Department for Work and Pensions

Research Report No 565

Attitudes towards investment choice and risk within the personal accounts scheme: Report of a qualitative study

Sharon Collard and Zoey Breuer

A report of research carried out by the Personal Finance Research Centre on behalf of the Department for Work and Pensions

First Published 2009.

ISBN 978 1 84712 498 2

Contents

Acknowledgements

The Personal Finance Research Centre (PFRC) and ECOTEC would like to thank all the people who agreed take part in the focus groups. We would like to thank Gerry Gibbs of Salient Research Limited for his help with the fieldwork and analysis. Droy Fieldwork Research carried out the focus group recruitment. At the Department for Work and Pensions (DWP) we would like to thank Cate Fisher for her advice and guidance throughout the project.

The Authors

Sharon Collard is Senior Research Fellow and Deputy Director of the Personal Finance Research Centre. She has over ten years' experience of conducting social research around money management and financial decision-making, with a particular focus on low-income individuals and households.

Zoey Breuer is a Research Manager with ECOTEC Research & Consulting Ltd. During the last ten years, Zoey has predominantly worked on studies for the Department of Work and Pensions. She has a history of working on studies relating to money matters, including: customer outcomes from literacy and numeracy training; adviser discretion fund awards; and financial management and planning by individuals and couples. During 2005/6 Zoey was seconded to the Department for Work and Pensions where she designed and managed studies relating to individuals' responses to pensions in general, and the workplace pension reforms and personal accounts scheme in particular.

Summary

Background

The Pensions Act 2008 sets out the Government's reforms introducing, from 2012, a duty on employers to automatically enrol all their eligible employees into a qualifying workplace pension scheme. Employers will also have to provide a minimum contribution towards the pension saving for those employees who participate. Employees will be able to opt out if they do not wish to participate. The Pensions Act also sets out plans for the establishment of the personal accounts scheme, which will be a trust-based, occupational pension scheme for employers that do not have, or wish to use, a qualifying scheme of their own. The pension scheme will be run at arm's length from Government by a body corporate acting as an independent not-for-profit trustee. The aim of these reforms is to overcome the decision-making inertia that currently characterises individuals' attitudes to pension saving, and to make it easier for individuals to save for their retirement.

The personal accounts scheme will be required to offer a default fund into which the contributions of members who do not make an active investment choice will be automatically invested. It may also offer a limited choice of investment funds for those who do want to make an active choice.

This study contains the findings from qualitative research undertaken by the Personal Finance Research Centre (PFRC) and ECOTEC Research and Consulting Limited on behalf of the Department for Work and Pensions (DWP).

The research, which was conducted with individuals who would be eligible for automatic enrolment, considered three main areas:

- individuals' understanding of, and appetite for, financial risk, both generally and in relation to saving for retirement;
- responses to, and preferences for, potential investment fund choices within the personal accounts scheme and reasons for these responses and preferences;
- the likelihood of individuals making an active choice of investment funds within the context of the personal accounts scheme, the factors they would consider and the barriers and enablers to active choice.

This research has been designed to provide information to help DWP and the Personal Accounts Delivery Authority (PADA) understand the attitudes and preferences of eligible individuals with regard to investment fund choice within the personal accounts scheme. However, investment decisions, including what the default fund will look like and the type of wider fund choice that will be offered, are legally a matter for the scheme's trustees who are required to act in the members' best interests. The funds covered in this research were selected purely to ensure a range of key investment types were discussed, and there is no guarantee that the trustees will consider, or decide to offer, these funds as part of the personal accounts scheme.

Methodology

Qualitative research, in the form of 14 focus groups, was used to meet the aims of this research. The research was carried out in January and February 2008 in five locations across the UK. The focus of the research was people who would be eligible for automatic enrolment under the Government's workplace pension reforms: employees working in the private sector; earning over £5,000 per year before tax; aged between 22 and State Pension age (currently 60 for women and 65 for men); and not currently a member of a workplace pension scheme[1].

