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Abstract

In this article we present evidence from a series of focus groups where pensions issues were discussed with the employees of a listed distribution company. The focus group format allows us to explore the employees' views in detail and to present their thoughts in their own words. Perhaps unsurprisingly, we find the employees have quite limited knowledge about pensions in general and about their own scheme. They have a strong desire for more information and advice about pensions, ideally on a face-to-face basis. There were mixed views about the role of pensions in recruitment, especially for employees younger than 40, and concerns that managers were unable to promote the benefits on offer. As regards the changes introduced in the Pensions Act 2004, the employees view the Pension Protection Fund as a valuable measure, but see little point in increasing the proportion of member nominated trustees.

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Introduction

We hear a lot from pensions professionals and journalists about the "pensions crisis" and the problems faced by the pension system. But what do employees think about these issues? How do they see the crisis and what would they like to see change? How much do they value the changes introduced by the 2004 Pensions Act? Surveys such as the ABI's '*State of the Nation's Saving*' report provide us with answers to some of these questions in a statistical format. The aim of this paper is to complement that perspective with evidence from focus groups, where we can bring more colour by presenting the employees' views in their own words.

We find that the employees in our focus groups have quite limited knowledge about pensions in general and about their own scheme. For example, few knew how much the company contributes to the scheme on their behalf. The employees suggested that interest in pensions tends to pick up from about the age of 40, with younger employees showing less interest. Despite the low level of knowledge, most employees valued having a company pension and were conscious of their need to save for retirement. Almost all of the employees were keen to know more about the pension scheme, but preferred to have the information "face-to-face", rather than in written form. Very few of the employees had any idea how the company pension scheme was run or about the role of the pension scheme trustees. Only a few knew who the trustees were and most could see little benefit in increasing the proportion of member nominated trustees. The new Pension Protection Fund (when explained) was generally viewed as a valuable protection that was worth paying for. There were mixed, but generally positive, views about the value of the company pension scheme as a tool in recruiting and retaining good employees. However, recruiting managers felt they lacked the knowledge to promote it as a benefit. Most employees viewed defined benefit (DB) pension provision as superior to defined contribution (DC), but a minority worried about DB funding levels and preferred having their own allocated DC savings.

Focus Groups

In order to gain an insight into their views on pension provision, we held a series of focus groups with the employees of Pendragon plc, a listed distribution company with a large number of relatively small branches located across the UK (hereafter "the company"). The company has grown significantly in recent years, undertaking several horizontal acquisitions of competing businesses. One implication of this growth by acquisition is that the company now manages a number of different pension schemes, with different terms and conditions attaching to them. The main (original) DB scheme was closed to new members in 2000 and new recruits are offered a DC scheme. Non-managerial employees have access to a stakeholder scheme with no employer contribution, while new managerial employees (and those promoted internally) are offered an occupational DC scheme where the 2.5% employee contribution is matched with an employer contribution of 2.5%. The occupational DC scheme is not contracted out of the second state pension.

We ran four focus groups, with each group comprising employees with similar pension arrangements. The first group comprised members of the main (closed) DB scheme, which operates on a 60^{ths} basis. The second group comprises members of one of the acquired DB schemes, now closed, which had recently been changed from accrual on a 60^{ths} basis to 80^{ths}. The third group comprised members of the occupational DC scheme, while the final group of employees were eligible to join the DC scheme, but had chosen not to. Table 1 sets out the characteristics of the groups.

Table 1: Focus Group Characteristics

	Group 1 DB Members "60ths"	Group 2 DB Members "80ths"	Group 3 DC Members "DC"	Group 4 Non-members 'NM"
No. of people	9	9	9	9
Average age	49	54	37	36
Average tenure	17	22	5	5
Accrual rate	60ths	80ths	-	-
Employee contribution	4%	7.5%	2.5%	-
Employer contribution	13.5%	15.4%	2.5%	-

Source: Company records and authors' calculations

It is worth noting that the average age of employees and length of employment with the company varies between the groups and this should be taken into account when comparing the comments made by employees in the different groups. The meetings lasted about one-and-a-half hours each and took the form of a group discussion of a series of prepared questions.

The following sections discuss the employees' views on the various issues relating to pensions that were discussed at the focus groups. Where quotes from an employee are provided, the type of pension arrangement held by the employee is noted at the end of the quote. ("60ths"; "80ths"; "DC"; "MN")

Pensions in general

Most employees in the focus groups noted that they found it difficult to deal with the complexity of pensions. To the extent that they had an overall perception about pension provision, it was typically a negative one.

