, no respondents to work in either Advertising/TV/Marketing/Market Research/Journalism/PR/Innovation/Business Consultancy.
- No respondents to have attended a market research discussion in last six months

General criteria

Workshop participants

- One workshop in London.
- All participants to have, or have had, a workplace pension scheme.
- 50:50 male/female mix.
- Mix of singles and couples – at least two singles.
- All aged 35-55.
- Mix of social grades B, C1, C2.
- Mix of income levels.
- Mix of full and part time working.
- Mix of segments (see definitions below):
 - Daunted.
 - Unprepared.
 - Competing priorities.
 - Maybe sorted.

Young people mini-group participants

- Two groups – age: 1 x 20-25; 1 x 30-35.
- In Birmingham.
- All working or unemployed (no students).
- Mix of genders.
- Mix of social grades B, C1, C2.
- Middle income.

Schedule

Date	Time	Number	Overview of sample	Location
Wednesday 15 June 2011	6.00pm	1	<p>Young people mini-group:</p> <ul style="list-style-type: none"> • 20-25 year olds • Mix of genders • Middle income • Mix of social grades • All to be working or unemployed (no students) 	Birmingham TNS-BMRB
	8.00pm	2	<p>Young people mini-group:</p> <ul style="list-style-type: none"> • 30-35 year olds • Mix of genders • Middle income • Mix of social grades • All to be working or unemployed (no students) 	
Tuesday 14 June 2011	6.00pm	3	<p>Workshop:</p> <ul style="list-style-type: none"> • All with a workplace pension scheme (current or previous) • 50:50 male/female mix • Mix of singles/couples (at least two singles) • All aged 35-55 • Mix of social grades B, C1, C2 • Mix of income levels • Mix of full/part-time working • Mix of segments: <ul style="list-style-type: none"> – Daunted – Unprepared – Competing priorities – Maybe sorted 	London TNS-BMRB

Note to recruiter: All respondents must be recruited face to face. Database recruitment is not suitable for this project

RECRUITER READ OUT:

I am asking for your help in a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to explore views about possible changes to the State Pension.

The research is being conducted on DWP’s behalf by TNS-BMRB/The Futures Company an independent research organisation.

Would you be willing to participate in a **group discussion**? We would like to speak to you, to hear more about your views. If you choose to take part in a group discussion it will last for approximately **1.5 (mini-group)/2.5 hours (workshop)** and **will take place at xxx**.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Q1.	Gender?		
	Male		
	Female		

Recruit a mix of gender per group

Q2.	Are you at present?		
	Married/Cohabiting		
	Single		
	Divorced/Separated		

Ensure a good mix of singles/couples

At least two singles per **workshop** (NB: This does not apply to young people mini-groups)

Q3a.	What is your age?		
	< 20		Close
	20-25		Go to 4
	25-30		Go to 4
	30-35		Go to 4
	35-55		Go to 3b
	55 +		Close

RECRUIT TO QUOTA

Q3b.	Are you currently, or have you ever been, a member of a workplace pension scheme?		
	Yes		
	No		Close

All **workshop** participants to have been a member of a workplace pension scheme at one point in their life (NB: This does not apply to young people mini-groups)

64 Appendices – Recruitment questionnaires and topic guides

Q4.	What is your current working status?		
	Employed full time		
	Employed part time		
	Self employed		
	Unemployed		
	Housewife/not working		
	Student		Close
	Retired		

Ensure a good mix

Q5.	What is the occupation of the chief income earner in your household?		
	Probe fully and code:		
	B C1 C2		Recruit to quota
	A D E		Close

Ensure a good mix

For London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	e. Living alone		
	f. Living with partner		
		A – living alone	B – living with partner
	Up to £20k	Low	Low
	£21k-£30k	Medium	Low
	£31k-£40k	High	Low
	£41k-£60k	High	Medium
	£61k +	High	High

Recruit to quota

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the research.

For outside London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	c. Living alone		
	d. Living with partner		
		A – living alone	B – living with partner
	Up to £15k	LOW	LOW
	£16k-£24k	MEDIUM	LOW
	£25k-£30k	HIGH	LOW
£31k-£49k	HIGH	MEDIUM	
£50k +	HIGH	HIGH	

Recruit to quota

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the research.

Q7.	Can you tell us which one of the following statements most accurately describes your source of income for retirement? For respondents who are unsure at this time please probe for what they expect to be their source of income during retirement.	
	d. I'm relying entirely on my State Pension	
	e. I will mostly rely on my State Pension but have a small pension/some savings to help me out	
	f. I won't really need to rely on the State Pension because I have other plans in place (pensions/property/investment)	

Ensure a good mix

Segment questions:

Q8a.	Would you say that you currently have plans in place for funding for your retirement?	
	No	Go to 8b
	Yes	Go to 8c

Q8b.	Thinking about the statement ' I expect to be much better off in the future '. Can you give me a score out of ten where one means you are not that sort of person at all and ten means you are definitely that sort of person									
	1	2	3	4	5	6	7	8	9	10
Recruit as daunted go to Q9							Recruit as unprepared go to Q9			

66 Appendices – Recruitment questionnaires and topic guides

Q8c.	Thinking about the statement 'I am confident that I will have enough put by to live on in my retirement' . Can you give me a score out of ten where one means you strongly disagree and ten means you strongly agree									
	1	2	3	4	5	6	7	8	9	10
	Go to Q8d			Go to Q8e			Go to Q8h			Go to Q8l

Q8d.	Thinking about your current situation and current retirement plans, would you say you were worried or confident about the future?									
	Worried					Recruit as competing priorities go to Q9				
	Confident					Recruit as daunted go to Q9				

Q8e.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement 'I really don't want to think about it'									
	Disagree					Go to Q8f				
	Agree					Go to Q8g				

Q8f.	Can you give a score out of ten for how confident you feel you can make the right decisions to provide for your retirement? One means that you don't feel at all confident and ten means that you are very confident									
	1	2	3	4	5	6	7	8	9	10
	Recruit as daunted go to q9					Really sorted-close				

Q8g.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement 'I expect to live in a very similar way to how I live now'									
	Disagree					Recruit as competing priorities go to Q9				
	Agree					Recruit as maybe sorted go to Q9				

Q8h.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I will do all the things I don’t have enough time to do now like hobbies or seeing friends’		
	Disagree		Go to Q8i
	Agree		Go to Q8j

Q8i.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I’m really looking forward to being retired’		
	Disagree		Recruit as maybe sorted go to Q9
	Agree		Really sorted – close

Q8j.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I can’t imagine what it will be like’		
	Disagree		Really sorted – close
	Agree		Go to Q8k

Q8k.	Thinking about the statement ‘I just take each day as it comes’ . Can you give me a score out of ten where one means you are not that sort of person at all and ten means you are definitely that sort of person									
	1	2	3	4	5	6	7	8	9	10
	Really sorted – close					Recruit as unprepared go to Q9				

Q8l.	Thinking a bit about later life and not being in paid work and what that might be like, do you agree or disagree with the statement ‘I’m really looking forward to being retired’		
	Disagree		Recruit as maybe sorted go to Q9
	Agree		Really sorted – close

Q8a – 8l: Close if really sorted – otherwise recruit to quota

68 Appendices – Recruitment questionnaires and topic guides

Q9.	Which, if any, of these industries: Read out all options	
	e. Do you or any of your family or close friends work in? (tick all that apply)	
	f. Does the company you, or any of your family or close friends work for or supply products or services to the industry?	
	A	B
	Advertising	
	TV	
	Marketing	
	Market Research	
	Journalism	
	PR	
	Innovation	
	Business consultancy	
	Finance or Pensions	
	Department of Work and Pensions	

Close if respondent answers yes to any of the above at A or B

Q10.	Have you ever attended a market research discussion (e.g. focus groups, interviews)?	
	Yes, more than twice	Close
	Yes, once or twice	Go to Q11
	No	Go to Q13

Q11.	When did that discussion take place?	
	In the last six months	Close
	More than six months ago	Go to Q12

Q12.	What was the subject of that discussion?	
	Write in	

Close if related to finance and/or pensions

Q13.	Assessment of willingness to engage in conversation and try new things				
	I'm going to read you a list of statements and I'd like to know how much each does or does not describe you personally. For each statement I read please tell me if you agree completely with the statement, agree somewhat, disagree somewhat or disagree completely with the statement				
		Agree Completely	Agree Somewhat	Disagree Somewhat	Disagree Completely
	g. I am comfortable sharing my views on things to other people				
	h. Every now and then I enjoy a good discussion				
	i. I usually have an opinion on a given subject				

All must agree completely/agree somewhat to all statements

Q14.	We would like to invite you to take part in a market research discussion to talk about the type of information you might need when planning for your retirement. There will be an incentive for your time. Would you be willing to take part?		
	Yes		
	No		

If no probe for reason

Recruitment

If not recruiting: I am sorry to say that you actually fall outside of the range of people that we need to recruit as part of this study. **Apologise for taking up respondent's time. If asked, explain that report is likely to be available early next year from the research publications section of the DWP website. Thank and close.**

If recruiting: We would very much like to interview you as part of this study. The group discussion would take no longer than 1.5/2.5 hours.

Confirm contact details and arrange appointment date/time.

Appointment date:

Appointment time:

Name:

Contact details:

Read reassurance on confidentiality: I can assure you that anything you tell me will be treated in confidence by TNS BMRB/The Futures Company project team. It will not be attributed to you, either in our presentations or in the final project report which will be published by DWP. **Ensure that respondent is clear on this, and allow them to ask any questions.**

I will confirm to you soon which of my colleagues at TNS BMRB/The Futures Company will conduct the group discussion.

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Stage 4 – Recruitment screening questionnaire

Methodology

- 6 x groups of 6 people (recruit 7 for 6) – each lasting 1.5 hours.

All respondents

- No respondents to work within Pension or Finance Industry or for DWP
 - Additionally, no respondents to work in either Advertising/TV/Marketing/Market Research/Journalism/PR/Innovation/Business Consultancy.
- No respondents to have attended a market research discussion in last six months.

General criteria

- Four groups in London; two in Birmingham.
- All participants to have, or have had, a workplace pension scheme.
- All to be working or unemployed (no students).
- 50:50 male/female mix.
- Mix of singles and couples in each group.
 - At least two singles per group.
- Age groups: 35-49; 50-60 (see group specific quotas below).
- Mix of medium/low income (area dependent – see below).
 - Aim for at least two low income per group.
 - No high income participants.
- Medium/high financial capability.

Schedule

Date	Time	Number	Overview of sample	Location
Monday 10 October	6.00pm	1	<p>Group to include:</p> <ul style="list-style-type: none"> • Age 35-49 • Mix of genders • Medium/low income • Medium/high financial capability • Never contracted out (assessed in two ways: asked outright; proxy – never worked in public sector) 	Birmingham TBC
	8.00pm	2	<p>Group to include:</p> <ul style="list-style-type: none"> • Age 50-60 • Mix of genders • Medium/low income • Medium/high financial capability • Previously contracted out (assessed in two ways: asked outright; proxy – previously worked in public sector but not currently) 	
Wednesday 12 October	6.00pm	3	<p>Group to include:</p> <ul style="list-style-type: none"> • Age 35-49 • Mix of genders • Medium/low income • Medium/high financial capability • Currently contracted out: (assessed in two ways: asked outright; proxy – currently working in public sector) 	London TBC
	8.00pm	4	<p>Group to include:</p> <ul style="list-style-type: none"> • Age 50-60 • Mix of genders • Medium/low income • Medium/high financial capability • Never contracted out (assessed in two ways: asked outright; proxy – never worked in public sector) 	

Schedule Continued

Date	Time	Number	Overview of sample	Location
Tuesday 11th October	6.00pm	5	Group to include: <ul style="list-style-type: none"> • Age 35-49 • Mix of genders • Medium/low income • Medium/high financial capability • Previously contracted out (assessed in two ways: asked outright; proxy – previously worked in public sector but not currently) 	London TBC
	8.00pm	6	Group to include: <ul style="list-style-type: none"> • Age 50-60 • Mix of genders • Medium/low income • Medium/high financial capability • Currently contracted out (assessed in two ways: asked outright; proxy – currently working in public sector) 	

Note to recruiter: All respondents must be recruited face to face. Database recruitment is not suitable for this project

Recruiter read out:

I am asking for your help in a research study that has been commissioned by the Department for Work and Pensions. The aim of this research is to explore views about possible changes to the State Pension.

The research is being conducted on DWP’s behalf by TNS-BMRB/The Futures Company an independent research organisation.

Would you be willing to participate in a **group discussion**? We would like to speak to you, to hear more about your views. If you choose to take part in a group discussion it will last for approximately **1.5 hours and will take place at xxx.**

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you and no personal information will be shared with any third parties.

74 Appendices – Recruitment questionnaires and topic guides

Everyone who participates in a group discussion will be given a gift, as a small token of thanks.

I now need to ask you a few questions. This is to check that firstly you are eligible to attend the research, and secondly that you would be willing to attend the research. Please note that answering these questions alone does not necessarily mean you will be eligible for the research. May I continue to ask you a few questions?

Q1.	Gender?		
	Male		Go to 2
	Female		Go to 2

Recruit a mix of gender per group

Q2.	Are you at present?		
	Married/Cohabiting		Go to 3
	Single		Go to 3
	Divorced/Separated		Go to 3

Ensure a good mix of singles/couples

Q3.	What is your age?		
	< 35		Close
	35-49		Go to 4
	49-60		Go to 4
	> 60		Close

Recruit to quota

Q4.	Are you currently, or have you ever been, a member of a workplace pension scheme?		
	Yes		Go to 5
	No		Close

All participants to have been a member of a workplace pension scheme at one point in their life

Q5.	What is your current working status?		
	Employed full time		
	Employed part time		
	Self employed		
	Unemployed		
	Housewife/not working		
	Student		Close
	Retired		

Ensure a good mix

For London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	g. Living alone		
	h. Living with partner		
		A – living alone	B – living with partner
	Up to £20k	Low	Low
	£21k-£30k	Medium	Low
	£31k-£40k	High	Low
£41k-£60k	High	Medium	
£61k +	High	High	

Recruit to quota: mix of medium/low income; no high income

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the research.

For outside London only:

Q6.	What is your annual household income excluding any benefits or the income from children/lodgers if you are...?		
	e. Living alone		
	f. Living with partner		
		A – living alone	B – living with partner
	Up to £15k	Low	Low
	£16k-£24k	Medium	Low
	£25k-£30k	High	Low
£31k-£49k	High	Medium	
£50k +	High	High	

Recruit to quota: mix of medium/low income; no high income

NB: Ensure respondents understand that during the research we will not want to discuss personal finances. We only want to ensure an income band appropriate for the research.

Q7.	Can you tell us which one of the following statements most accurately describes your source of income for retirement? For respondents who are unsure at this time please probe for what they expect to be their source of income during retirement.		
	g. I'm relying entirely on my State Pension		Go to Q8
	h. I will mostly rely on my State Pension but have a small pension/some savings to help me out		Go to Q8
	i. I won't really need to rely on the State Pension because I have other plans in place (pensions/property/investment)		Go to Q8

FOR INFORMATION ONLY

FINANCIAL CAPABILITY:

Q8.	Which of the following statements best describes you?		
	I take a keen interest in personal finance; I like reading the financial pages of the newspapers and I like to make my own choices about financial products and services		'High capability' Go to Q9
	I have a reasonable knowledge of personal finance and I am able to weigh up the advice of financial professionals when choosing services or products to suit my personal circumstances		'Medium capability' Go to Q9
	I find the whole world of personal finance confusing and leave it to others or the experts Financial issues are best left to the experts		'Low capability' Close

Recruit to quota: all participants to have medium/high financial capability

Contracted out status:

Q9.	Have you ever contracted out of the additional State Pension (also known as SERPS or State Second Pension)?	
	If necessary, read the following: The state provides an additional pension, as well as the basic State Pension. Employees are allowed to ‘contract out’ of this additional pension. This means you give up part or all of it and receive a pension from your occupational scheme or personal/stakeholder pension instead.	
	I am currently contracted out of the additional State Pension	‘Currently contracted out’ Go to Q10
	I am not currently contracted out of the additional State Pension, but have contracted out previously	‘Previously contracted out’ Go to Q10
	I have never contracted out of the additional State Pension	‘Never contracted out’ Go to Q10
	Don’t know	Go to Q9a

Q9a.	Have you ever paid into a public sector pension scheme (for example, when working for a local authority, central government, an education authority or the NHS)	
	I am currently paying into a public sector pension scheme	‘Currently contracted out’ Go to Q10
	I am not currently paying into a public sector pension scheme, but have done so in the past	‘Previously contracted out’ Go to Q10
	I have never paid into a public sector pension scheme	‘Never contracted out’ Go to Q10
	Don’t know	Close

78 Appendices – Recruitment questionnaires and topic guides

Eligibility questions:

Q10.	Which, if any, of these industries: READ OUT ALL OPTIONS	
	g. Do you or any of your family or close friends work in? (tick all that apply)	
	h. Does the company you, or any of your family or close friends work for or supply products or services to the industry?	
	A	B
	Advertising	
	TV	
	Marketing	
	Market Research	
	Journalism	
	PR	
	Innovation	
	Business consultancy	
	Finance or Pensions	
	Department of Work and Pensions	

Close if respondent answers yes to any of the above at A or B

Q11.	Have you ever attended a market research discussion (e.g. focus groups, interviews)?	
	Yes, more than twice	Close
	Yes, once or twice	Go to Q12
	No	Go to Q14

Q12.	When did that discussion take place?	
	In the last six months	Close
	More than six months ago	Go to Q13

Q13.	What was the subject of that discussion?	
	Write in	

Close if related to finance and/or pensions

Q14.	Assessment of willingness to engage in conversation and try new things I'm going to read you a list of statements and I'd like to know how much each does or does not describe you personally. For each statement I read please tell me if you agree completely with the statement, agree somewhat, disagree somewhat or disagree completely with the statement				
		Agree Completely	Agree Somewhat	Disagree Somewhat	Disagree Completely
	j. I am comfortable sharing my views on things to other people			Close	Close
	k. Every now and then I enjoy a good discussion			Close	Close
	l. I usually have an opinion on a given subject			Close	Close

ALL MUST AGREE COMPLETELY/AGREE SOMEWHAT TO ALL STATEMENTS

Q15.	We would like to invite you to take part in a market research discussion to talk about the type of information you might need when planning for your retirement. There will be an incentive for your time. Would you be willing to take part?		
	Yes		
	No		

If no probe for reason

Recruitment

If not recruiting: I am sorry to say that you actually fall outside of the range of people that we need to recruit as part of this study. **Apologise for taking up respondent's time. If asked, explain that report is likely to be available early next year from the research publications section of the DWP website. Thank and close.**

If recruiting: We would very much like to interview you as part of this study. The group discussion would take no longer than 1.5 hours.