Key findings

Attitudes to financial risk

There was a general consensus that most participants were unwilling to take much risk with their money. This was the case even over the long term (five years or more) and few participants mentioned the potential for risk and return to balance out over time. The most common reasons cited for being averse to taking risks included the responsibility of raising a family and taking on large financial commitments such as a mortgage. However, some participants were willing to take higher risks with their money to give themselves the chance of making higher returns. These participants tended to be young and single or higher earners.

Participants generally came to the groups with a grasp of the basic differences between saving and investing. There was agreement across the groups that a

1 Please note that respondents were selected on the basis of their broad eligibility for automatic enrolment if the reforms had been brought in at the time of the research, and not all the individuals interviewed will still fulfil the eligibility criteria once the reforms are actually brought in from 2012 because their circumstances may have changed. Please also note that there are some differences between the eligibility criteria used in this study and the eligibility criteria that will apply when the reforms are introduced (see Section 1.4 for further details).

savings account was a low-risk product, which meant that returns were low but capital was not at risk. Pensions were generally rated as being the same or higher risk than stocks and shares, because they were seen to run both the risks of getting a poor return on investments, and of the scheme collapsing altogether.

When it came to considering risk as a factor in financial decision-making, views were mixed. Some participants (notably those on lower incomes – under £25,000 per year – without a private pension or investments) would not consider taking out anything more risky than a savings account; their sole focus, therefore, would be on the level of return available from savings accounts. Other participants felt it was important to consider the potential returns whatever the product.

Attitudes to retirement saving, the workplace pension reforms and the personal accounts scheme

Unsurprisingly, participants who already had a personal pension generally considered saving for retirement to be a medium or high personal priority, in order to provide financial security and a decent standard of living for themselves in old age. In contrast, participants with no private pension tended to consider saving for retirement a low personal priority at the present time, although this did not necessarily mean they felt it was unimportant. The main reason given by participants for this low prioritisation was concern about the affordability of saving for retirement in the face of competing demands on their income[2].

There was a general openness to the key features of the workplace pension reforms and the personal accounts scheme, which were seen as a ready-made solution to saving for retirement that required little or no decisions or action by individuals. Indeed there was some relief from participants with no private pension provision, who had shown concern during the early discussion about knowing what route to take to save for retirement. However, there were immediate concerns voiced about an entirely new scheme with no track record or reputation.

Investment choice

Participants largely viewed the idea of investment fund choice within the personal accounts scheme as something that, in theory, was wholly positive. This was conditional on participants being able to make decisions that matched their personal preferences. Lack of understanding about pensions and investments generally and lack of confidence in making these types of decisions were perceived to be the main barriers to exercising personal choice.

---

2 It is important to note that other research has found that when individuals are provided with information on the contributions that they would be required to pay into a qualifying workplace pension scheme in actual monetary terms, affordability does not emerge as a significant barrier to remaining in the scheme: Smith, P., Webb, C., Pye, J., Robey, R. and Jeans, D., 2008. *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No 550.

When asked to consider what might constitute a manageable number of funds from which to choose, most participants suggested between three and five funds. Higher earners (classified as those earning £25,000 per year or more) expected funds to be available across the whole range of risk levels, from low to high, but most participants tended to favour a spread of low- and medium-risk fund options. Some type of limit on the upper end of the risk profile was favoured, in the main, by lower earners and older participants in their 50s who welcomed anything which provided in-built protection from risk. Participants felt strongly that funds should be in distinct risk bands to aid differentiation and, therefore, choice.

Individually tailored funds: The idea of an individually tailored fund, as explained to participants, is to give scheme members the opportunity to choose the mix of investments that make up their pension fund. It was emphasised that if this type of fund was introduced it would allow scheme members to choose the mix of investments that would make up their pension fund, and that the mix of investments selected would affect the level of risk that their pension contributions would be exposed to.