"Pensions are a grey area – there's a big element of confusion."[60ths]

"There's a bad press generally about pensions."[60ths]

For some of the employees who were not members of the company pension scheme, this issue of lack of confidence in the pension system was noted as being a key factor in their decision not to join.

"Everyone is saying, "don't bother with pensions" – you'll come to regret it."[NM]

"The information in the public domain is such that you're advised not to do it."[NM]

Virtually all employees in the focus groups, whether members or non-members of the pension scheme, said they were aware of the need to save for their retirement. For several members, that awareness had only begun to build in recent years.

"Time goes so quick. It's not until you reach your 40s that you begin to pay attention."[60ths]

"When you're young, you don't see so far in front."[80ths]

"I came in very late. I didn't start until I was 40."[DC]

"For me, it's crept up."[DC]

A significant proportion of the DC scheme members said they wished they had started saving at an earlier stage in their careers.

"If you don't start making choices early on, you can have a big problem." [DC]

"At 40, it may be a bit too late." [DC]

On the other hand, they also noted that there were real difficulties in starting saving at an early age, with conflicting demands on available income.

"It's difficult when you're young, when you have to get on the property ladder as well." [DC]

Most of the DC scheme members had heard of Additional Voluntary Contributions (AVCs) and were broadly aware of what they were. Despite comments about their desire to make up for lost ground, none of the DC scheme members were making AVCs. In fact, few of them had given much thought to how much they would have to save to fund their retirement. The DC scheme involves a 2.5% basic employee contribution plus 2.5% employer contribution, which is low by comparison to typical DB funding costs and unlikely on its own to produce an adequate income replacement ratio.

Comments made by the employees who had not joined the DC scheme provided support to the idea that the other financial and non-financial priorities that exist early in your career provide a significant barrier to pension saving.

"The majority of people take the view "I'm only 30 – life is for living"." [NM]

"For me, it's lack of knowledge and lack of priority." [NM]

"It's something at the back of your mind, but there's a million other things going on." [NM]

There was relatively little evidence that employees were using non-pension investment vehicles to save for their retirement. Two of the non-members had invested in property as an alternative to a pension, but no one else mentioned doing so. Several of the non-members of had personal pension arrangements. Typically, these had been taken out prior to joining the company and where either dormant or had quite small ongoing contributions. The reasons for taking our these schemes ranged from being advised to contract out of SERPS, through to a desire for investment options (specifically, ethical funds) not available within the company scheme.

"You've got control over the investments." [NM]

Employer-sponsored pensions

Most of the employees who were scheme members expected to rely on the company pension for their retirement income and said they would not trade the company pension scheme for other benefits or increased salary.

"The pension scheme is extremely important."[DC]

Despite the employees' comments about the importance to them of the company pension scheme, none of the DB scheme members were aware of the level of the employer's contribution to the scheme. When they were told the level of the employer contribution, most members were surprised by how high it was.

"The company contribution is very important. If people knew what it was, more people would join the scheme."[60ths]

"You don't stop and think about missing out on the employer contribution if you have a private pension."[60ths]

Many of the employees noted that they thought more could be done in terms of communicating the benefits of the pension scheme and helping them make decisions about retirement saving. They felt they had not been given enough information about the company pension scheme, or that it had been presented to them in a form that had not gained their attention. Many wanted personal, face-to-face communication.

"In my early 20s, if someone gave me a pamphlet on pensions it would be "where's the dustbin." Sitting round a table discussing it you pay more attention."[60ths]

"If you looked at the pension book and read through it, you'd fall asleep."[NM]

"People used to like the roadshows"[80ths]

"We'd like some kind of presentation every so often."[NM]

Lack of effective communication was suggested as a key reason why many people did not join the pension scheme. There was reported to be a mixture of *"scepticism*" and "*ignorance*" on the part of those who don't join. Most members understood that regulations prevented the company providing them with specific advice, but felt strongly the need for more information from a trusted source.

"If you're going to commit to something financially, you have to understand it."[DC]

"The main issue is the lack of trust in certain pension schemes."[DC]

"There has been a lot of bad press on pensions. Without information, you're trusting something you can't see."[DC]

Non-members, particularly, felt there was a need for the company to actively promote the pension scheme.