Confirm contact details and arrange appointment date/time.

Appointment date:

Appointment time:

Name:

Contact details:

Read reassurance on confidentiality: I can assure you that anything you tell me will be treated in confidence by TNS BMRB/The Futures Company project team. It will not be attributed to you, either in our presentations or in the final project report which will be published by DWP. **Ensure that respondent is clear on this, and allow them to ask any questions.**

I will confirm to you soon which of my colleagues at TNS BMRB/The Futures Company will conduct the group discussion.

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Stage 1 Topic Guide

Single tier pension

Topic Guide (Stage 1)

Aims:

Explore reactions to the principle of a single tier State Pension in terms of simplicity, fairness and the potential impact on their financial planning for retirement:

- Understanding of the proposed single tier system.
- Views about how contributions to a single tier pension might work; examining the positives and negatives of the new system.
- Views about how much they might receive and how that might influence their approach to retirement planning.
- Any questions that might arise about how a single tier pension might be introduced.

1. Introduction and Warm up

Introduction

- Thank group discussion attendees for taking part
- Introduce self, TNS-BMRB and The Futures Company
- Study commissioned by Department for Work and Pensions
- Study to explore their views about some potential changes to the State Pension
- Role of TNS-BMRB/The Futures Company – independent research organisations, gather all opinions; all opinions valid, okay to disagree with each other
- Session to be viewed by colleagues from Department for Work and Pensions
- Confidentiality:
 - reassure all responses anonymous and that information about individual cases will not be passed outside the TNS-BMRB/The Futures Company/DWP research team
 - remind participants that the discussion remains confidential
- Recording the session – transcribe for quotes, no detailed attribution when reporting

About the participants

...tell us a little about yourself...

- What they do for work
- What their interests are
 - Whether interested in personal finances
- How knowledgeable they feel they are about pensions
- Whether they have thought about retirement financially

Continued

- Do they know how much State Pension they will get?
 - Any financial plans for retirement
 - E.g. occupational/private pension; other sources of income
 - *PROBE* – How does State Pension feature in financial plans for retirement, will it be sole retirement income or a top-up?
-

2. Knowledge and views about the existing State Pension system

- What do you know about the current State Pension system?
 - Ask people to describe how the pension they will receive in retirement is made up
 - How much will you get?
 - How is this amount made up
 - Do you know how the State Pension is paid for (unprompted)
- PROMPT National Insurance if not mentioned
 - Do you know how long you need to contribute for in order to receive the full State Pension?
 - PROMPT – 30 years if not mentioned
 - PROMPT – what if you work longer?
- What do they think of the current State Pension arrangements?
 - Structure
 - How easy to understand
 - How fair it is
 - How easy to work out how much you will get
 - Whether this will be sufficient to meet their needs in retirement
 - How easy it is to work out how much to save for retirement

Show card 1 – An explanation of the current State Pension system

- How does this [Card 1] compare with their views about the current State Pension in terms of:
 - Structure; do you think of it as a single pension or a pension made up of parts?
 - Ease of understanding
 - Fairness
 - How easy it is to work out how much you will get
 - How easy it is to work out whether it will meet your needs in retirement
 - How easy it is to work out how much to save for retirement
-

3. Ideas for an alternative new State Pension – initial reactions

An alternative State Pension

The Government are thinking about changing the way the State Pension works. These are very early stages in the government's thinking and so nothing is definite. An alternative State Pension might look like this [Show card 3B and 2 – pages 115 and 113]

- *Everyone who qualifies will receive the same amount once they reach State Pension age*
- *People would receive a weekly payment of £140 (at today's prices)*
- *To qualify for the State Pension, people would be required to have made National Insurance contributions while living and working in the UK*
- *It would require 30 years of National Insurance contributions in order to receive the full weekly pension*
- *The way the pension is increased each year will be more generous than now*

- What are your first thoughts?

- How simple does this seem?

- Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?

- How fair does this seem?
- Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?

- Views about the amount?
 - How does this compare to the current State Pension system?
 - Views about the amount being above the means test line [Show card 3B – pages 114-115]

- If this new State Pension was introduced now how would it affect **your** approach to planning for retirement?

Use show cards 3A and 3B if necessary – pages 114-115

4. Exploring aspects of an alternative State Pension

National Insurance contributions and the 30 year cap

As with the current State Pension system you qualify for State Pension through National Insurance contributions. Under the current system you qualify for a full basic State Pension after building up 30 qualifying years. If you continue contributing National Insurance you can build up extra pension through the Additional State Pension [Show card 4A – page 116]

- What do you think about this?

One aspect of an alternative State Pension would be a 30 year cap. You may work longer and continue to pay National Insurance contributions but you will not receive extra State Pension

[Use Show card 4B & 4C – pages 116-117 to show the difference between the new State Pension and the current system]

- What do you think about this?
- Does this make the alternative State Pension simpler?
- Does this make the alternative State Pension fairer?
- How do you feel about some people receiving less money under the alternative State Pension system in exchange for a system where more people are likely to understand how it works?
- Is it fairer that by paying everyone the same amount, some people may receive more and some people may receive less than they would have received under the previous State Pension system?
- Does this have any impact on your plans for retirement?

Increases

The alternative State Pension would be increased each year by more than under the current system [Show card 5 – page 118]

- How do you react to this?
- How does this impact on your financial retirement plans?

Less means testing

The government ensures that people should not have to live on a weekly income below £132.60 by offering Pension Credit as a top up. Introducing this alternative pension would mean that less people would need Pension Credit as the amount of the State Pension would be higher than the means test level.

Show card 6

- What do you think about this?
- Views about the alternative State Pension being above the means test line
- Does this make the alternative State Pension simpler or more complex?
- Does this make the alternative State Pension more or less fair?
- What effect does this have on their financial retirement plans?

5. Overall views about an alternative State Pension

Reflecting on an alternative State Pension:

- *Everyone who qualifies will receive the same amount once they reach State Pension age*
- *People would receive a weekly payment of £140 (at today's prices)*
- *To qualify for the State Pension, people would be required to have made National Insurance contributions while living and working in the UK*

Continued

- *It would require 30 years of National Insurance contributions in order to receive the full weekly amount*
- *The way the pension is increased each year will be more generous than now*

Having talked about this...

Introduce red and green post-it notes and pad of paper

- Green post-it notes – write down what they like about the new State Pension
- Red post-it notes – write down what they don't like about the new State Pension
- Paper pad – thinking about the new State Pension, what questions do they have
- Capture Likes, Dislikes and Questions on a flip chart
- Explore:
 - Likes
 - Dislikes
 - Questions they have (*PROMPT*)
 - Do you understand the different elements of the new system and their implications?
 - Do you understand what you will get out of the new system?
- How simple does this seem?
- Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?
- How fair does this seem?
- Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?
- How do you feel about the overall package?
- Under the alternative system, how do you feel about the trade off between certainty in knowing how much pension you will receive – and it being above the means test line – and not being able to build up extra State Pension by working longer than 30 years?
- If this alternative State Pension was introduced now – with a **single pension of £140 per week** – how would it affect **your** approach to planning for retirement?
 - **Impact of greater clarity (single pension) and certainty (£140/week) on financial retirement behaviour**

-
- Do you know of any changes that are happening to pensions?
 - If not, prompt changes to State Pension age and Automatic Enrolment
 - How do these changes affect your approach to planning for retirement?

6. Finally...

- If **you** were designing a new State Pension to be simpler and fairer, what would you do?
 - Thank everyone for their participation
 - End
-

Stage 2 Topic guide

Single tier pension

Topic guide (Stage 2)

NB: The topic guide is intended to give structure to the discussion but is flexible – so the order in which the topics and stimulus materials are introduced may be adapted according to the individual group dynamic and priorities.

1. Introduction and warm up	10 minutes
------------------------------------	-------------------

Introduction

- Thank group discussion attendees for taking part
- Introduce self, TNS-BMRB and The Futures Company
- Study commissioned by Department for Work and Pensions
- Study to explore their views about some potential changes to the State Pension
- Role of TNS-BMRB/The Futures Company – independent research organisations, gather all opinions; all opinions valid, okay to disagree with each other
- Session to be viewed by colleagues from Department for Work and Pensions
- Confidentiality:
 - reassure all responses anonymous and that information about individual cases will not be passed outside the TNS-BMRB/The Futures Company/DWP research team
 - remind participants that the discussion remains confidential
- Recording the session – transcribe for quotes, no detailed attribution when reporting

About the participants

...tell us a little about yourself...

- What they do for work
- Whether they get paid weekly or monthly
- What their interests are
 - Whether interested in personal finances
- How knowledgeable they feel they are about pensions
- Whether they have thought about retirement financially
- Do they know how much State Pension they will get?
- Any financial plans for retirement
 - E.g. occupational/private pension; other sources of income
 - How much they think they need for retirement
 - Probe – How does State Pension feature in financial plans for retirement, will it be sole retirement income or a top-up?

Continued

2. Current awareness and knowledge of the State Pension**10 minutes**

Private response exercise

Before we introduce a new idea for how the State Pension could work, we'd like to understand what they already know about the current system. Respondents to individually record on a piece of paper

- a) How much they think they'll get from State Pension
- b) How the current State Pension is calculated

Discuss as a group

- What do they know about the current State Pension system?
 - Ask people to describe how the pension they will receive in retirement is made up
 - How much is it?
 - Does everyone get the same amount or does it differ? Do you know why?
 - Do you know how the State Pension is paid for?
 - Do you know how long you need to contribute in order to receive the full State Pension?

- What do they think of the current State Pension arrangements?
 - Structure
 - How easy to understand
 - How fair it is
 - How easy to work out how much you will get
 - Whether this will be sufficient to meet their needs in retirement
 - How easy it is to work out how much to save for retirement
 - How much do they think they need for retirement?
 - Respondents to calculate a rough estimate

3. Ideas for an alternative new State Pension – initial reactions**10 minutes**

Explain that, before we introduce ideas on how the State Pension should work, we'd like to know what system they would create if they were making the decisions.

- When thinking about a State Pension, what is important to you?
- What is a State Pension for? (i.e. to cover basics; basis for saving; other)
- What do you think would make a better system?
- What would be a fairer system for the State Pension?
- What would be a simpler system?
- Any other thoughts on what would improve the current system?

Introduce alternative State Pension

The government are thinking about changing the way the State Pension works. These are very early stages in the government's thinking and so nothing is definite. An alternative State Pension might look like this

[Show cards 1 + 1A – page 113; refer to show cards 2 + 3 if needed – pages 113 and 122]

Continued

- What are your first thoughts?
- How does it compare to what you already know about the current State Pension?
 - Key similarities
 - Key differences
- Any immediate questions/areas of uncertainty?
- How simple does this seem?
- Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?
- How fair does this seem?
- Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?
- How adequate is the amount?
 - How does this compare to the current State Pension system?
- How do you think you personally would be affected by this change?
- If this new State Pension was introduced now how do you think it would affect people’s approach to planning for retirement?
- How would it affect **your** planning for retirement?
- What three words would they use to describe the alternative system as it’s been described?

4. Comparison with current State Pension system

15 minutes

Show cards 4 + 4A – page 123 – An explanation of the current pension system

- How does this compare with their views about the current State Pension in terms of:
 - Structure
 - Ease of understanding
 - Fairness
 - How easy it is to work out how much you will get
 - How easy it is to work out whether it will meet your needs in retirement
 - How easy it is to work out how much to save for retirement

Refer to State Pension distribution (Show card 9 – page 128) if helpful

Continued

Review comparison boards – show cards 5+5A – pages 124-125

- Side by side, how do the two amounts stack up against each other?
- How do they feel about the alternative system providing a more definite amount of £140 per week?
- How do they feel about the current system providing an uncertain amount?
- Which system do you think is better? Why?
 - Which seems fairer?
 - Which seems simpler?
- Giving the amount they would receive under the alternative system a bit more thought, how adequate does it seem for their needs?
- Thinking about the amount they estimated they would need for retirement at the beginning of the group, how does this compare?
- How does this impact their financial planning for retirement?
 - Does it make them think any differently about it?
- Looking at the current system, how does the amount they will receive compare?
 - Do they feel they'll be getting the same/less under the alternative system?
 - Probe higher income groups – do they feel they'll be losing out under the alternative system?
- How do they feel about individuals all getting the same amount?
 - Is this simpler/fairer than the current system?

5. Getting into the detail

30 minutes

Less means testing

Show card 6 – page 125 – Explain what is meant by Pension Credit

- What are their immediate reactions to this?
- Were they previously aware of Pension Credit?
- Do they have any personal experience of the Pension Credit system as it stands?
- What do they think about having means testing in the pensions system?
- Any immediate concerns/queries?

Show card 7 + 7A – page 126 – Explain difference in Pension Credit between current and alternative systems

- What do you think about the changes to Pension Credit?
- Which system do you feel is better? In what ways?
- Does this make the alternative State Pension simpler or more complex?
- Does this make the alternative State Pension more or less fair?
- How do they feel about the difference between the top up amount and the full amount? Is it fair?

Continued

- How would they feel if this amount were bigger/more substantial?
- Where should the means test line be?
- What, if anything, would make it fairer?
- What effect does this have on their financial retirement plans?

National Insurance contributions and the 30 year cap

Show cards 8 + 8A – page 127

As with the current State Pension system you qualify for State Pension through National Insurance contributions. Under the current system you qualify for a full basic State Pension after building up 30 qualifying years. If you continue contributing National Insurance you can build up extra pension through the Additional State Pension

- What do you think about this?

One aspect of an alternative State Pension would be a 30 year cap. You may work longer and continue to pay National Insurance contributions but you will not receive extra State Pension

- What do you think about this?
- Do you think it's an improvement? Why/why not?
- Does this make the alternative State Pension simpler?
- Does this make the alternative State Pension fairer?
- How do you feel about some people receiving less money under the alternative State Pension system in exchange for a system where more people are likely to understand how it works? PROBE HIGHER INCOME GROUPS
- Is it fairer that by paying everyone the same amount, some people may receive more and some people may receive less than they would have received under the previous State Pension system?
- Does this have any impact on your plans for retirement?

Reactions to the amount

Show card 10 – page 129, showing different ways of expressing the amount received

Thinking about planning for retirement ...

- Does it make a difference in understanding/estimating if the figure is presented
 - Weekly?
 - Monthly?
 - Annually?
- Does the way the figure is presented make it any more/less easier to plan how much they will need in retirement?

Auto-enrolment

Show card 11 + 11A – pages 129-130

Greater focus with LOWER – MEDIUM income groups. Show card explaining principle of auto enrolment

- In light of auto-enrolment how does the alternative State Pension make you feel about planning for the future?
- Does it help you think about planning for the future?
- How does it affect the way they see the alternative State Pension?
 - Any sense of reassurance here?
 - Any impact on how simple the alternative system is?
 - Any impact on how fair the alternative system is?
 - Any differing views on the amount of State Pension they'll receive?
 - Any areas of uncertainty/confusion?

Language testing

- What words would you use to describe the alternative system?
- If you had to pick a name, what would you call the alternative system?

