
Research Note: Pensions Saving Decisions-Intentions and Implications

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The Centre for Risk, Banking and Financial Services (CRBFS) is a research centre based at Nottingham University Business School. Our aim is to produce world-leading research, insight and commentary focussed on financial services consumers, markets and institutions.

In Brief

- **We point out that under-consumption of some types of financial services, such as pensions and long-term savings, can have profound implications for the welfare of individuals and society as a whole.**
- **We employ a nationally representative sample of just over 1500 respondents, collected in conjunction with a major market research agency specialising in online data collection.**
- **We collect data on respondents' views as to the adequacy of their pension saving and future behavioural intentions in this respect.**
- **We show that almost half of all respondents judge that they are saving too little for retirement.**
- **A higher proportion of the sample intends to decrease, rather than increase, pension provision over the next twelve months.**
- **For "inadequate savers" in intentions to decrease provision are even higher than for respondents generally.**
- **Females are more likely to be planning to decrease provision, as are those in the lower socio-economic groups.**

Context

It is widely recognized that the under-consumption of some types of financial services, such as pensions and long-term savings can have profound implications for the welfare of individuals and society as a wholeⁱ. A “savings gap” of some £27 billion has been highlighted in the pastⁱⁱ and a more recent industry reportⁱⁱⁱ asserts that less than half of those who could and should be saving for retirement are doing so to an adequate degree. It has also been noted that the UK population is, on average, aging at a rapid rate yet it is estimated that 7 million people in the UK are failing to save for their retirement^{iv}. Overall, contemporary commentary and a continued focus for Government policy on increasing participation rates in pensions and savings markets indicate that a lack of pension provision is a key issue and one which is viewed as having potentially serious consequences.

These consequences will be felt at both an individual and societal level, as pension expert Altman has pointed out^v:

“In the past few decades, despite rising longevity, the trend was actually towards even earlier retirement ages than in the past. This has resulted in longer and longer periods of retirement for most people and unrealistic level of expectations about retirement income. If people are living longer and working fewer years, then they have less time to build up savings for later life. This means they are at risk of lower incomes in retirement. Who will be able to support them? The numbers of younger workers are falling relative to the numbers of pensioners, which will put an increasing burden on taxpayers and risks damaging long-term economic growth”

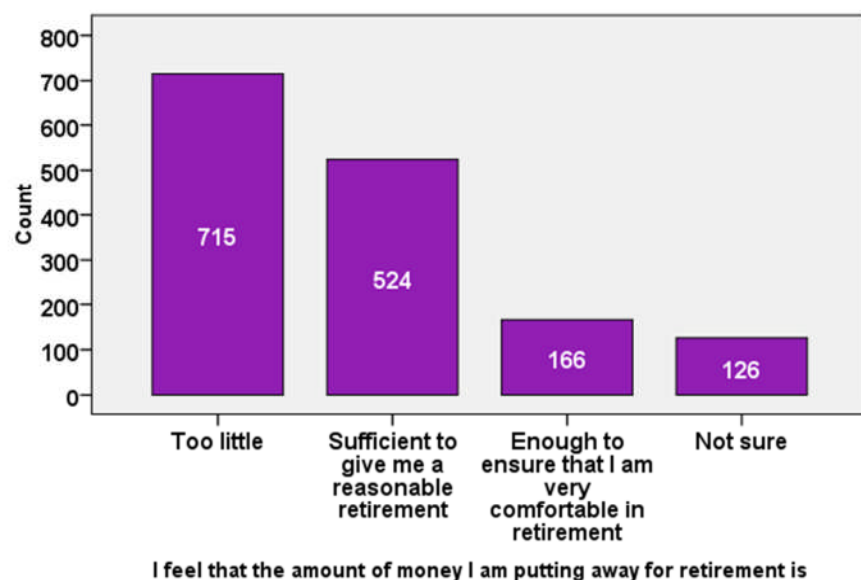
It is clear, therefore, that levels of pension provision and future behavioural intentions towards pension savings are issues that are of interest to many interested parties and this provides the motivation for the research reported here.

Our Approach

The Centre for Risk Banking and Finance collected data in conjunction with a major market research company specialising in online data collection. A nationally representative sample of just over 1500 respondents was employed to collect data on attitudes towards pension savings provision and behavioural intentions with respect to pension provision over the next twelve months. A number of questions were employed, as illustrated in the findings section below. Demographic data was also collected from respondents and we utilised data on gender, social class and age in our analysis. Findings are reported in the next section.