"People won't go out and seek the information."[NM]

The company has a share save scheme with a relatively high take up rate. Employees are able to make regular savings and at the end of either three or five years, depending on their preference, they can invest the proceeds in company stock at a pre-set price, or receive their money back with interest if the current share price is below the set purchase price. Employees in the focus groups discussed the similarities and differences between the share save arrangement and the company pension scheme. In general, they thought that share save had been communicated better than the pension scheme. Interestingly, the majority of employees who were not pension scheme were in the share save arrangement. It was clear that the ‘money back’ guarantee was an important factor.

“The share save is more visible and more tangible.”[60ths]

“You can’t lose. You’ll always get at least your money back.”[60ths]

“You can’t lose, can you?”[NM]

Some members thought the pension scheme and the share save weren’t strictly comparable. The share save was for short-term saving, while the pension scheme was long-term. For many, this was the key attraction of the share save relative to the pension.

“It’s more immediate for them – they see the benefit of it.”[DC]

“It’s not so long term.”[DC]

“The pension seems so far off and, with all the bad press, there might not be anything there when we retire.”[DC]

“The key advantage of share save is that it is for 3 or 5 years. With pensions, it is so far out you can’t see the benefit.”[NM]

Some employees noted the problem that they were only actively offered pension scheme membership at certain stages in their career, e.g. on joining the company, and if it didn’t suit them at that point they were not prompted to revisit the decision.

“For me, at first the scheme wasn’t available. When it did become available, I’d just moved house and started a family.”[NM]

It is notable that the focus group meeting itself had sparked interest in pensions amongst the employees who were not already members of the company scheme and most expressed an intention to find out more and, perhaps, take action.

"There's a lot of interest around the table."[NM]

"I'd like a lot more information."[NM]

"The majority of people want a pension, they just haven't done anything about it."[NM]

"It's something I've been meaning to do since I was 20."[NM]

They had given little thought to how much they would need to save to fund their retirement and were surprised when given illustrative figures.

"It's frightened me to death, really."[NM]

"It's prompted me to go back and revisit this."[NM]

Most of the non-members said that a company pension contribution was more important to them than a comparable amount of salary, whilst acknowledging that at present they were foregoing that contribution.

Managing the pension scheme

Very few employees had any idea how the company pension scheme was governed. There was a desire to know about how the benefits are kept secure, with the Robert Maxwell pension fraud case mentioned a few times.

"We've never had a big book saying how it is managed."[60ths]

"People in the scheme need to know the safeguards in place."[60ths]

Most employees had no understanding of the trustee system or of the existence of member nominated trustees (MNTs). The level of awareness was slightly higher amongst the DB members than DC or non-members. Only one DB scheme member recalled having seen an invitation for nominations of MNTs. However, once the idea was mentioned, most scheme members could see the value in having MNTs, especially if they had personal contact with them.

“The value of having someone to represent me is to make sure the company doesn’t run off with the silver.”[60ths]

“With all the recent collapses of pension funds, you’d want to make sure it won’t go belly up.”[NM]

“I know […] and I trust him. He knows what’s what.”[80ths]

“I think it is a positive, but I don’t know who they are.” [DC]

“It’s better if you know them.”[DC]

“It’s an advantage. You can relate to the people and trust them.”[NM]

Some employees suggested the main benefit of MNTs is as a communication channel – cascading information about the scheme. This confuses the role of trustee with what some companies have called *“Pensions Champions”* – workplace representatives who can provide pensions information to their peers.

“If you’ve got someone there, who you can talk to about it…”[NM]

“It’s important that individuals have someone they can talk to about what’s the right advice.”[NM]

For the DC members there was also some confusion about the distinction between trustees and the fund managers, and over the nature of trustees not nominated by members, who were assumed to be *“experts”* rather than company management. Most non-members also held the view that experts would dominate the trustee board and were not aware that virtually all of the trustees were either employees or company executives.

The Pensions Act 2004 contains powers for the Secretary of State to raise the required minimum proportion of MNTs to 50%. Most employees did not think this was a sensible proposal. There was a concern that *“people like us”* would lack the required expertise.

“I would have thought the best people to make these decisions are specialists in the field.”[DC]

“I think 50% is too many. It’s good to have representatives to hold people accountable, but the balance should be experts.”[DC]

Most members felt they lacked the knowledge to become a MNT. The main barriers to being an MNT were noted as *“time, knowledge, and the tremendous responsibility.”[60ths]*

“I know quite a lot of it, but I don’t know it in enough depth.”[80ths]

“You’ll struggle getting people who can do it.”[80ths]

There was also concern that the trustee role might put them in conflict with their employer.