Allow full spontaneous response before prompting with show card

Show card 13 – page 131 detailing additional message testing – different ways to describe the alternative State Pension – universal/foundation etc.

- Which of these words is clearer/easier to understand?
- Which, if any, suggest the alternative system is simpler to understand?
- Which, if any, suggest the alternative system is fairer?
- (Questions TBC)

6. Overall views about an alternative State Pension system

10 minutes

- Explore:
 - Likes
 - Dislikes
 - Questions they have (PROMPT)
 - Do you understand the different elements of the new system and their implications?
 - Do you understand what you will get out of the new system?
- Overall, do you think the alternative is better? Why?
- How simple does this seem?

Continued

-
- Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?
 - How fair does this seem?
 - Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?
 - How do you feel about the overall package?
 - If this alternative State Pension was introduced now – with a definite pension of £140 per week – how would it affect **your** approach to planning for retirement?
 - Which three words would they now use to describe this alternative system now they've looked at it in more detail?
 - How do these words compare to those they used at the beginning of the session?

7. Finally...

5 minutes

- If **you** were designing a new State Pension to be simpler and fairer, what would you do?
 - How would you change your original ideas (discussed at start of section 3) in light of what's been discussed?
 - Thank everyone for their participation
 - End
-

Stage 3 Topic guide (Mainstage)

Single tier pension

Topic guide (Stage 3)

Aims

Explore knowledge and understanding of contracting-out.

Test ways of explaining contracting-out to obtain insight on the best way to present this complex issue.

Explore the single tier model in the context of the contracting-out offset and transition to test how perceptions of simplicity, fairness and certainty are affected by these concepts.

NB: The topic guide is intended to give structure to the discussion but is flexible – so the order in which the topics and stimulus materials are introduced may be adapted according to the individual group dynamic and priorities.

1. Introduction and warm up

10 minutes

Introduction

- Thank group discussion attendees for taking part
- Introduce self, TNS-BMRB and The Futures Company
- Study commissioned by Department for Work and Pensions
- Study to explore their views about some potential changes to the State Pension
- Role of TNS-BMRB/The Futures Company – independent research organisations, gather all opinions; all opinions valid, okay to disagree with each other
- Session to be viewed by colleagues from Department for Work and Pensions
- Confidentiality:
 - reassure all responses anonymous and that information about individual cases will not be passed outside the TNS-BMRB/The Futures Company/DWP research team
 - remind participants that the discussion remains confidential
- Recording the session – transcribe for quotes, no detailed attribution when reporting

About the participants

...tell us a little about yourself...

- What they do for work
- What their interests are
 - Whether interested in personal finances
- How knowledgeable they feel they are about pensions
- Whether they have thought about retirement financially

Continued

- Do they know how much State Pension they will get?

- Continued Continued Any financial plans for retirement
 - E.g. occupational/private pension; other sources of income
 - How much they think they need for retirement
 - *Probe – How does State Pension feature in financial plans for retirement, will it be sole retirement income or a top-up?*

2. Current awareness and knowledge of the State Pension

10 minutes

Discuss as a group

- What do they know about the current State Pension system?

- BRIEFLY: What do they think of the current State Pension arrangements?
 - Structure
 - How easy to understand
 - Do you know how you build up your State Pension?
 - How easy to work out how much you will get/what do people think they will get?
 - Whether this will be sufficient to meet their needs in retirement
 - How much do people currently get?
 - What pensioner benefits are realistic in the current economic climate?
 - How much should people receive – exploring current pensioners and also how much they, as individuals, should receive (could be based on them predicting their needs in the future or also according to current financial requirements/income?) TEASE OUT
 - In addition to basic State Pension, do pensioners get anything else? What else do they receive? (eg. Bus passes, free TV licences, etc)
 - How much do they think they need for retirement?
 - Respondents to calculate a rough estimate

3. Getting into the detail

READ: ‘The government is thinking about changing the State Pension system and there are a number of issues to consider when moving from one to another such as contracting out...’

Note to contractors: the purpose of this section is to explore understanding of contracting out. building on existing understanding it will be possible to present some alternative language or messages to unpick a) what people know/what they want to know and b) what works best as overall narrative to help capture what contracting out means to people.

Note to contractors: we are keen to understand about whether any of the language, narrative or presentational styles can allay fears that the way we calculate the offset (regardless of new or alternative system) is a scam/fiddle? can we keep in mind reactions that suggests fiddles/scams in any response to the material we present.

Continued

Break out sections so we can test and build understanding in different order and see what issues spontaneously come up in each group – i.e. different needs to help understand what people need to know.

Contracted-out offset – page 132

What do people understand by the term ‘contracting out’ – probe what people understand about this concept? What are the misperceptions and misunderstandings? Do they know if they are contracted out? How do they refer to the concept of contracting out? Other ways of framing it i.e. how they view it/describe it?

What narratives work best to build understanding – current info that is out there re. explaining the offset (note: this is about not starting from scratch on what is out there but unpacking what does not work currently)

Slide 1 = Direct Gov Explanation

Slide 2 = TPAS

Probe: what helps/hinders understanding? What language/narrative works? What do they want to know? What part of the description from slides 1 and 2 registers with people? What elements engender confidence and what fuels misunderstandings/creates new misunderstandings?

Prompting on key words and phrases...

Phrases/terms to test reactions/understanding

Note to contractors: if possible explore what people think the following issues mean and what alternatives help explain these better with their own words...

Slide 3 list of language as below – page 133

- Contracted out
- National Insurance Rebate
- Offset
- Deductions
- Second pension [ie, do people understand that this could come from both the state and their own arrangement?]
- Risk/chance [in contracting out]
- Invested
- Decision
- Choice
- Opted to.../opted out of

Continued

- Company pension scheme
- Your own pension
- Your company scheme
- Pension pot/pension income [ie, do people see it as a total amount or 2 or 3 different pots – impact on how people grasp the £140/offset issue]
- Entitlement
- Getting out what you put in

Detail on contracting out

Aims: this following section is looking at the how visually we can present the contracting out process and offset according to the facts and not people's understanding.

In comms terms this is the how can we present this (the above is what people know and take from messages (what they want to know). The how to present this with help us think about ways to present and the language insight from above will fill some gaps for the detail.

KEEP IN BREAK OUT GROUPS

NOTE TO CONTRACTORS: ROTATE ORDER

Pots diagrams – test reactions to whether people work better with mental pots diagram (4-6 – pages 133-134)

Bullet word diagrams – test building up written narrative. (7 AND 8 – page 135)

Case studies – explore in the context of 'others' and 'real life examples'.
Slide 9 -11 – pages 136-137

Radiator – to show over time and complexity around contracting out and in periods and how these could vary. Slides 12-14 – pages 137-138

How the government currently communicates the offset to you through forecasts... the language slides (15-18 – pages 139-140)

Probe on the below for each type of method

Probe: What do people understand from this?

- What do people feel about the fact that people's State Pension is made up of different elements?
- Does this matter if the amount is the same?
- Does this influence their views?
- What do people understand from this?

Continued

- (For the case study slides) In essence does one of these people get more and less than the other?
- What does Joe need to know that will HELP HIM UNDERSTAND his situation?
- FOR THE NARRATIVE SLIDE 8 – test reactions to the risk element of this – how best can we present risk to people to help them understand how the money is invested?

Testing new approaches

‘One idea is to develop a tool to help people work out how much they will get from their State Pension’...

Do people want to see numbers? Do they like the idea of an online tool? Would a calculator help? Is it about number/amount at end or more about understanding process of calculation?

Would people use something that could calculate the offset for them? Would having an amount generated through a tool be all that’s required? What information would people want to know?

Conclude/summing up...In addition to some of the ideas presented above i.e. pots, language, case studies and diagrams...how else can we present this to you that will help you understand the concept of contracting out?

NOTE TO CONTRACTORS: We need to ascertain whether any other visuals or narratives could work better than the ones we have developed.

Conclude: what do we know about language and ways to understand the offset?

ALL GROUPS BACK TOGETHER AS ONE....

Ideas for an alternative new State Pension – initial reactions

Slides 19-22

Introduce alternative State Pension

The government are thinking about changing the way the State Pension works. These are very early stages in the government’s thinking and so nothing is definite. An alternative State Pension might look like this

Slide – page 113

Can we probe on reactions to all the information but in particular understanding of **30 year cap, £140 amount and receiving money directly from the state** (statement in slide 19)?

Continued

What are your first thoughts?

- How does it compare to what you already know about the **current** State Pension?
 - Key similarities
 - Key differences

- Any immediate questions/areas of uncertainty?

- How simple does this seem?

- Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?

- How fair does this seem?
- Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?

- How adequate is the amount?
- How does this compare to the current State Pension system?

4. Transition

15 minutes

Read out: ‘There are a number of issues to consider when moving from one system to another, such as how will it happen and what will happen to payments already made. We want to explore one of these ‘transition’ issues in greater depth, to understand your views.’

TRANSITION

Slide – pages 141

This section will explore the basic concept following on from basic principles of transition. It will explore what people think about what will happen during the transition process and whether they think it should/can happen overnight or whether they understand moving from one to another means complexity in short term? Also we need to know whether the transition makes the proposition seem muddled. Does it detract from the fairness/certainty or alternatively does it really not matter when people are weighing up the new system as it exists under the current?

Read: The proposed changes will happen in 2016 – some people will have contributed under the current State Pension system and will continue to contribute under the new system.

Probe: Ask how people feel about the transition.

Continued

What are the key concerns?

- How do people feel about the principle that all that has been accrued pre-2016 is honoured but after 2016 the new caps and rules apply?
- Does this influence their views about the alternative system – simplicity, certainty and fairness?
- How do people feel about the principle that all that has been accrued pre-2016 is honoured but after 2016 the new caps and rules apply?
- Does this influence their views about the alternative system – simplicity, certainty and fairness?

Under the new system the £140 amount will be made up from previous contributions prior to 2012 from periods of contracting out. This is the same concept as under the current State Pension system.

The £140 will not all come from the State as previous National Insurance contributions and periods of contracting out will be recognised.

PROBE: what does this mean in terms of certainty around the £140 amount? What do people take from the fact that during transition the amount they receive will not be £140 exactly, the amount could vary.

Explore trade offs between certainty and payments already made being honoured.

Do reactions to the fact that we can't say all the amount will come from the state (as we have said before) change given the context of slide 19 and 20? Or are the positives/negatives of the new system still present?

Thanks and end

Stage 3 Topic guide – Young people

Single tier pension

Topic guide (Stage 3 YP)

Aims

- Explore reactions to the principle of a single tier State Pension in terms of simplicity, fairness and the potential impact on their financial planning for retirement:
 - understanding of the proposed single tier system;
 - views about how contributions to a single tier pension might work; examining the positives and negatives of the new system;
 - views about how much they might receive and how that might influence their approach to retirement planning;
 - any questions that might arise about how a single tier pension might be introduced and transition arrangements;
 - views on how single tier pension fits with wider pension reform and automatic enrolment? How do the messages/reactions to the two fit together?

NB: The topic guide is intended to give structure to the discussion but is flexible – so the order in which the topics and stimulus materials are introduced may be adapted according to the individual group dynamic and priorities.

1. Introduction and warm up

10 minutes

Introduction

- Thank group discussion attendees for taking part
- Introduce self, TNS-BMRB and The Futures Company
- Study commissioned by Department for Work and Pensions
- Study to explore their views about some potential changes to the State Pension
- Role of TNS-BMRB/The Futures Company – independent research organisations, gather all opinions; all opinions valid, okay to disagree with each other
- Session to be viewed by colleagues from Department for Work and Pensions
- Confidentiality:
 - reassure all responses anonymous and that information about individual cases will not be passed outside the TNS-BMRB/The Futures Company/DWP research team
 - remind participants that the discussion remains confidential
- Recording the session – transcribe for quotes, no detailed attribution when reporting

Continued

About the participants

...tell us a little about yourself...

- What they do for work
- Whether they get paid weekly or monthly
- What their interests are
 - Whether interested in personal finances
- How knowledgeable they feel they are about pensions
- Whether they have thought about retirement financially
- Do they know how much State Pension they will get?
- Any financial plans for retirement
 - E.g. occupational/private pension; other sources of income
 - How much they think they need for retirement
 - PROBE – How does the State Pension feature in financial plans for retirement, will it be sole retirement income or a top-up?
 - If not, when?

2. Current awareness and knowledge of the State Pension

10 minutes

Private response exercise

Before we introduce a new idea for how the State Pension could work, we'd like to understand what they already know about the current system. Respondents to individually record on a piece of paper

- c) How much they think they'll get from State Pension
- d) How the current State Pension is calculated

Discuss as a group

- What do they know about the current State Pension system?
 - Ask people to describe how the pension they will receive in retirement is made up
 - How much is it?
 - Does everyone get the same amount or does it differ? Do you know why?
 - Do you know how the State Pension is paid for?
 - Do you know how long you need to contribute in order to receive the full State Pension?
 - How much do pensioners get?
 - How much do you think they should get?
 - What else do they get (bus passes etc)?

Continued

- What do YOU think of the current State Pension arrangements?
 - Structure
 - How easy to understand
 - How fair it is
 - How easy to work out how much you will get
 - Whether this will be sufficient to meet their needs in retirement
 - How easy it is to work out how much to save for retirement?
 - How much do they think they need for retirement? KEEP
 - Respondents to calculate a rough estimate KEEP

3. Ideas for an alternative new State Pension – initial reactions

10 minutes

Explain that, before we introduce ideas on how the State Pension should work, we'd like to know what system they would create if they were making the decisions.

- When thinking about a State Pension, what is important to you?
- What is a State Pension for? (i.e. to cover basics; basis for saving; other)
- What do you think would make a better system?
- What would be a fairer system for the State Pension?
- What would be a simpler system?
- Any other thoughts on what would improve the current system?

Introduce alternative State Pension

The government are thinking about changing the way the State Pension works. These are very early stages in the government's thinking and so nothing is definite. An alternative State Pension might look like this [Showcards 1 + 1A – page 121; Refer to show cards 2 + 3 + 3A if needed – page 122]

- What are your first thoughts?
- Any immediate questions/areas of uncertainty?
- How simple does this seem?
- How fair does this seem?
- Is it fairer than the current State Pension?
 - In what way is it fairer
 - In what way is it less fair
- How adequate is the amount?
- How do you think you personally would be affected by this change?
- If this new State Pension was introduced now how do you think it would affect people's approach to planning for retirement?
- How would it affect **your** planning for retirement?

Continued

-
- What three words would they use to describe the alternative system as it's been described?

5. Getting into the detail

45 minutes

National Insurance contributions and the 30 year cap (getting out what you put in)

Show cards 4 + 4A – pages 115-116

As with the current State Pension system you qualify for the State Pension through National Insurance contributions. Under the current system you qualify for a full basic State Pension after building up 30 qualifying years. If you continue contributing National Insurance you can build up extra pension through the additional State Pension

- What do you think about this?

One aspect of an alternative State Pension would be a 30 year cap. You may work longer and continue to pay National Insurance contributions but you will not receive extra State Pension

- What do you think about this?
- Do you think it's an improvement? Why/why not?
- Does this make the alternative State Pension simpler?
- Does this make the alternative State Pension fairer?
- How do you feel about some people receiving less money under the alternative State Pension system in exchange for a system where more people are likely to understand how it works? PROBE HIGHER INCOME GROUPS
- Is it fairer that by paying everyone the same amount, some people may receive more and some people may receive less than they would have received under the previous State Pension system?
- Does this have any impact on your plans for retirement?

Auto-enrolment

Show card 5 – page 124

Greater focus with LOWER – MEDIUM income groups. Show card explaining principle of auto-enrolment

- In light of auto-enrolment how does the alternative State Pension make you feel about planning for the future?
- Does it help you think about planning for the future?

Continued

- How does it affect the way they see the alternative State Pension?
 - Any sense of reassurance here?
 - Any impact on how simple the alternative system is?
 - Any impact on how fair the alternative system is?
 - Any differing views on the amount of State Pension they'll receive?
 - Any areas of uncertainty/confusion?

Show card 5A + 5B – page 142

How simple are the messages for people to understand?

Are these the type of messages you would like to see?

What else would you like to see in terms of messages?

Are there any words/phrases/terminology/jargon that are confusing?

Is there a difference between how easily people understand the messages on 12A and how easily they understand those on 12B?

Is it possible to pull out the messages that most clearly communicate what automatic enrolment is?

Are there any immediate problems with the clarity of communication in any of the messages? (Not problems with automatic enrolment itself, just problems with people's understanding of what will happen.)

We do **not** need to test people's reaction to automatic enrolment itself, nor their propensity to opt out or stay opted in. These have been tested elsewhere.

To what extent are people ok with the term 'enrol'? Does this term undermine the feeling we know people want of being in control of financial decision making?

NEED SOME SORT OF SUMMING UP SECTION HERE ABOUT: now you know about the AE policy, how do you feel about the new alternative State Pension system? How do these two systems work together? Need to get at idea whether ST is seen as separate pot? Foundation? And whether react to idea about AE as being for something else? Negative reaction to ST after knowing more about AE or vice versa?