Findings

Figure One: Retirement Savings Behaviour Overall



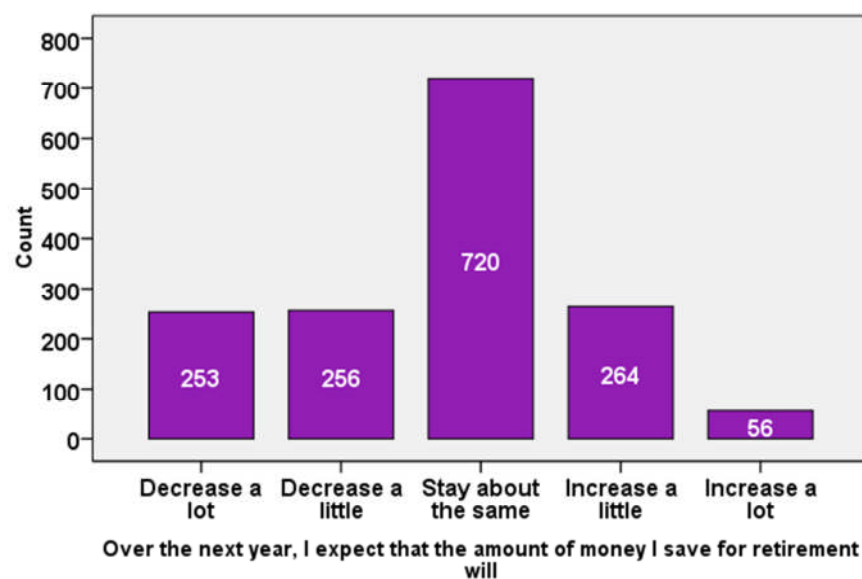
As shown in figure one, our data revealed that comfortably the single largest category of respondents was that related to those who feel that the amount of money that they are putting away for retirement is too little, almost half of all of those surveyed opted for this response. A positive interpretation of this finding would be that at least those responding in this manner are aware of their failings. That said, the fact that such respondents cannot or do not act to rectify the situation will still be a serious concern to policymakers.

The majority of the rest judged that they were saving sufficient to provide a “reasonable” retirement. Whilst this finding may provide some comfort, it should be remembered that many people significantly underestimate that amount required for a reasonable retirement and as the data presented here are self-reported, a number of people in this category may well have displayed characteristic over-confidence in respect of the adequacy of their pensions savings behaviour.

It is not surprising that significantly less than 10% feel that they are saving sufficient to enjoy a very comfortable retirement, but somewhat more so that more didn’t opt for the don’t know response, given the high degree of confusion and ignorance concerning matters related to pensions.

Figure two presents data covering future behavioural intentions. Our analysis also identified potentially worrying findings with respect to future intentions. For the sample as a whole, roughly twice as many respondents expect the amount that they save for retirement to decrease or decrease substantially compared to increasing over the next year. By far the biggest category of responses is “*stay about the same*”. This provides further evidence of the general tendency for people to stick with the “*status quo*” regardless of the desirability of such a course of action. Very few respondents expect to increase their savings significantly. Taken together with general views on the level of savings adequacy and the expectation that individuals will provide for themselves in retirement rather than relying on the state pension, the reported intentions of behaviour change in pensions saving offer little re-assurance that the trend towards adequate self-provision is favourable.

Figure Two: Retirement Savings Intentions Overall



We then focussed on the responses to the behavioural intentions question for those who earlier reported that they consider their current pension savings to be too little to enjoy an adequate income in retirement. Of the 680 people who responded in this manner, only about one sixth are planning to increase or significantly increase their contributions in the light of their currently inadequate provision. That compares with over 300, or almost half of those who report inadequate pensions savings currently, who are further planning to reduce their contributions over the next year. Of these, approaching 200 expect to decrease their savings significantly.