“You’ve got to have a strong person in there. They have to be prepared to put their head above the parapet.”[80ths]

“The company representative could be the employee representative’s boss.”[80ths]

Another key aspect of the Pensions Act 2004 is the creation of the Pension Protection Fund (PPF). The employees were not aware of this development, but when it was explained to them they thought it was a valuable protection and one they would, within reason, pay for.

“It wouldn’t be a bad thing, knowing that what I have saved is protected.”[60ths]

‘It’s a belt and braces approach.”[60ths]

“It does give you confidence.”[80ths]

“But, only in the short-term, if too many companies end up claiming on it.”[80ths]

Trend from final salary to defined contribution pensions

Most scheme members thought a final salary DB scheme was better than DC, and were aware that it was now uncommon to offer final salary pension schemes to new recruits. Most non-members had little understanding of the differences between the various types of schemes. Those who did understand the distinction viewed final salary as better.

"People's perception is that final salary is better."[DC]

"The negative press is because companies won't offer a final salary scheme. The other options are less favourable." [NM]

However, the view that final salary pensions are best was not universal. Some scheme members were concerned about DB scheme deficits and the risks to promised benefits as a result.

"Initially, I was disappointed to be in the money purchase scheme, but now given all the bad press on final salary, I'm more happy in the money purchase scheme."[DC]

"Because of all the deficits, there is a question mark over [final salary schemes]."[DC]

In one case the negative view on DB was as a result of losing accrued benefits from previous schemes.

"Three times bitten."[80ths]

Some DB scheme members noted that they knew they would no longer be covered by DB for future accrual if they moved job and thus the DB scheme effectively prevented them leaving the company.

"It is a retention factor for those over a certain age."[80ths]

"It keeps us stuck in like glue."[80ths]

Most DB scheme members suggested a good pension scheme could be an advantage for the company in recruitment.

"Good team members are hard to find. A final salary pension scheme could swing it."[60ths]

"Making final salary pensions available for new recruits would be an incredible honey pot."[60ths]

However, others noted that pensions weren't usually discussed in the recruitment process and that younger interviewees, in particular, weren't interested. None of the DC members had personally considered pension benefits in their decision to move to the company.

"One of the very last things to come up in a second interview."[NM]

Another problem was that recruiting managers did not feel they were able to explain the company pension scheme and the benefits on offer.

"I'm not qualified to talk on pensions."[80ths]

"I would provide the leaflet, but I wouldn't go into it in detail."[DC]

"If the [manager] can't explain it…"[60ths]

"I haven't had the question [about pensions] asked and, to be honest, I wouldn't know what to say if I was."[NM]

"I've never sold it as a benefit."[NM]

"When I joined, [the pension] wasn't explained to me at the time."[DC]

These comments suggest that employers could consider training managers about the nature of the pension scheme and the benefit it provides to employees as a means to ensuring that they get value for the investment they are making in pension provision. Otherwise, the benefit goes unmentioned and unnoticed in recruitment activity.

Conclusion

We have presented one group of employees' views about pension provision, using their own words in order to make the ideas vivid. What conclusions can we draw from their comments? One clear message is the employees' desire for more information and advice about pensions, ideally on a face-to-face basis. There are serious cost implications for any employer providing employees with professional financial advice, but the evidence here suggests it will be highly valued by the employees who otherwise struggle with the complexity of the subject. The government's recent introduction of a limited tax credit on workplace financial advice may go some way to encouraging employers to provide more support.

Another strong theme in the comments is the lack of importance attached to pensions by younger employees, with age 40 being noted by many as the turning point. There are several commonsense reasons for not saving towards a pension while you are young, such as paying off student loans or buying a first home, but the arithmetic of compound interest means it pays to start saving as soon as possible thereafter. The key question is how to create an interest in pension saving amongst younger employees so that non-saving inertia does not take hold. Perhaps we should be in the habit of writing to employees at 'landmark' birthdays, asking them what they have done to provide for their retirement needs. Another possibility is compulsory pension scheme membership, the pros and cons of which have been discussed at length by the Pensions Commission.

The Pensions Act 2004 brings some significant changes to pension scheme governance in the UK. The focus groups suggest the PPF is a valuable source of reassurance for pension scheme members and that they are prepared to pay something for that protection. However, there were more mixed views on the value of MNTs. Many employees expressed the down to earth view that they would like their pension fund run by experts, rather than people like themselves.

Finally, we have one important caveat. The comments and views in this article are from the employees of one company, with its own particular culture and history. We hope they are representative of the views of employees more generally, but we have no direct means of assessing whether they are or not. Readers with experience of other companies will be able to make up their own minds on that.