Aim: IMPORTANT TO SEE HOW THE PENSION REFORM PACKAGE SITS WITH YOUNG PEOPLE WHO WILL ARGUABLY BE MORE LIKELY TO SEE BOTH...

Explore the extent to which the ST and an auto-enrolled private pension look like a coherent package. Do they look as if they fit together, ie ST as the solid foundation and AE as the top-up? Or ST as the certain but basic bit, AE as the risky but possibly lucrative bit, etc. And as a package, do they give people some reassurance/certainty about the future? Does ST help people to understand and accept the risk inherent in a private (auto-enrolled) pension?

Transition

Show card slide 6 – page 143

- The proposed changes will happen in 2016 – some people will have contributed under the current State Pension system and will continue to contribute under the new system.
- How do people feel about the principle that all that has been accrued pre-2016 is honoured but after 2016 the new caps and rules apply?
- Does this influence their views about the alternative system – simplicity, certainty and fairness?
- How do people feel about the principle that all that has been accrued pre-2016 is honoured but after 2016 the new caps and rules apply?
- Does this influence their views about the alternative system – simplicity, certainty and fairness?

Contracting out and transition on retirement planning and saving behaviour

- How do you think you personally would be affected by this change?
- If this new State Pension was introduced now how do you think it would affect people's approach to planning for retirement?
- How would it affect **your** planning for retirement?

Language testing

- What words would you use to describe the alternative system?
- If you had to pick a name, what would you call the alternative system?

Allow full spontaneous response before prompting with show card

Show card 7 – page 131 detailing additional message testing – different ways to describe the alternative state pension – universal/foundation etc.

- Which of these words is clearer/easier to understand?
- Which, if any, suggest the alternative system is simpler to understand?
- Which, if any, suggest the alternative system is fairer?
- (Questions TBC)

6. Overall Views about an alternative State Pension system

10 minutes

- Explore:
 - Likes
 - Dislikes
 - Questions they have (PROMPT)
- Do you understand the different elements of the new system and their implications?

Continued

-
- Do you understand what you will get out of the new system?
 - Overall, do you think the alternative is better? Why?
 - How simple does this seem?
 - Is it simpler than the current State Pension?
 - In what way is it simpler?
 - In what way is it more complicated (if relevant)?
 - How fair does this seem?
 - Is it fairer than the current State Pension?
 - In what way is it fairer?
 - In what way is it less fair?
 - How do you feel about the overall package?
 - If this alternative State Pension was introduced now – with a definite pension of £140 per week – how would it affect **your** approach to planning for retirement?
 - Which three words would they now use to describe this alternative system now they've looked at it in more detail?
 - How do these words compare to those they used at the beginning of the session?

7. Finally...

5 minutes

- If you were designing a new State Pension to be simpler and fairer, what would you do?
 - How would you change your original ideas (discussed at start of section 3) in light of what's been discussed?
 - Thank everyone for their participation
 - End
-

Stage 4 Topic guide

Single tier – Transition

Topic guide

Aims

- Understand people’s view generally on the issue of transition.
- Explore levels of understanding of two alternative models – Green Paper Lockdown and Best 30.
 - What are people’s preferences – personally and from a societal perspective.
- Investigate how people trade off benefits of speed/length of transition, fairness, simplicity and certainty in light of the different models.

NB: The topic guide is intended to give structure to the discussion but is flexible – so the order in which the topics and stimulus materials are introduced may be adapted according to the individual group dynamic and priorities.

1. Introduction and warm up

10 minutes

Introduction

- Thank group discussion attendees for taking part
- Introduce self, TNS-BMRB and The Futures Company
- Study commissioned by Department for Work and Pensions
- Study to explore their views about some potential changes to the State Pension
- Role of TNS-BMRB/The Futures Company – independent research organisations, gather all opinions; all opinions valid, okay to disagree with each other
- Session to be viewed by colleagues from Department for Work and Pensions
- Confidentiality:
 - reassure all responses anonymous and that information about individual cases will not be passed outside the TNS-BMRB/The Futures Company/DWP research team
 - remind participants that the discussion remains confidential
- Recording the session – transcribe for quotes, no detailed attribution when reporting

About the participants

...tell us a little about yourself...

- What do you do?
- Who’s in your household?
- Whether interested in personal finances
- How knowledgeable do you feel you are about pensions?

Continued

- Have you thought about the financial issues regarding retirement/later life?
- What financial plans do you have (if any) for retirement?
 - E.g. occupational/private pension; other sources of income
 - PROBE – How does State Pension feature in financial plans for retirement, will it be sole retirement income or a top-up?

2. Introducing the current system

10 minutes

Discuss as a group

- What do you know about the current State Pension system and how it works?

Introduce current State Pension Stimulus 1 – page 112

- Any questions?
- How does this match with what you knew?
- Any surprises?

Introduce current State Pension Stimulus 2, 3, 4 (contracting out) – pages 144-145

- Any questions?
- How does this match with what you knew?
- Any surprises?

3. Introducing the alternative State Pension

Introduce alternative State Pension Stimulus 5 & 6 – page 121

- What are your first thoughts?
- How does it compare to what you already know about the current State Pension?
 - Key similarities
 - Key differences
- Any immediate questions/areas of uncertainty?
- How simple do you think this is? Compared to current State Pension?
- How fair do you think this is? Compared to current State Pension?
- To what extent do you think this will help people plan for the future?

Introduce State Pension Stimulus 7A & 7B – page 146 (increased National Insurance contributions)

Under the alternative system, you will no longer be able to contract out, so some people will pay increased National Insurance

- What do you think of this?
- How important is it that if your National Insurance increases you get something for it?

Continued

4. Transition

Introduce transition

The proposed changes will happen in 2016. From that date onwards, everyone will build up their State Pension under the alternative system. However, many people who are currently in work will have part of their working life under the current system and some under the new system.

- What do you think would be the issues to do with switching to the alternative system? What would be your concerns?
- A – How would you feel if they just introduced it on one day in 2016 and after that everyone would get £140 (who had accrued 30 qualifying years)?
 - How would other people feel about this?
 - How simple do you think that would be?
 - How fair?
 - What about people who had contracted out?
 - What about people who had built up more than 30 years under the current system/built up some additional State Pension?
- B – How would you feel if this only applied to people just starting to pay National Insurance contributions now? What would be the impact of that?
 - How simple do you think that would be?
 - How fair?

Introduce Stimulus 8 – page 147

Here are some of the different consequences of either of these alternatives.

- What do you think of these issues?

5. Transition options

We'd now like to explore two alternative ways of bringing about the transition

Stimulus 9 & 10 – pages 147-148 – Option C

Stimulus 11 & 12 – pages 148-149 – Option D

INTRODUCE 1st OPTION (ROTATE THE ORDER)

- What questions do you have? What needs clarifying?
- What do you think of this as a method?
 - How simple do you think that would be?
 - How fair?
 - Are there any particular people who you think might benefit?
 - Are there any particular people who would lose out? Would that matter?
 - Why do you think the Government are thinking about doing it this way? What would it achieve?

Continued

INTRODUCE 2nd OPTION

- What questions do you have? What needs clarifying?
- What do you think of this as a method?
 - How simple do you think that would be?
 - How fair?
 - Are there any particular people who you think might benefit? Are there any particular people who would lose out? Would that matter?
 - Why do you think the Government are thinking about doing it this way? What would it achieve?

LOOKING AT BOTH OPTIONS

- What's the difference between the two?
 - Is one simpler than the other?
 - Is there one that's fairer?
- How important is it that you understand the details of this?
- Is it fair under Option D that even though someone has made reduced contributions they might not be fully 'penalised' for the calculation because DWP are taking only the 'best' years?

Introduce STIMULUS 13 – page 149

- What do you think about the idea of being able to build up the alternative State Pension to £140?
- How important is it to be able to do this?
- What do you think about the fact that people who have been contracted out and contributing to their private pension would now have the opportunity to increase their State Pension, whereas those who did not contract out would not be able to as they may already be at £140?

SHOW COMPARATIVE FACTS – STIMULUS 14 – page 150

- Now you have seen the impact of these on what pension people get and when, what do you think?
- What's the difference between the two?
 - Is one simpler than the other?
 - Is there one that's fairer?
- What's the most important thing when thinking about this?

6. Wrap up

- If you had to make decisions about transition, what would be the most important things to bear in mind?
 - What should we tell DWP/ministers?
-

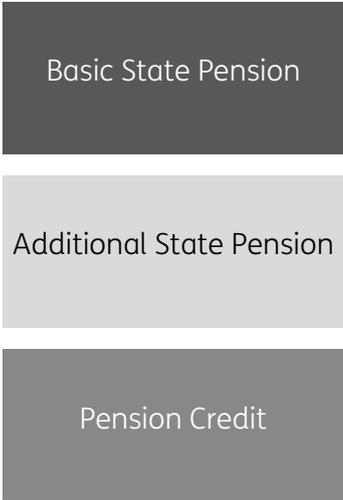
Appendix C

Research stimulus materials

Research stimulus Stage 1

Show card 1 The current State Pension system

- People who qualify for the existing State Pension get different amounts.
- The amount people gets varies, mostly between £100 and £200 per week. The average is £130 per week.
- To qualify for the State Pension, people are required to have made National Insurance contributions while living and working in the UK.
- It requires 30 years of National Insurance contributions in order to receive the maximum amount of basic State Pension. You can continue to earn additional State Pension after 30 years.
- People on low incomes can apply for Pension Credit to top their income up to £132.60 per week.



The diagram consists of three vertically stacked rectangular boxes. The top box is dark grey and labeled 'Basic State Pension'. The middle box is light grey and labeled 'Additional State Pension'. The bottom box is medium grey and labeled 'Pension Credit'.

Show card 2

An alternative State Pension

- Everyone who qualifies fully will receive the same amount once they reach State Pension age.
- People would receive a weekly payment of £140 (at today's prices).
- To qualify for the State Pension, people would be required to have made National Insurance contributions while living and working in the UK.
- It would require 30 years of National Insurance contributions in order to receive the full weekly pension.
- Those who do not qualify for the full pension can still have their pension topped up with Pension Credit.
- The way the pension is increased each year will be more generous than now.

Alternative State Pension

Pension Credit

Show card 3A

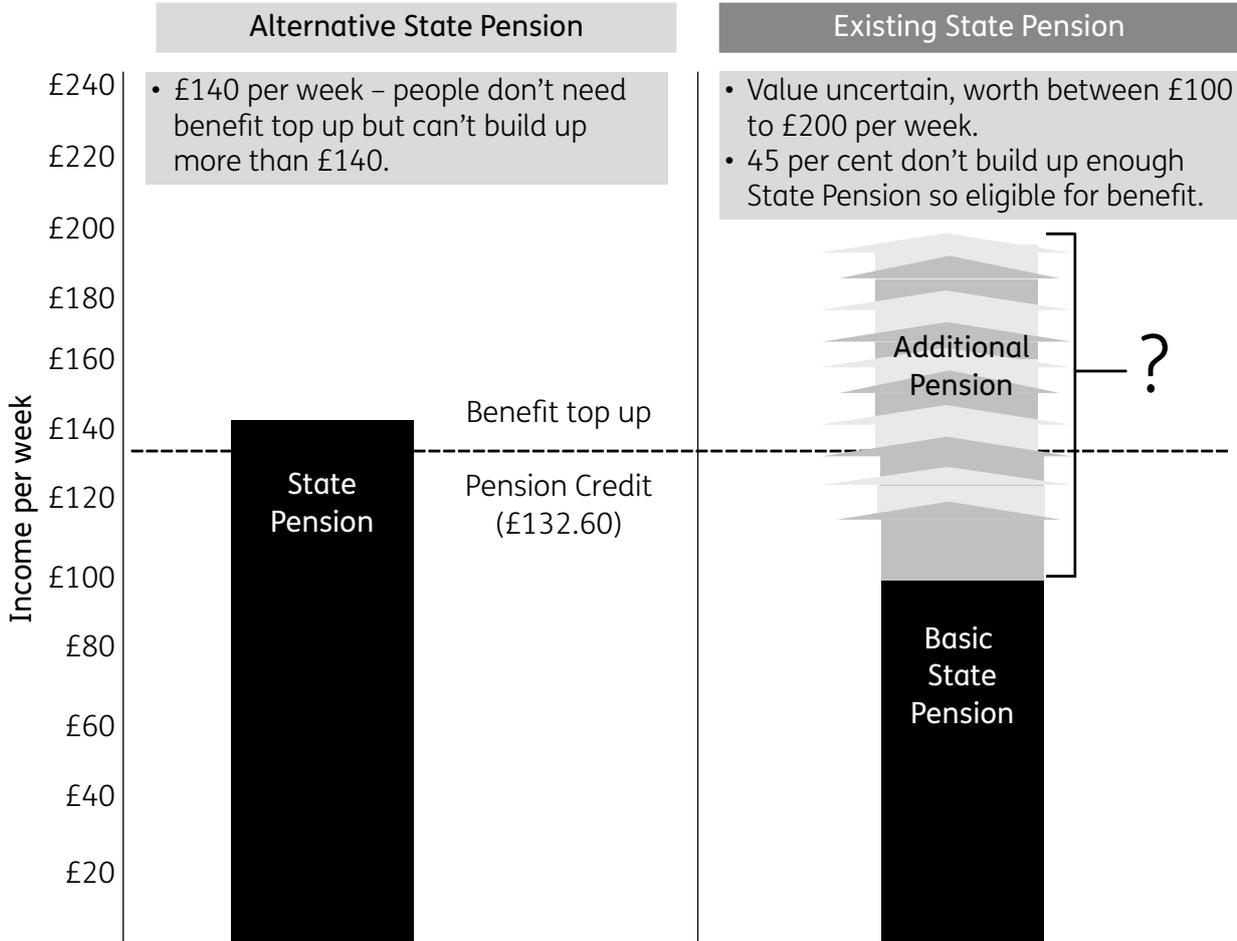
Alternative State Pension

- Everyone who qualifies will receive the same amount once they reach State Pension age.
- People would receive a weekly payment of £140 (at today's prices).
- To qualify for the State Pension, people would be required to have made National Insurance contributions while living and working in the UK.
- It would require 30 years of National Insurance contributions in order to receive the full weekly pension.
- Around one in ten may have to top up their income with Pension Credit.
- The way the pension is increased each year will be more generous than now.

Existing State Pension

- People who qualify for the existing State Pension get different amounts.
- The amount people get varies, mostly between £100 and £200 per week. The average is £130 per week.
- To qualify for the State Pension, people are required to have made National Insurance contributions while living and working in the UK.
- It requires 30 years of National Insurance contributions in order to receive the maximum amount of basic State Pension. You can continue to earn additional State Pension after 30 years.
- Around four in ten qualify to top up their income through Pension Credit.
- The way the pension is increased each year varies.

Show card 3B

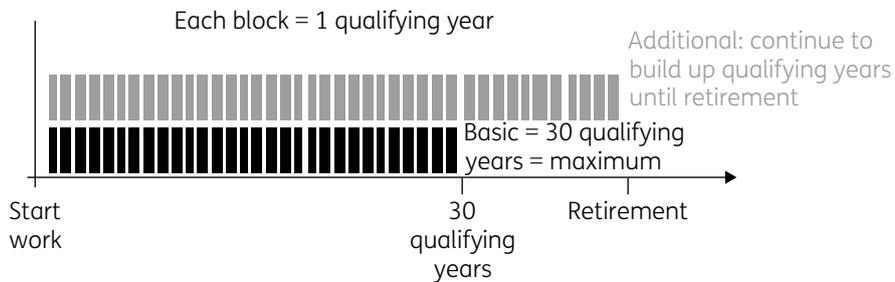


Show card 4A

Existing State Pension

- To qualify for the State Pension, people are required to have made National Insurance contributions while living and working in the UK.
- It requires 30 years of National Insurance contributions in order to receive the maximum amount of Basic State Pension.
- You can continue to to earn additional State Pension after 30 years.

People build up additional State Pension **at the same time** as building up a basic State Pension.
 Unlike the basic State Pension, there is no limit to the number of years you can build up additional State Pension – every year means that you get more when you retire.



Show card 4B

Alternative State Pension

- To qualify for the State Pension, people are required to have made National Insurance contributions while living and working in the UK.
- It would require 30 years of National Insurance contributions in order to receive the maximum amount of State Pension.