Figure Three: Retirement Savings Intentions for Inadequate Savers



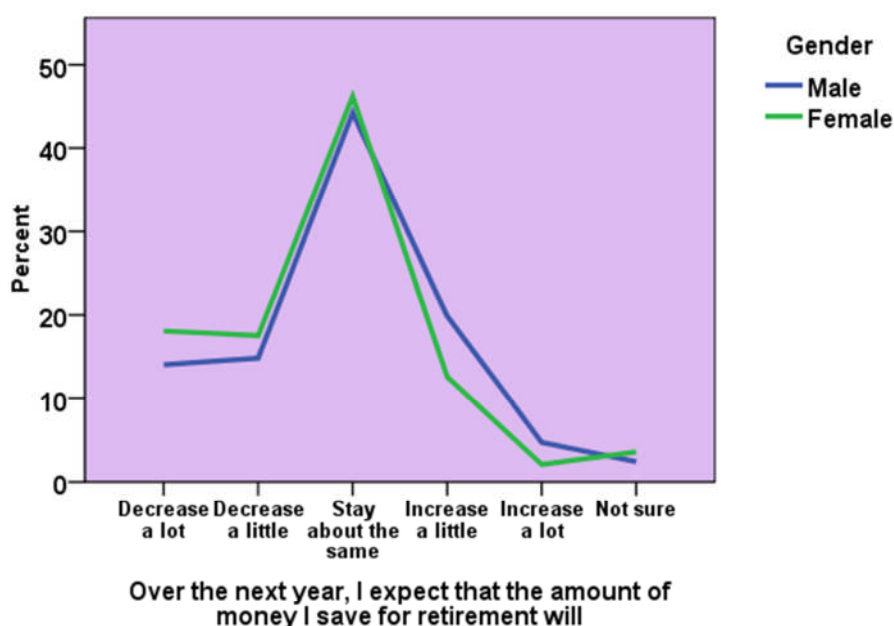
The data revealed in figure three is particularly dispiriting. Even when there is a relatively high level of awareness as to the degree of inadequacy of pension provision, behavioural intentions are likely to exacerbate the problem rather than make up all or part of the perceived shortfall.

We then analysed how behavioural intentions in the area of pension provision vary with respect to gender. Results are shown in figure four below. Although differences are not profound, again the data show potential developments which are likely to further magnify problems related to pension provision. Compared to males, more women expect to decrease pension provision and, relatedly, fewer intend to increase provision over the next year. Given that it is well documented that women in particular fail to provide adequately in the area of pensions and are far more likely to end up with a pension too small for their needs, then the behavioural intentions highlighted by our study are particularly unhelpful.

Figure five below presents data related to pension provision intention and social class. Those in classes A, B and C1 have a very similar pattern of intentions. In common with the data in general, more of those in these classes intend to decrease rather than increase contributions, but the difference is less profound than for other classes and the overall percentage of those intending to save less is lower than for other classes. For classes C2, D and particularly E, intentions are very much skewed in the direction of saving less, with approaching 20% of those in classes C2 and D predicting that the amount they save will decrease a lot, with that figure rising to nearly 40% for class E.

Measures of class are linked to employment and income levels and it is clear that economic factors are a key driver of pensions savings behaviour, particularly for those in the lower classes. A drop in the levels of pension provision amongst the population, is therefore, likely to be yet another unwelcome consequence of the prolonged period of lacklustre economic performance that has followed the financial crisis.

Figure Four: Retirement Savings Intentions and Gender



Finally, figure six shows the data for pension contribution intentions and age. Perhaps understandably, those who are aged 55 and above are more likely to be decreasing their pension provision. Many in this age bracket are likely to be comparatively well-off in terms of pension entitlements, with some having rights in defined benefit schemes and many having benefited from a more benign environment for pension provision for a reasonable proportion of their working lives. It would be tempting to take comfort from the responses of those in the lowest age bracket (18-34), who report relatively low levels of intentions to decrease savings into pensions over the next year. However, levels of provision are low in this age bracket to start with, with a fair number having no pension provision whatsoever. The fact that it is not possible to reduce a contribution level from nothing is likely to account for the findings related to the youngest age-group in the survey.