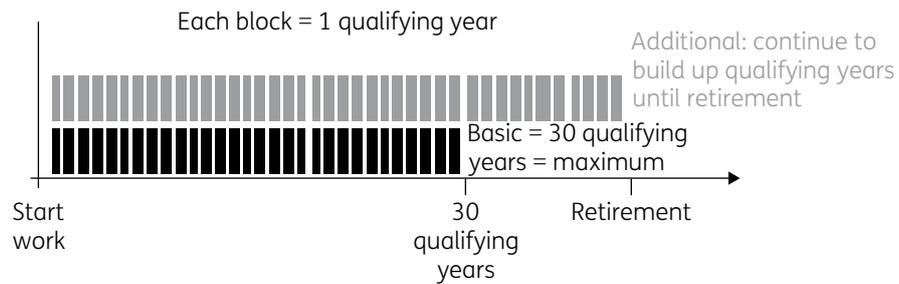
It would require 30 years of National Insurance contributions in order to receive the maximum amount of State Pension.



Show card 4C

Existing State Pension

People build up additional State Pension **at the same time** as building up a basic State Pension.
 Unlike the basic State Pension, there is no limit to the number of years you can build up additional State Pension – every year means that you get more when you retire.



Alternative State Pension

You get the maximum amount once you have built up 30 qualifying years.



Show card 5

The price of things like groceries, bills and travel usually increases over time, and so does the amount people earn. Usually, average earnings increase more quickly than the price of goods and services. The Government increases the State Pension each year to account for this inflation.

Alternative State Pension

- The new State Pension will go up by whichever is the highest of earnings, prices, or 2.5 per cent. So if average earnings increased by five per cent, and a typical basket of goods only increased by two per cent, the basic State Pension would increase by five per cent.

Existing State Pension

- The basic State Pension goes up by whichever is the highest of earnings, prices, or 2.5 per cent. So if average earnings increased by five per cent, and a typical basket of goods only increased by two per cent, the basic State Pension would increase by five per cent.
- People's additional State Pensions are increased differently. They only match the increase in what things cost. So if a typical basket of goods costs two per cent more to buy this year than last, people's additional State Pension will increase by two per cent.

Show card 6

The price of things like groceries, bills and travel usually increases over time, and so does the amount people earn. Usually, average earnings increase more quickly than the price of goods and services. The Government increases the state pension each year to account for this inflation.

Alternative State Pension

- Nine in ten people get the maximum amount of £140 per week.
- Around one in ten may have to top up their income with Pension Credit.

Existing State Pension

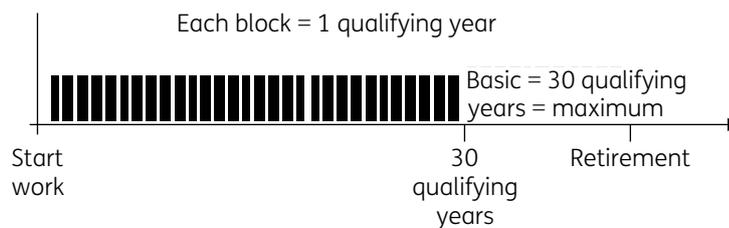
- Many people get less than £130 per week.
- Around four in ten qualify to top up their income through Pensions Credit – to £132.60 per week. You have to claim Pension Credit in order to get it.

How does the current Basic State Pension work?

Today people get around £3 per week for each qualifying year they have up to a maximum basic State Pension of £95.25 a week.

To get the maximum amount people must have 30 qualifying years.

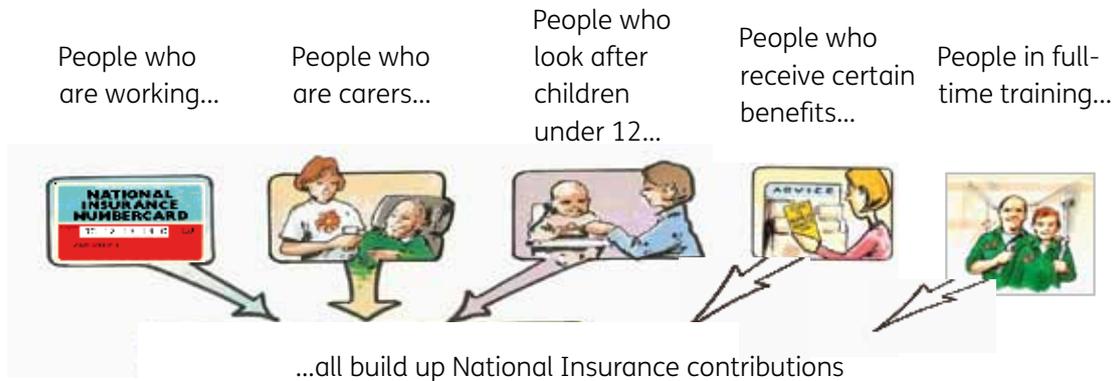
Once you have achieved 30 qualifying years it is not possible to build up any more basic State Pension entitlement. You do have to carry on paying National Insurance once you have achieved 30 qualifying years.



In case it's needed

How do I build up my State Pension?

Most people in the UK build up some State Pension



Each year that people build up National Insurance contributions is called a qualifying year.

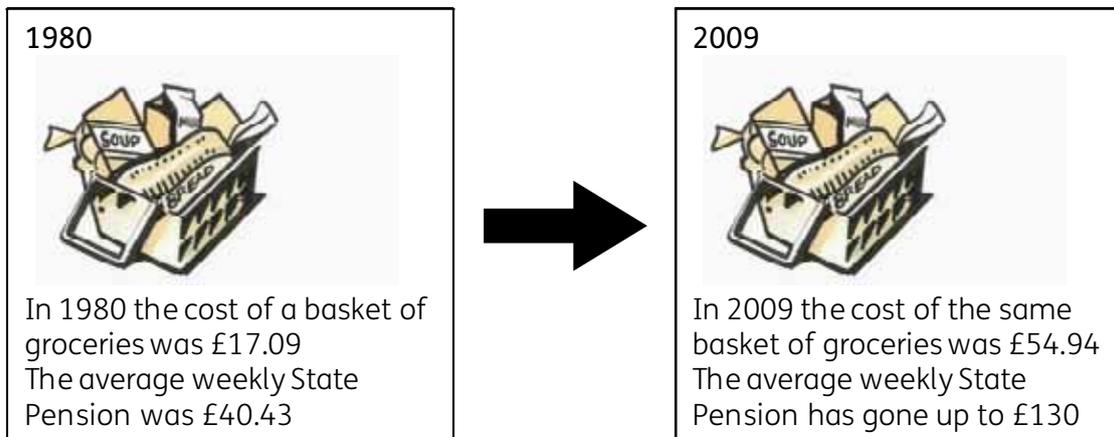
When people get to State Pension age the Government looks at their personal record to work out how much money they are entitled to. This depends on the number of qualifying years they have.

People who are not working, not actively seeking work and not claiming any state benefit do not build up National Insurance contributions.

In case it's needed

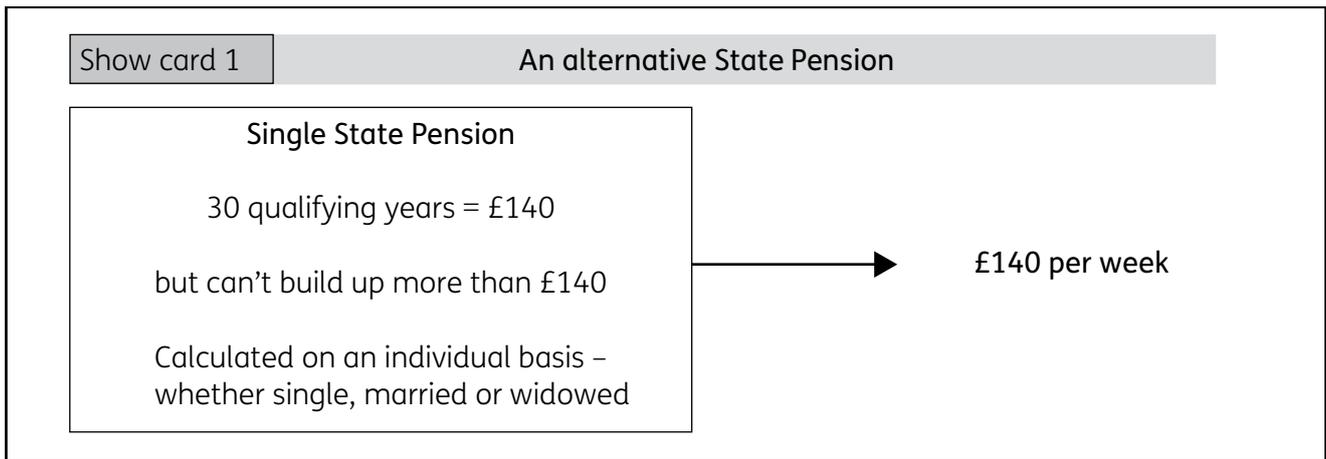
How much will it be worth when I retire?

State Pension amounts are always given in today's money. The value of the State Pension is protected, which means it will buy roughly the same in the future as it does now. Although the prices of things like groceries, bills and travel go up over time, the amount of State Pension people get also goes up each year in line with the cost of living.



In order to work out how far your State Pension will go when you reach retirement age, you need to think about how much people get now, how this compares with your current earnings, and what you could afford with that.

In case it's needed



- Show card 1A
- An alternative State Pension
- People would receive a weekly payment of £140.
 - Everyone who qualifies fully will receive the same amount once they reach State Pension age.
 - This weekly payment would be calculated on an individual basis.
 - To qualify for the State Pension, people would be required to have made National Insurance contributions while living and working in the UK:
 - It would require 30 years of National Insurance contributions in order to receive the full weekly pension.

Show card 3

State Pension age

- State Pension age is the earliest age from which you can start to draw your State Pension if you want to. But reaching State Pension age does not mean you **have** to retire.
- State Pension age is between 60 and 68, depending on when you were born.

Show card 3A

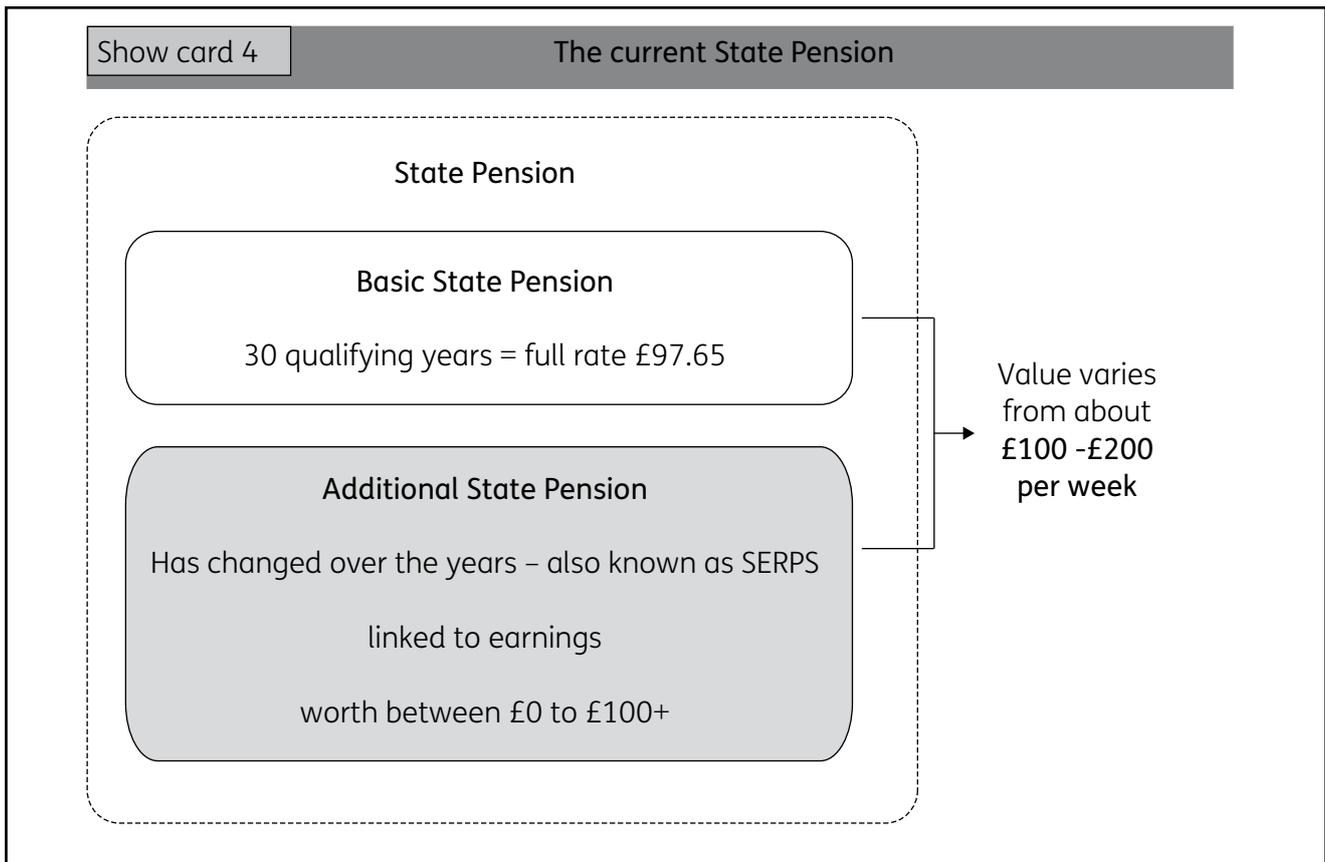
State Pension age

UK State Pension age is 65 for men and 60 for women.

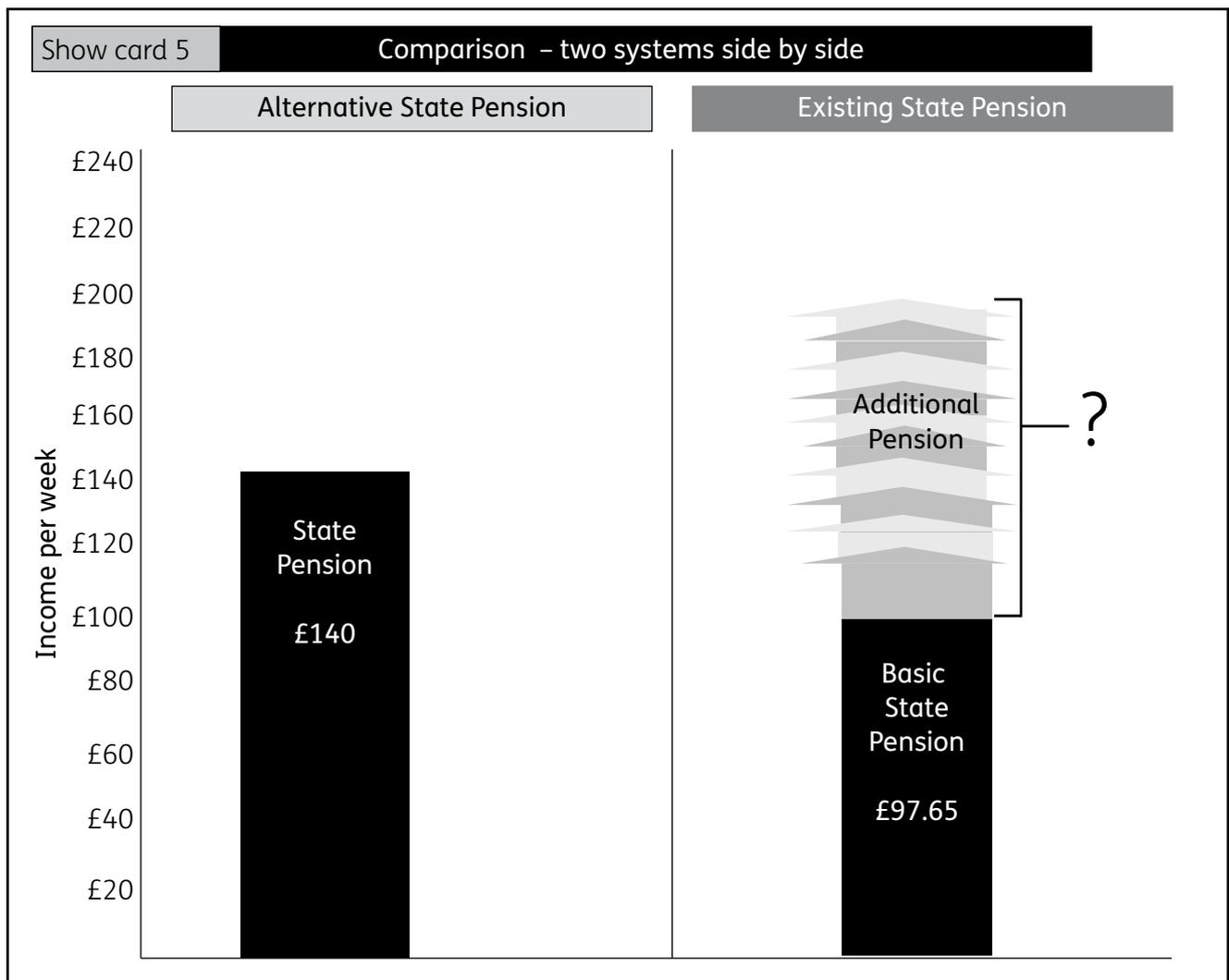
The State Pension age for women will increase gradually from 2010, so that by 2020 it will be 65. This means:

- women born on or before 5 April 1950 will reach State Pension age at age 60;
- women born on or after 6 April 1955 will reach State Pension age at age 65;
- women born on or after 6 April 1950 and on or before 5 April 1955 will have a State Pension age between 60 and 65.

Between 2024 and 2046 the UK State Pension age for both men and women is to increase from 65 to 68. The Government is reviewing the current timetable for increasing the State Pension age. No decision has yet been made as to how this timetable will change. Any change would require the approval of Parliament.



- Show card 4A State Pension age
- There are two elements to the current State Pension – basic and additional.
 - The amount people get varies, mostly between £100 and £200 per week. The average is £130 per week [Show card 9].
 - People who qualify for the existing State Pension get different amounts.
 - This is partly because of the additional State Pension:
 - Changed over the years.
 - Graduated Retirement Benefit.
 - SERPS.
 - State Second Pension.
 - Contracting out.
 - Pensions may not be calculated on an individual basis – couples' pensions are calculated differently.
 - To qualify for the State Pension, people are required to have made National Insurance contributions while living and working in the UK:
 - It requires 30 years of National Insurance contributions in order to receive the maximum amount of basic State Pension.
 - You can continue to earn additional State Pension after 30 years.



Show card 5A

Comparison – two systems side by side

- The alternative system will mean that people will know they will receive a weekly amount of £140, which will be allocated individually.
- The current system means that people are typically unaware of how much they will receive weekly, because of the Additional Pension component.
 - The amount of Additional Pension you will receive cannot be calculated by yourself, it requires a pension forecast – it can be difficult to predict accurately what you'll get until you're close to retirement:
 - People get more than average if...:
 - They have been a higher earner.
 - They have worked for more years.
 - They are or have been a full-time carer (including women looking after their children).
 - People get less than average if they have spent any time ...:
 - Self-employed living abroad.
 - Unemployed.
 - Not claiming benefits.
 - Low earners.

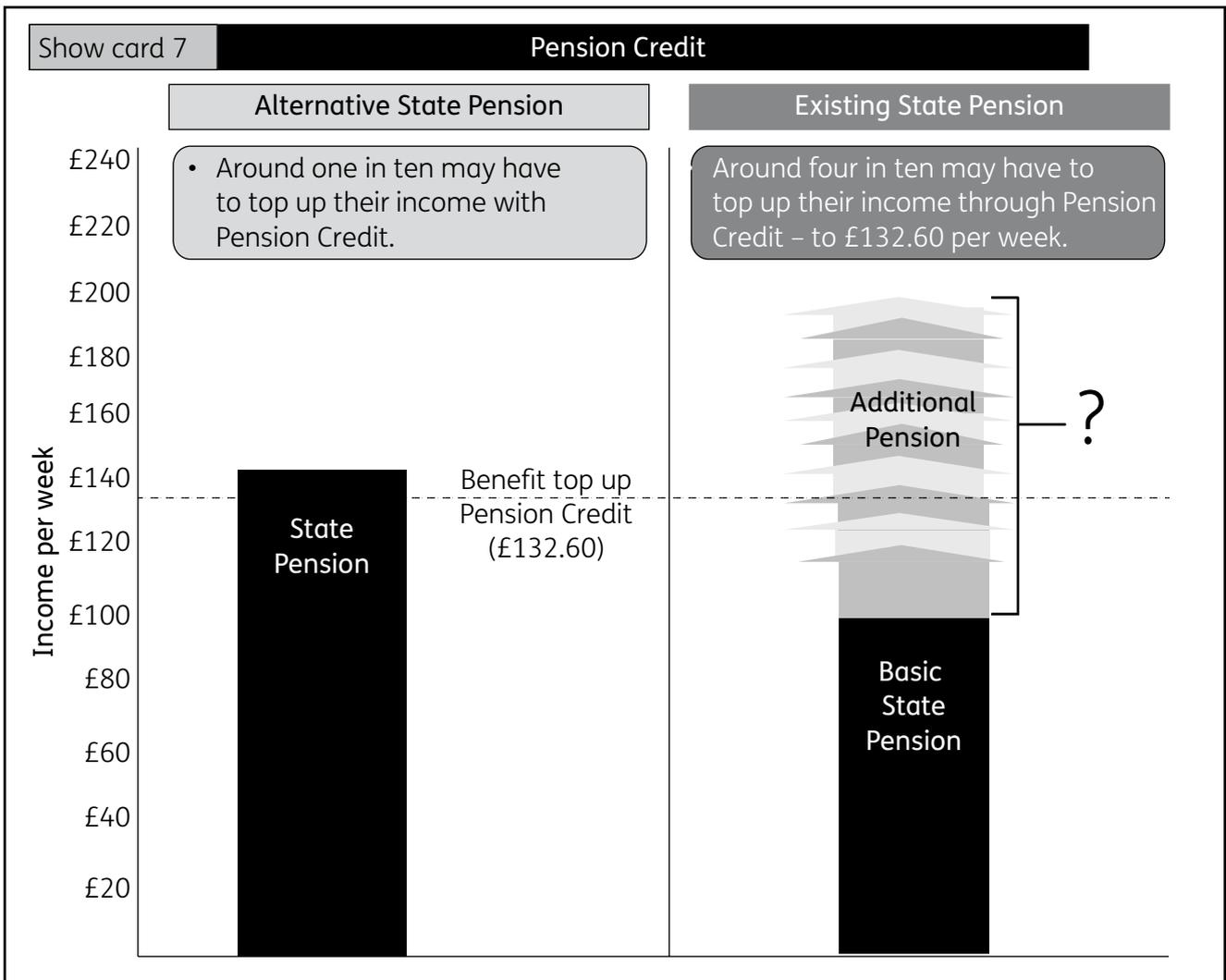
Show card 6

Pension Credit

The government ensures that people should not have to live on a weekly income below £132.60.

People who have an income below this after State Pension age can apply for Pension Credit to top up their income. Pension Credit is means tested – so your savings and any other sources of income are taken into account.

Pensioners have to fill out an application form with details of different sources of income, to determine if they are eligible for Pension Credit. It is not added to their pension automatically.



Show card 7A Pension Credit

Alternative State Pension	Existing State Pension
<ul style="list-style-type: none"> • Nine in ten people get the maximum amount of £140 per week. • Around one in ten may have to top up their income with Pension Credit. 	<ul style="list-style-type: none"> • About a third of current pensioners get less than £130 per week [Showcard 9]. • Around four in ten qualify to top up their income through Pension Credit – to £132.60 per week. You have to claim Pension Credit in order to get it.

Rate for couples:
For those getting the maximum amount under the alternative, they will receive £280, rather than £202.40 Pension Credit rate for a couple.

Show card 8A

Building up qualifying years

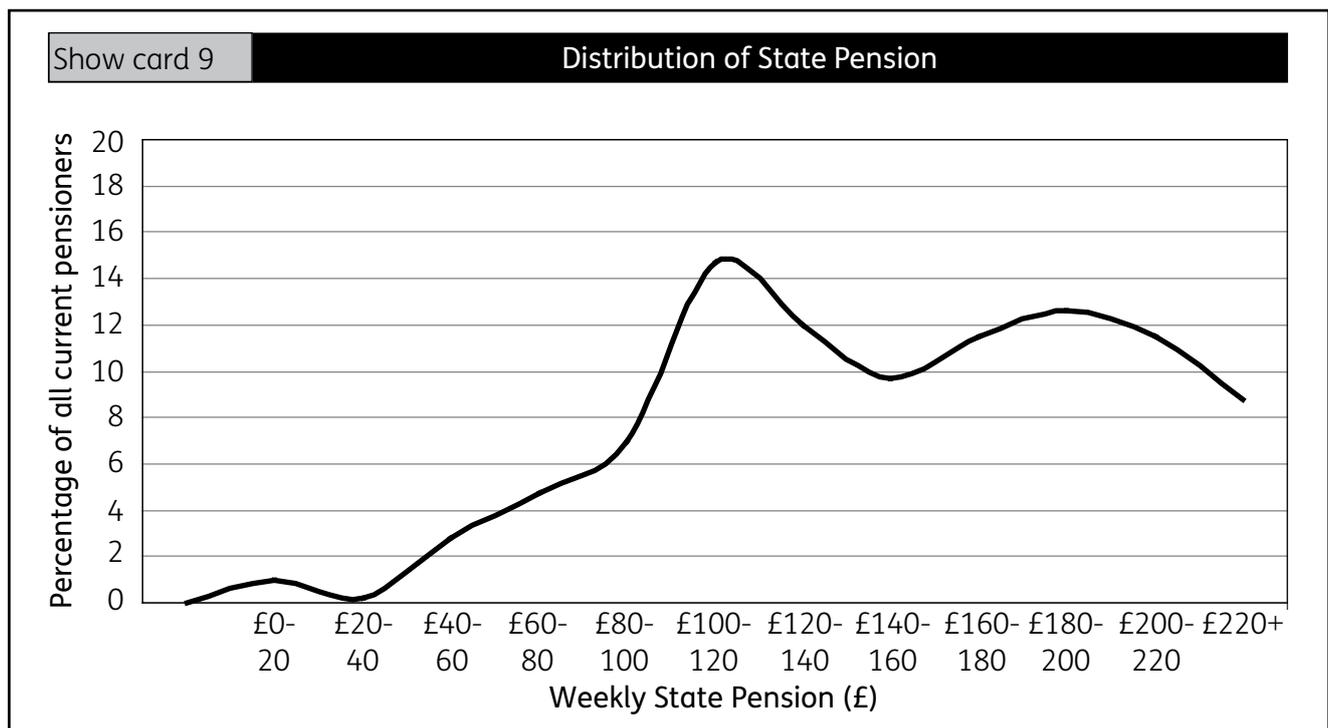
Existing State Pension

People build up an additional State Pension at the same time as building up a basic State Pension.

Unlike the basic State Pension, there is no limit to the number of years you can build up additional State Pension.

Existing State Pension

You get the maximum amount once you have built up 30 qualifying years.



Show card 9A

Distribution of State Pension

This is the spread of state pension (i.e. who gets what per week) for all current pensioners – *NB: this does not include pension credit:*

- Most people are getting between £120 and £160, but there is a wide spread.
- Quite a lot of people are getting more than £160 due to the additional pension they have built up – and these are more likely to be men
- Many are getting less than £120, and these are more likely to be women.

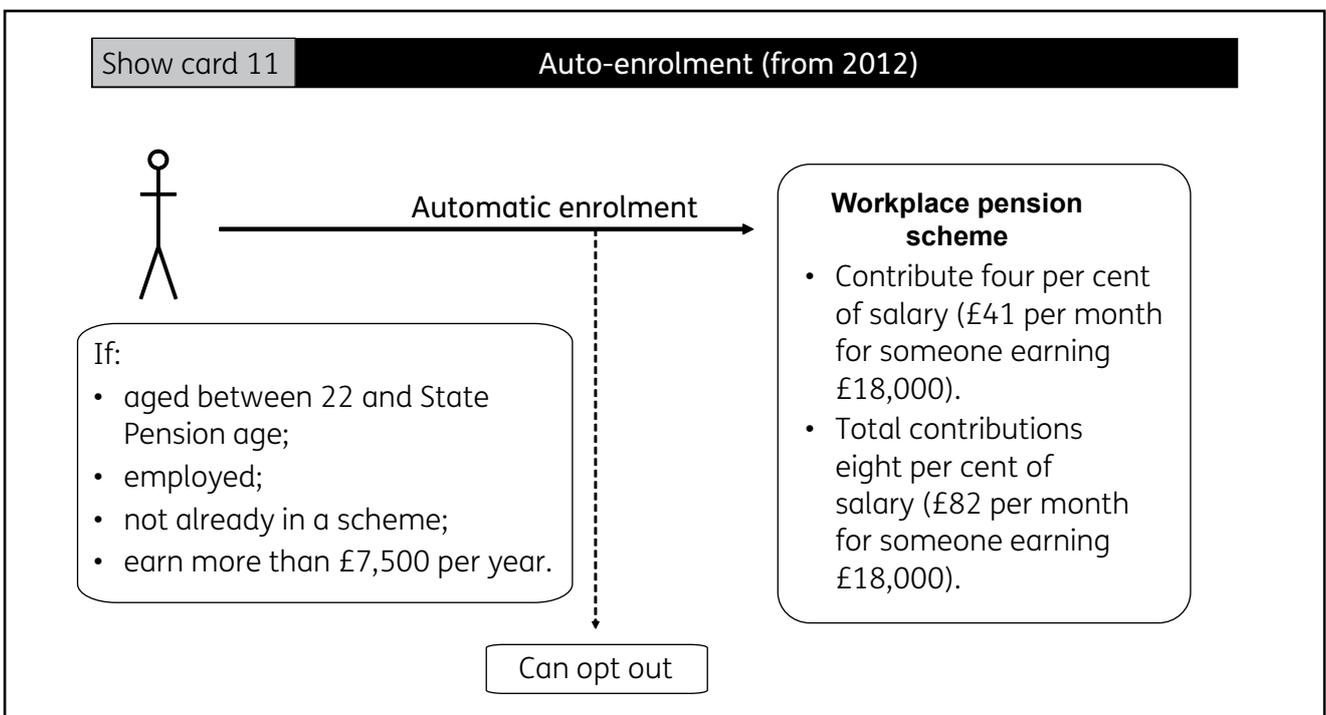
Show card 10
Amount received

£140 a week

£606.67 a month

£7280 a year





Show card 11A

Auto-enrolment (from 2012)

From 2012 onwards, millions of working people in the UK will be enrolled into a pension scheme by their employer. You could be one of them.

If you:

- are between 22 years old and State Pension age;
- earn more than £7,475 a year; and
- are not already in a workplace pension scheme you will be automatically enrolled into a scheme by your employer.

After you have been enrolled, you, your employer and the government will all contribute towards a pension for you. Contributions will be a minimum of eight per cent of salary in total. You may be required to contribute up to four per cent of your salary.

For example, if you earn £18,000 a year, you will contribute £41 per month from your salary, and £82 per month will go into your pension pot.

You will be given the option to opt out of the pension scheme if you do not want to.

Show card 12A

Transition process

- No one will lose out.
- National Insurance contributions and credits already paid will be recognised.
- Any changes would apply to **future pensioners** only, existing pensioners would be unaffected.

Show card 13

Language

Universal

Foundation

National

Certainty

Flat rate

Research stimulus Stage 3 – Main-stage Workshops (Additional material)

Contracting out

If you are an employee with annual earnings above a certain amount (£5,304 in 2011/12) you can choose to leave the additional State Pension scheme. You can join a private pension scheme instead. This is called ‘contracting out’. It is not possible to leave the basic State Pension.

How does contracting out work?

Contracting out works by you choosing to join your employer’s occupational pension scheme. When you join the scheme, both you and your employer will pay lower, reduced rate National Insurance contributions. When you retire, your second pension will come from your employer’s scheme and not from the additional State Pension.

1

Contracting out

Contracting out

By contracting out, instead of building up entitlement to the additional pension, an individual will instead transfer that pension liability to a private arrangement.