Figure Five: Retirement Savings Intentions and Class

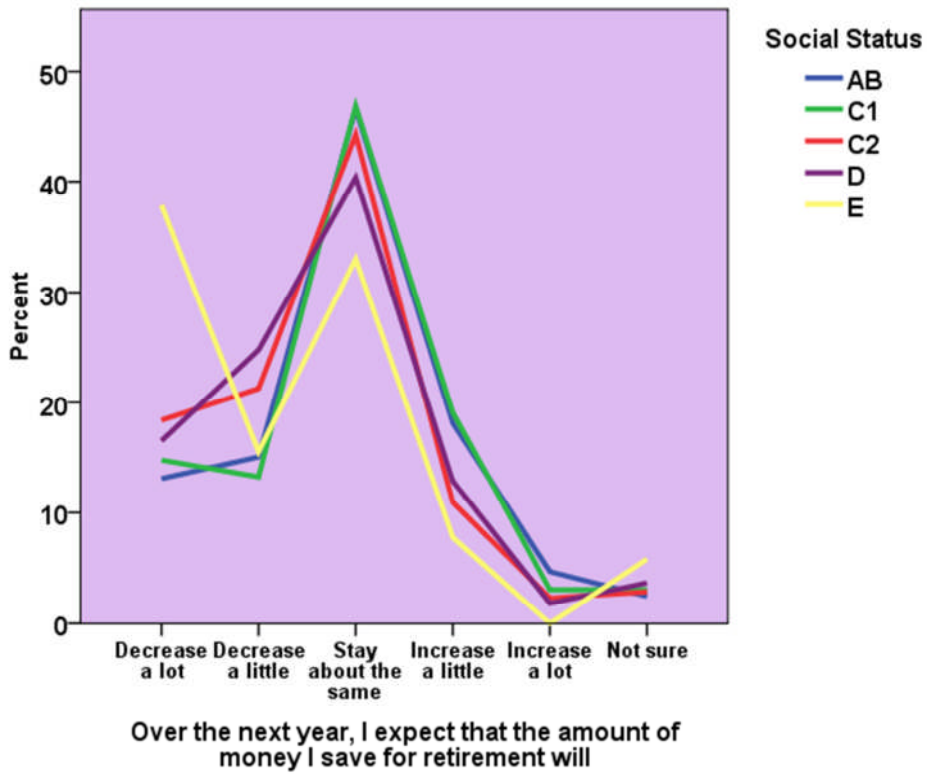
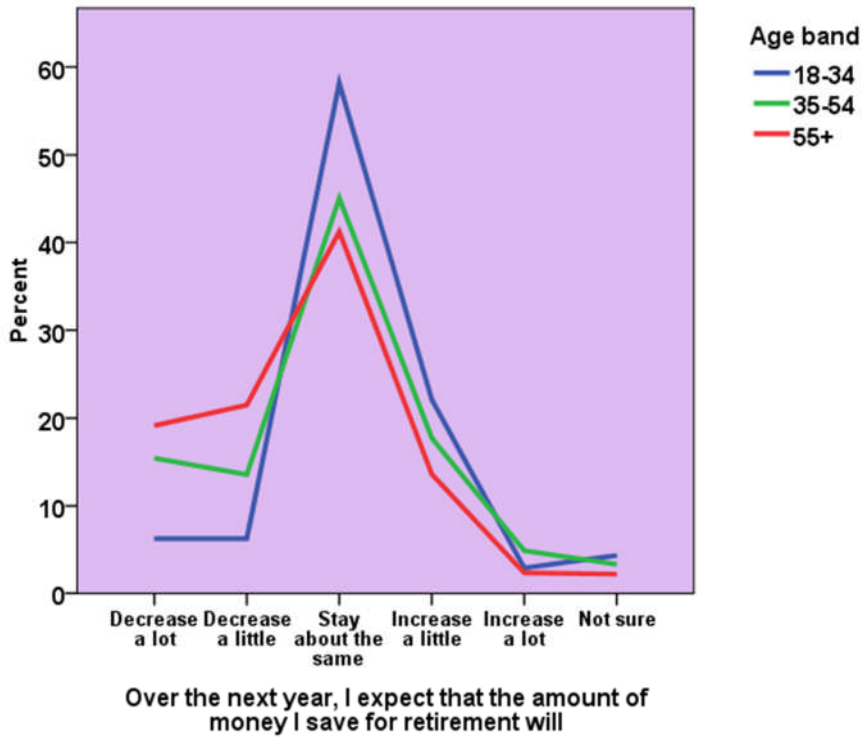


Figure Six: Retirement Savings Intentions and Age



Summary

The findings presented in this research note make familiarly depressing reading for those with an interest in the area of levels of pension provision. Many individuals are aware that they are saving too little for their retirement, but are not planning to alter their behaviour over the next year to account for this fact. This pattern of attitudes and behaviour is common across society as a whole, but is particularly pronounced in the case of women and those in the lower socioeconomic classes. It is hoped that auto-enrolment into pensions will help alleviate the problem of under-provision to an extent, but in this respect opt-out rates, contribution levels and the impact of fees and charges must be monitored carefully. Problems in one or more of these areas could easily prevent auto-enrolment having a significant beneficial impact.

ⁱ Economic and Social Research Council (ESRC) (2004) "ESRC Seminar Series Mapping the Public Policy Landscape: Pensions, Pensioners and Pensions Policy: Financial Security in UK Retirement Savings?" ESRC, London

ⁱⁱ Association of British Insurers (2002) "Closing the Savings Gap: Carrot or Sticks" Association of British Insurers, London.

ⁱⁱⁱ Scottish Widows (2010) "The Scottish Widows UK Pension Report: A Major Assessment of Pensions Savings Behaviour" Scottish Widows, June 2010, Edinburgh

^{iv} Jory, J (2008) "No Time to Waste", *Pensions*, 13(4), pp251-254

^v Altman, R (2010) "Response to Consultations on State Pensions Age Increase" Dr Ros Altman, Director-General Saga Group, available at http://www.rosaltmann.com/pr_spa_response_4aug10.htm, downloaded 15/06/2011

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