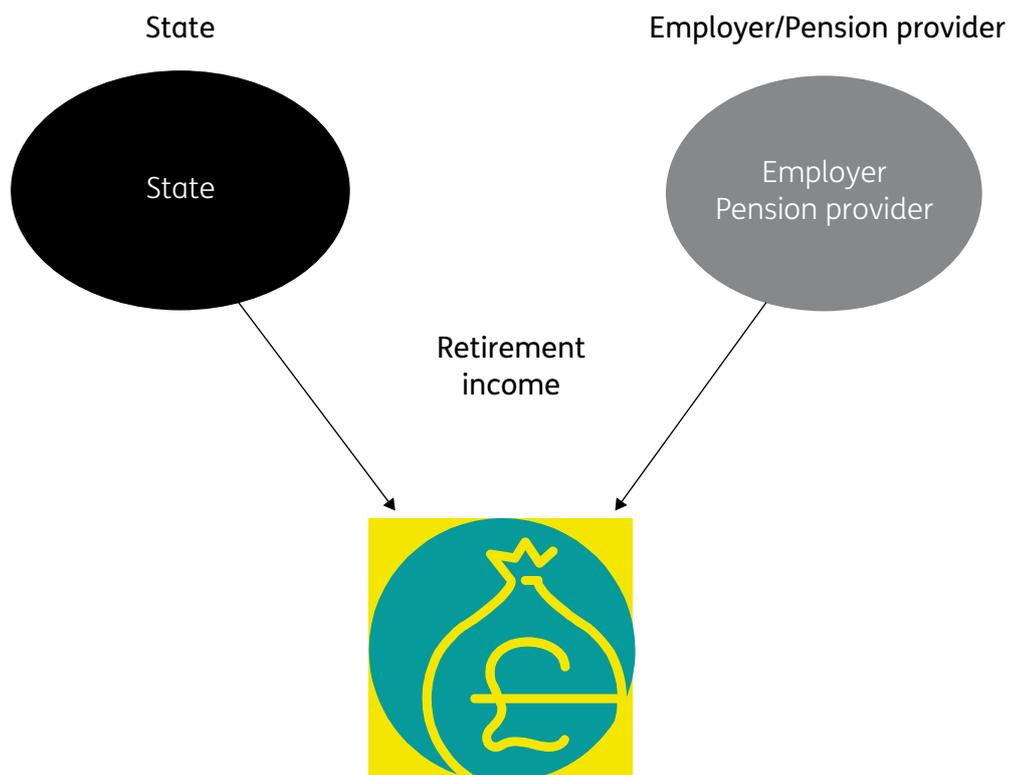
2

Key words

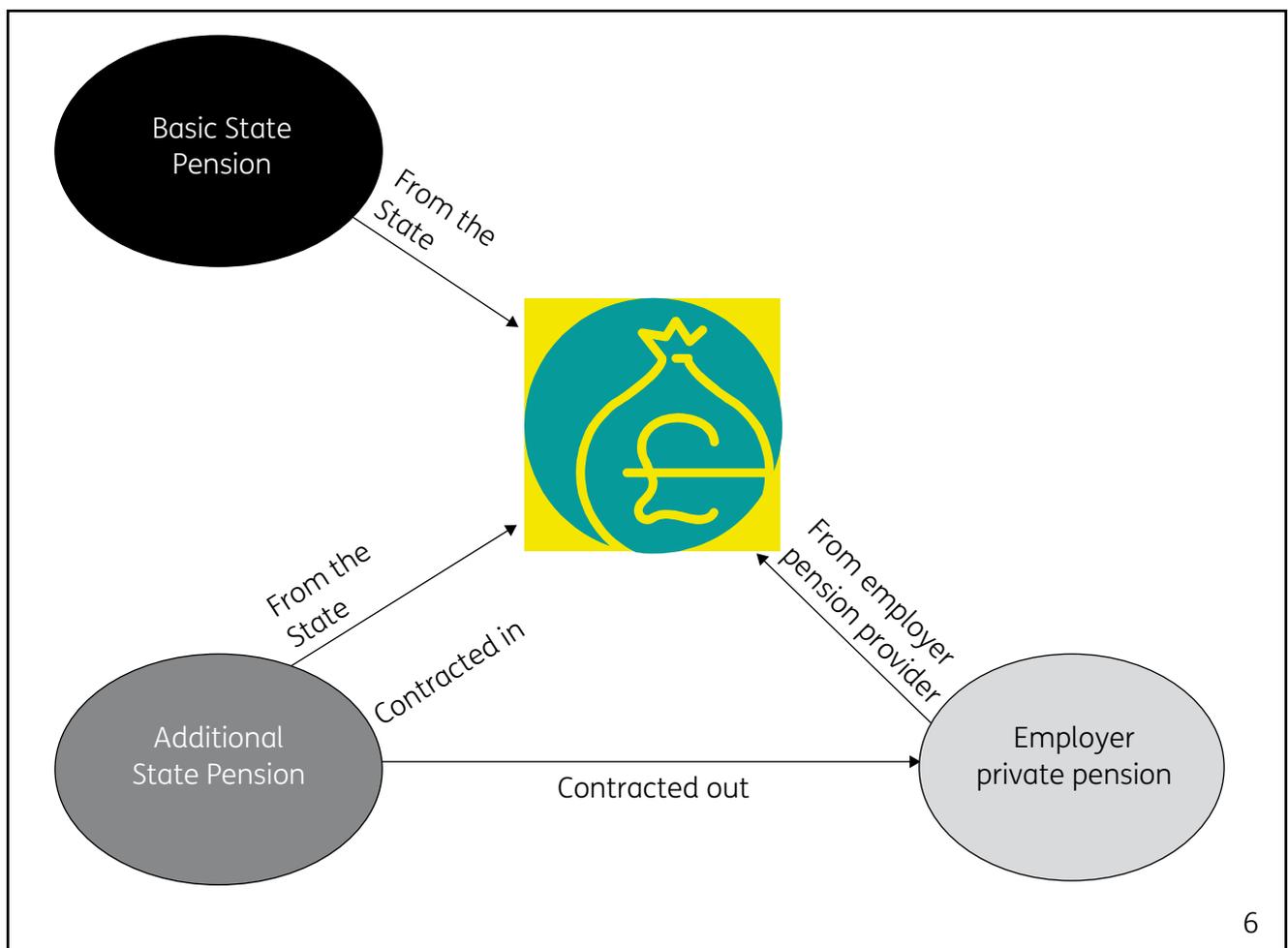
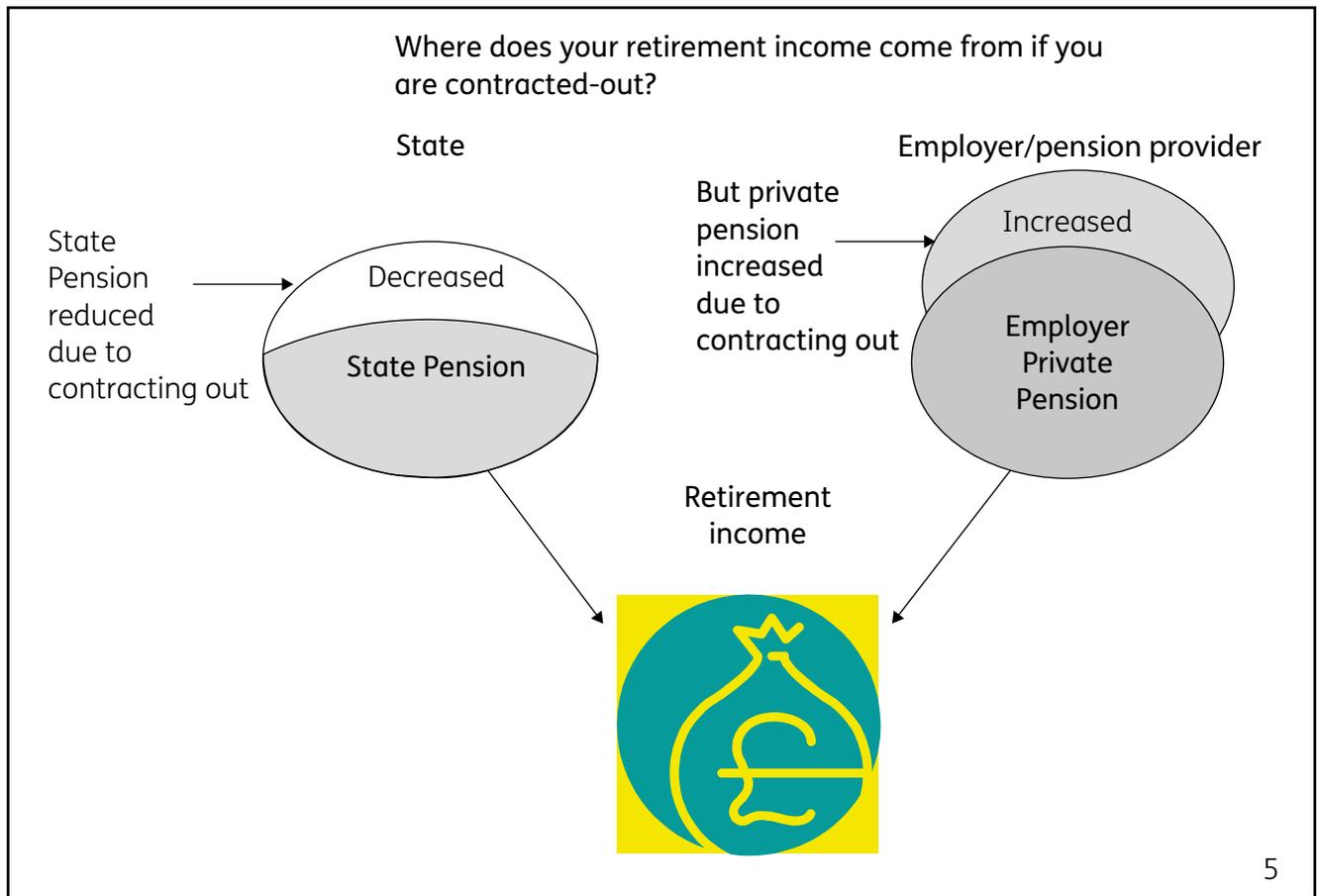
Contracted out
 National Insurance Rebate
 Offset
 Deductions
 Second pension
 Risk/chance Invested
 Decision
 Choice
 Opted to.../opted out of
 Company pension scheme
 Your own pension
 Your company scheme
 Pension pot/pension income
 Entitlement
 Getting out what you put in

3

Where does your retirement income come from?



4



Contracting out

What happens ...

- Everyone who works pays National Insurance contributions, which fund the State Pension, other benefits and the NHS.
- If you pay into a private pension you can choose to pay lower National Insurance contributions. This is called contracting out.
- The money you save from contracting out and paying less National Insurance contributions is used to increase your private pension.
- When you claim the State Pension the amount you receive is reduced because you paid less National Insurance contributions while you were contracted-out.
- But you don't lose out because your employer private pension has been increased by the extra funding while you were contracted out.

7

Employer private pension

- Some pension schemes take contributions and invest them, for example in the stock market, to try and generate better pensions for the individual.
- This will sometimes include contributions which have come from contracting out.
- The State assumes that these investments will turn out OK, so the person gets roughly the same pension as if they had remained contracted in.
- But the State doesn't actually know how the investments perform so it estimates how much private pension you will receive. If you are contracted out you may either receive more or less private pension.

8

Private pensions



Joe earned an average wage in four jobs during his working life. In two of the jobs however, he paid into an employer private pension. When he paid into an employer private pension he was contracted out of the State Pension. Because he paid less National Insurance when he was contracted out, he will still get £160 per week but £130 will come from the State and £30 will come from the employer private pension he paid into.

However, the exact amount of employer private pension paid does depend on the performance of the investments made by the pension scheme. If they do well, a greater amount will be paid. Alternatively, if they under-perform, less private pension will be paid.

So Joe may end up with more than £140 or less than £140.

9

Contracted in/out



Mark has worked for an average wage in four jobs during his working life and has never paid into an employer private pension. He will get £160 per week from the State.

Joe has also earned an average wage in four jobs during his working life. In two of the jobs however, he paid into an employer private pension. When he paid into an employer private pension he was contracted-out of the State Pension. Because he paid less National Insurance when he was contracted-out, he will still get £160 per week but £130 will come from the State and £30 will come from the employer private pension he paid into. The amount Joe gets could be higher/lower depending on the performance of his employer private pension scheme.

10

Case studies

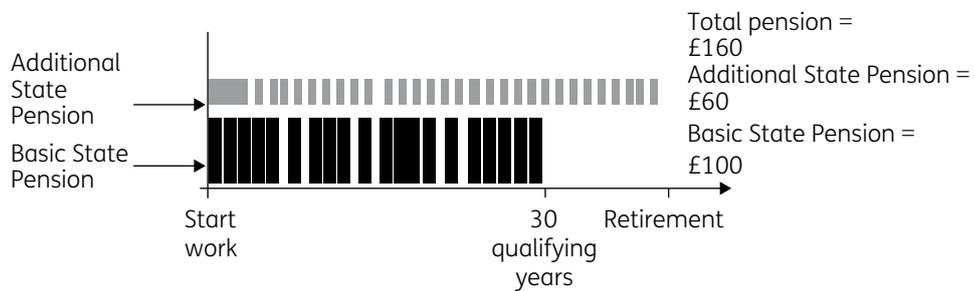


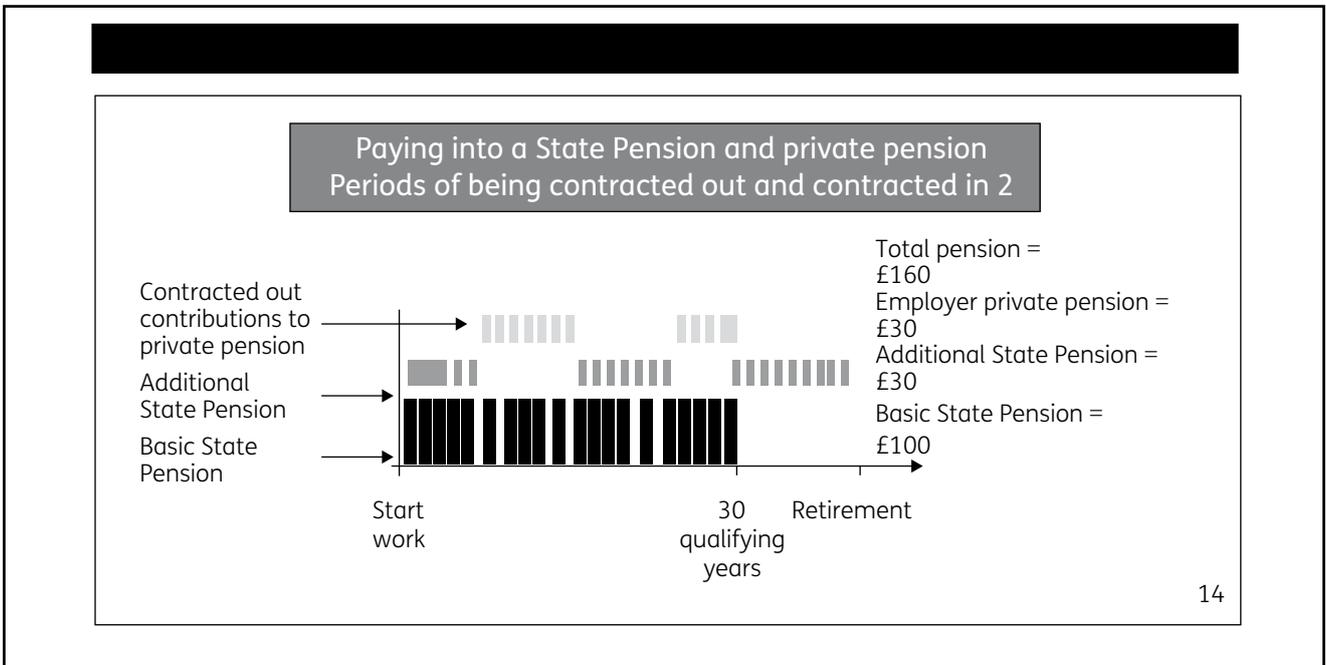
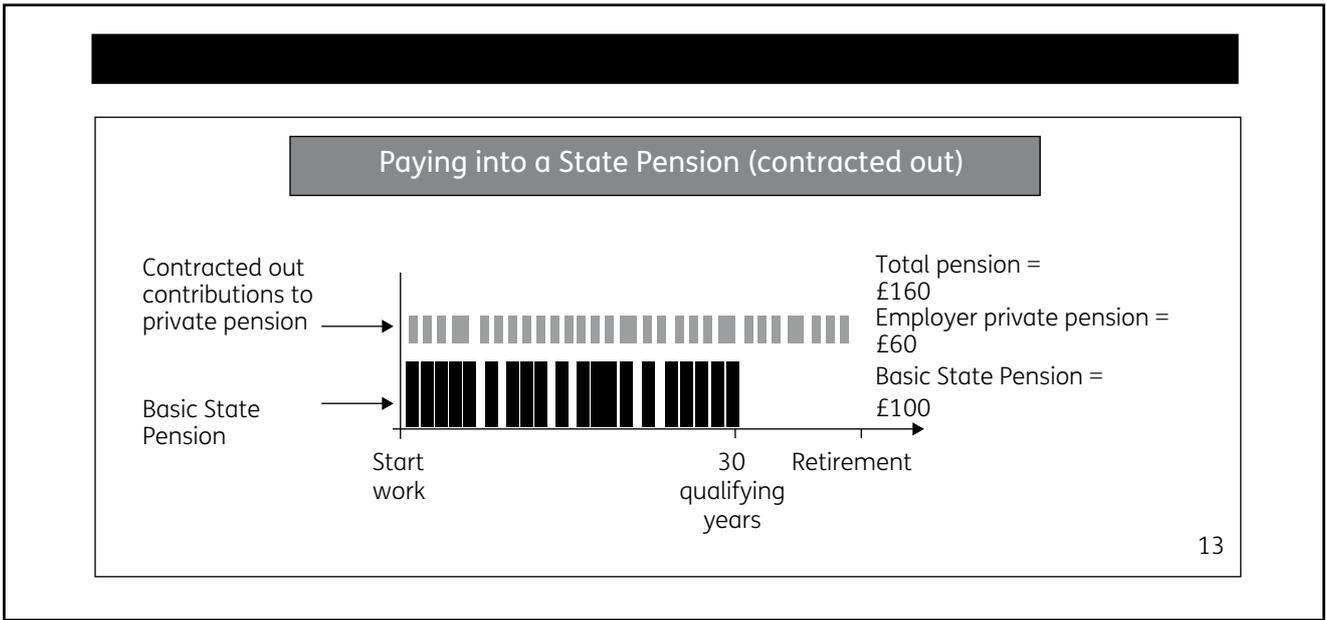
Mark has worked for an average wage in four jobs during his working life and has never paid into a private/workplace pension. Under the alternative State Pension system, he will get £140 per week from the State.

Joe has also earned an average wage in four jobs during his working life. In two of the jobs however, he paid into a private/workplace pension. When he paid into a private pension he was contracted out of the State Pension. Because he paid less National Insurance when he was contracted out, he will still get £140 per week but £100 will come from the State and £40 will come from the private pension he paid into.



Paying into a State Pension (contracted in)





How your State Pension is made up (1)

You have built a State Pension of £150 per week based on the National Insurance contributions you have paid during your working life.

This is made up of:

Basic State Pension	£100
Additional State Pension	£60
TOTAL	£160

As you have previously been contracted out and paid less National Insurance contributions as a result, some of this £160 will be paid to you by your employer private pension scheme.

Paid by the government (Department for Work and Pensions)	£130
Paid by your employer private pension scheme	£30

15

How your State Pension is made up (2)

You have built a State Pension of £120 per week based on the National Insurance contributions you have paid in your working life.

This is made up of:

Basic State Pension	£100
Additional State Pension	£20
TOTAL	£120

As you have previously been contracted out, and paid less National Insurance contributions as a result, you may be entitled to a further amount of pension through your employer private pension scheme. Please contact your employer private pension scheme for information on how much you will get.

16

How your State Pension is made up (3)

You have built a State Pension of £140 per week based on the National Insurance contributions you have paid during your working life.

As you have previously been contracted out and paid less National Insurance contributions as a result, some of this £140 will be paid to you by your employer private pension scheme.

The exact amount of employer private pension you receive is based on the performance of your pension scheme.

Paid by the government (Department for Work and Pensions) £120

Paid by your employer private pension scheme £20

17

How your State Pension is made up (4)

You have built a State Pension of £140 per week based on the National Insurance contributions you have paid in your working life.

As you have previously been contracted out, and paid less National Insurance contributions as a result, you may be entitled to a further amount of pension through your employer private pension scheme.

Please contact your employer private pension scheme for information on how much you will get.

The exact amount of employer private pension you receive is based on the performance of your pension scheme.

18

Transition

- When moving to a new State Pension system no one will lose what they have already built up, because any National Insurance contributions already paid will be recognised.
- But this means that some of the complexity from periods of contracting out will be carried forward into the new system.
- This complexity arising from the transition from old to new will remain for many years.
- After this, the new system will be much more straightforward.
- The changes would apply to future pensioners only; existing pensioners would be unaffected.

Research stimulus Stage 3 – Young people group
(additional material)

Show card 5A

Auto-enrolment from 2012)

All employers will have to offer a workplace pension to their workers from 2012 onwards.

If you are aged at least 22 and under State Pension age, earning £7,475 per year or more, you will be automatically enrolled into a workplace pension from 2012 onwards.

Your employer will automatically enrol most workers into a workplace pension. If you are not automatically enrolled you can choose to opt in. If you are automatically enrolled you will get a money/contribution from your employer into your pension pot.

The government will help with tax relief.

You pay less tax if you are paying into a workplace pension. Tax relief means that some of the money you pay in tax goes into your pension pot instead.

A hassle-free way to start saving into a pension is coming.

10

Show card 5B

Auto-enrolment (from 2012)

People who don't currently have a workplace pension will be enrolled into one from 2012 onwards.

From 2012 onwards all employers will start enrolling their workers into a workplace pension.

Soon your employer will enrol you into a workplace pension automatically.

When you pay into a workplace pension, your employer and the government will too.

11

Show card 6

Transition process

When moving to a new State Pension system no one will lose what they have already built up, because any National Insurance contributions already paid will be recognised.

But this means that some of the complexity from periods of contracting out will be carried forward into the new system.

This complexity arising from the transition from old to new will remain for many years.

After this, the new system will be much more straightforward.

The changes would apply to **future pensioners** only; existing pensioners would be unaffected.

12

Research stimulus Stage 4 (additional material)

Show card 2

Contracting out

If you are an employee with annual earnings above a certain amount (£5,304 in 2011/12) you can choose to leave the additional State Pension scheme. You can join a private pension scheme instead. This is called ‘contracting out’. It is not possible to leave the basic State Pension.

How does contracting out work?

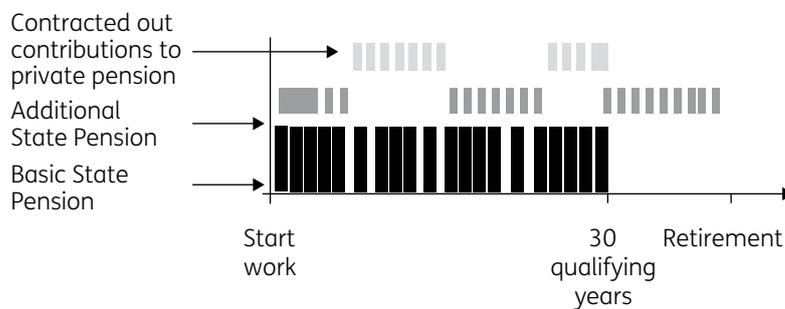
Contracting out works by you choosing to join your employer’s occupational pension scheme. When you join the scheme, both you and your employer will pay lower, reduced rate National Insurance contributions. When you retire, your second pension will come from your employer’s scheme and not from the additional State Pension.

2

Show card 3

How to build up a State Pension

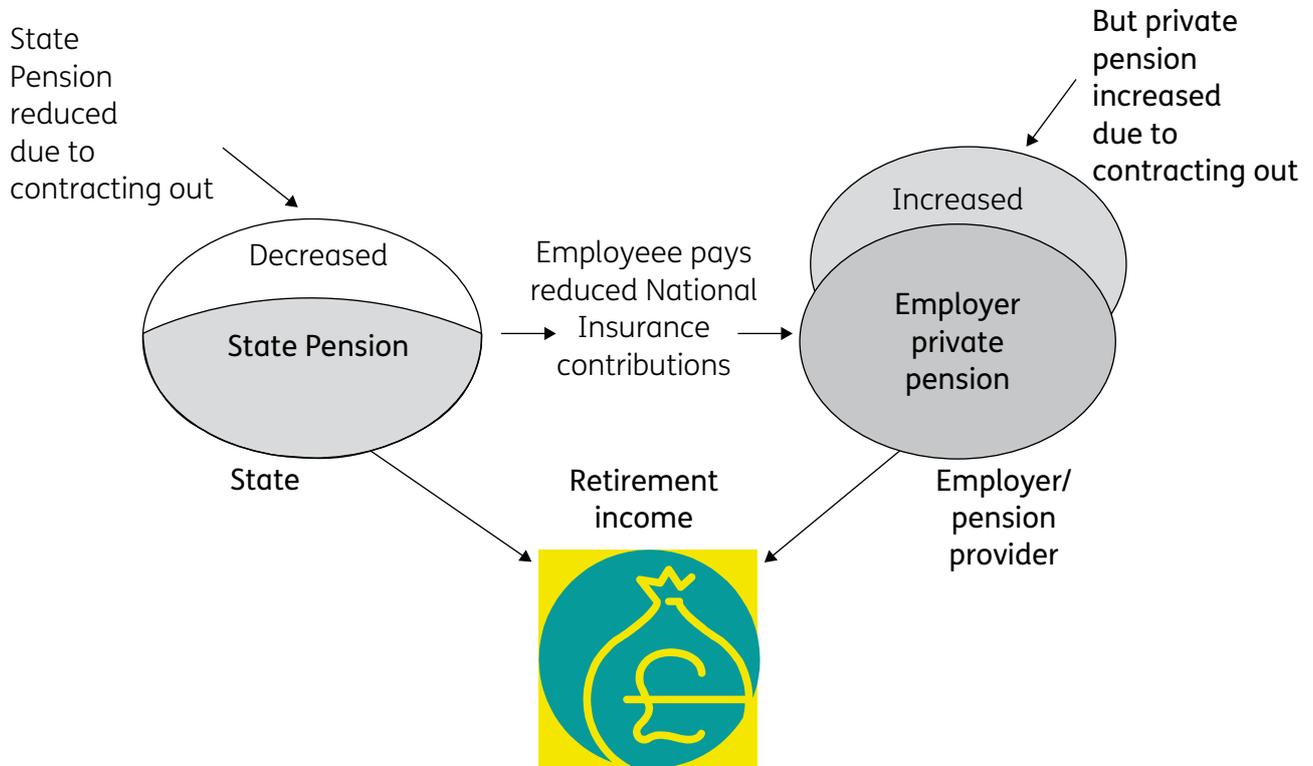
Paying into a State Pension and private pension
Periods of being contracted out and contracted in



3

Show card 4

Where does your retirement income come from if you are contracted-out?



Show card 7B

Under the single tier State Pension there will be no more contracting out

	Never contracted out	Previously contracted out	Currently contracted out
Contracted out status	Never contracted out of the additional State Pension	Previously contracted out of the additional State Pension, but subsequently contracted back in	Currently contracted out of the additional State Pension
National Insurance contributions (National Insurance contributions)	Currently paying full National Insurance contributions (therefore will not experience any changes in 2016)	Currently paying full National Insurance contributions (therefore will not experience any change in 2016)	Currently paying lower National Insurance contributions (therefore will experience an increase in National Insurance contributions in 2016, when they are effectively contracted back in)
Thirty or more years (i.e. paying full National Insurance contributions) by 2016	Those with 30 qualifying years of full National Insurance contributions by 2016 will receive £140 from the state (or more if they have built up more than 30 qualifying years prior to 2016)		
Less than 30 qualifying years (i.e. paying full National Insurance contributions) by 2016	Those with less than 30 qualifying years of full National Insurance contributions by 2016 will receive less than £140 from the state, but will be able to build up to 30 qualifying years from 2016		

Show card 8
Options A & B

Transition from the current State Pension to the alternative State Pension

All new pensioners receive a full State Pension of £140 from 2016

- All new pensioners with 30 years of National Insurance contributions receive £140 straight away.
- No complicated calculations.
- People who have paid different amounts of National Insurance because they contracted in/out will receive the same State Pension.
- Some people have built up more than £140 will lose out on what they have entitled to.
- Two people with the same histories but born a day apart could get different pensions.

Only people starting work for the first time in 2016 can receive a full State Pension of £140

- Does not interfere with people who are already building up their State Pension.
- There are no winners or losers who get more/less than they were expecting.
- People get what they 'sign up' to when they start paying National Insurance.
- Everyone entering the workforce would have the new pension and receive the same amount.
- It will be a very long time – 40 to 50 years away – before the alternative State Pension starts being paid.

Show card 9
Option C

Transition from the current State Pension to the alternative State Pension – one option

- In 2016 DWP compares what you would receive under the current system and what you would receive under the alternative system. You would receive the higher amount.

In 2016

- DWP calculates the basic State Pension and the additional State Pension under the current system in exactly the same way as it is done now.
- Then DWP looks at the alternative system and calculates the number of qualifying years you have and subtracts any deductions for all the years that you have been contracted out because you paid less National Insurance.
- Whichever is the greater of the two calculations is the amount of pension you have built up and is fixed.

What happens next?

- If at this point if your pension is less than £140 you can increase it to the maximum of £140 by adding an extra qualifying year for every year you work after 2016.

Show card 10
Option C

Transition from the current State Pension
to the alternative State Pension – one option

- National Insurance contribution to basic State Pension.
- National Insurance contribution to additional State Pension.
- Contracted-out period – less National Insurance paid .

- Individual has 40 years of National Insurance contributions.
- Individual has built up £140 as they have worked over 30 years.
- They have contracted in for 28 years.
- They have 12 contracted-out years – they paid less National Insurance but instead paid into a company pension.
- For every contracted out year (12) a deduction of about £2 is made – 12 years to be deducted.
- Pension = £140 – (12 x £2).
- Pension = £116.

Show card 11
Option D

Transition from the current State Pension to the alternative
State Pension – another option

- In 2016 DWP compare what you would receive under the current system and what you would receive under the alternative system. You would receive the higher amount.

In 2016

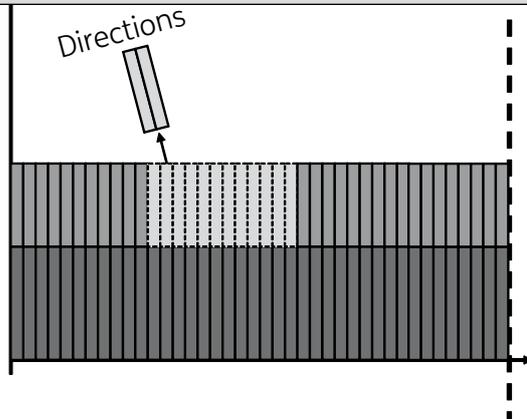
- DWP calculates the basic State Pension and the additional State pension under the current system in exactly the same way as it is done now.
- Then DWP looks at the alternative system and calculates the number of qualifying years you have built up. Only the best 30 years are taken into account. If, within your best 30 years, you do not have 30 full years of National Insurance contributions, deductions are only made for those missing years.
- Whichever is the greater of the two calculations is the amount of pension you have built up and is fixed.

What happens next?

- If at this point your pension is less than £140 you can increase it to the maximum of £140 by adding an extra qualifying year for every year you work after 2016.

Show card 12
Option D

Transition from the current State Pension
to the alternative State Pension – another option

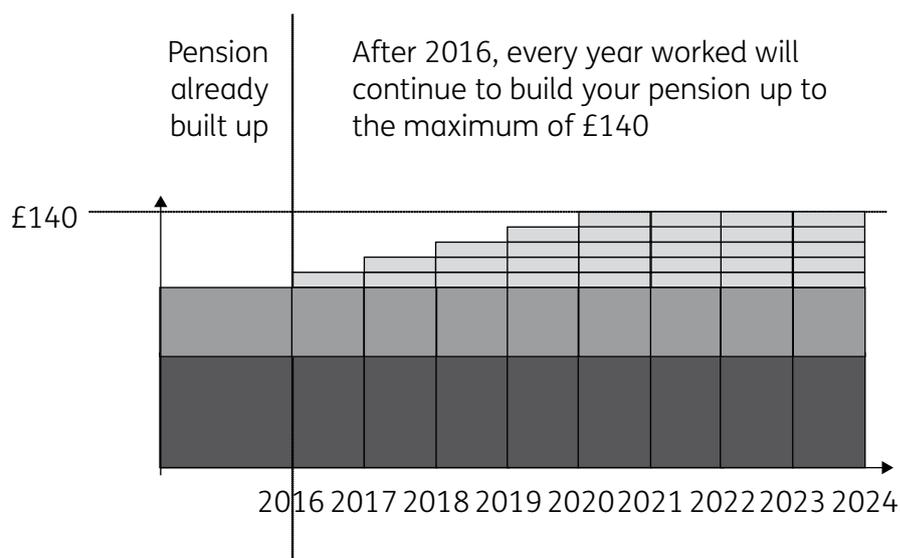


- National Insurance contribution to basic State Pension
- National Insurance contribution to additional State Pension.
- Contracted out period –less National Insurance paid.

- Individual has 40 years of National Insurance contributions.
- Individual has built up £140 as they have worked over 30 years.
- They have contracted in for 28 years.
- They have 12 contracted-out years – they paid less National Insurance but instead paid into a company pension.
- Taking the best 30 years there are only two years where they do not have full National Insurance contributions.
- For each of these years DWP deducts about £2.
- Pension = £140 – (2 x £2).
- Pension = £136.

Show card 13

Building up the alternative State Pension



Show card 14

Facts about the State Pension transition approaches

- Without some form of transition stage there would be a very long time before the new alternative State Pension of £140 was being received.
- Even by 2050 less than half of pensioners would be receiving a full alternative pension from the State.

Option C

- Under this option, around one-third of pensioners retiring at 2016 would receive at least the full £140 alternative State Pension.

Option D

- Under this option, around half of pensioners retiring at 2016 would receive at least the full £140 alternative State Pension.

This qualitative research study was conducted with respondents in a series of 23 focus groups and two workshops.

The aim of the research was to explore perceptions of whether the proposed Single Tier system was simpler and fairer than the current system and if it offered certainty with regard to the amount that people will get that might impact financial planning for later life. The research also explored views and understanding around a number of individual concepts such as means-testing, qualifying years, automatic enrolment, contracting-out and the transition from one scheme to another, as well as language and communications testing.

The research was jointly carried out on behalf of the Department for Work and Pensions by TNS-BMRB and the Futures Company.

If you would like to know more about DWP research, please contact:
Carol Beattie, Central Analysis Division, Department for Work and Pensions,
Upper Ground Floor, Steel City House, West Street, Sheffield, S1 2GQ.
<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

DWP Department for
Work and Pensions

Published by the
Department for Work and Pensions
January 2013
www.dwp.gov.uk
Research report no. 787
ISBN 978-1-908523-46-4