Asked what they thought generally about the possibility of the scheme offering members the option to choose the mix of assets that would go to make up an individually tailored fund, participants, by and large, viewed this option positively. It was seen to offer people the opportunity to make decisions in accordance with their personal preferences. Asked whether or not they might personally be interested in the possible option of an individually tailored fund, participants of all ages and incomes said they would be. This might partly be explained by the fact that individually tailored funds were the first possible fund option to be introduced, and participants were as yet unaware of the possible risk-based fund option (see below). While some wanted to exercise personal control to ensure their pension fund was low risk, others (mainly higher earners and those with investment experience) were interested in doing so to achieve higher levels of return. However, some participants felt that this type of fund would require too much time, effort and financial confidence, and some younger respondents especially felt strongly that they would not want the responsibility of making this kind of choice.

Risk-based funds: The possible option of risk-based funds was introduced to participants as an off-the-shelf product where a financial expert had chosen the types of investments that would be included. It was explained to participants that a risk-based fund, if made available, would consist of a ready-made mix of assets and provide an average level of risk – low, medium or high.

Asked what they thought generally about the personal accounts scheme offering members the option of risk-based funds, participants overall felt it would provide a simple, effective and manageable level of choice, which would potentially have broader appeal than an individually tailored fund. Even so, participants felt it was necessary to have both individually tailored funds and risk-based funds, to cater for the different needs and preferences of the scheme's members. Asked whether or not they would personally be interested in the risk-based fund option, most interest was expressed by participants with no current private pension. Younger participants who had been put off the idea of investment choice by the individually tailored funds found the risk-based funds more straightforward and less confusing. Some respondents, however, still felt that such an investment choice would be too complex for them.

Other investment fund options

Generally, participants welcomed the possibility of the personal accounts scheme offering the key fund types discussed as they felt that investment choice for scheme members was a good thing. However, personal interest in investing in each of the funds varied considerably.

Guaranteed Minimum Return (GMR) funds[3]

Guaranteed funds can operate in different ways, but this one was described to participants as one of the possible risk-based funds in which the capital invested and a minimum level of return would be guaranteed; and as a trade-off for that guarantee, there would be some loss of return over and above the minimum level. Therefore, such a guarantee would ultimately have to be paid for by members accepting potentially lower investment returns.

Across the board, participants deemed such a GMR fund to be a valuable and necessary option for the personal accounts scheme to offer its members. However, when asked if they would personally be interested in this type of fund, few participants thought they would opt for the fund as it was explained to them (one fund into which personal and employer contributions and Government contributions in the form of tax relief would be invested) as they were not prepared to accept the reduced opportunity for return associated with it. Participants instead spontaneously raised the possibility of investing half the contributions (conceived of as their own contributions) into the GMR fund, while having the opportunity to seek higher levels of return with the employer contributions and tax relief. This alternative was seen to balance the need for security and return.

Socially Responsible Investment (SRI) funds

Socially responsible investment funds were presented to participants as funds that might exclude and/or include shares in companies on ethical or environmental grounds, and/or which might aim to influence the companies they invest in to act in a more ethical or environmentally responsible way. The possible risk profile of an SRI fund, possible returns and charges were not included in the explanation.

---

3 Although it is unlikely that a guaranteed fund will be offered by the personal accounts scheme due to the high costs that providing it would incur, it was included in this study so that attitudes to a full range of funds occupying various points on the risk spectrum could be explored.

When asked for their general views about the personal accounts scheme possibly offering the choice of an SRI fund, participants either considered it to be a positive option for the scheme or felt that it would have to be an option to reflect political interests in ethical and environmental concerns. On a personal note, apart from a few participants who personally highly valued this option, the SRI fund held little appeal for participants who generally tended to prioritise returns over ethical principles when it came to thinking about investment decisions and spontaneously mentioned the concern that SRI funds would involve below average returns.

Lifestyled fund

The concept of lifestyling was described to participants as the gradual movement of pension pots from higher risk investments (shares and bonds) into lower risk and potentially lower return investments to protect the pension savings that had been accrued by the scheme member from downturns in the stock market. Participants were told that in these funds lifestyling would be automatically implemented in the five to ten years prior to a member's retirement age.

The general view of most participants about the concept of lifestyling as a way to protect pension savings as members approached retirement was that this would be a positive feature of the personal accounts scheme, although on a personal level it held the greatest appeal for older participants (aged 40 and above) and lower earners. However, participants were divided as to whether lifestyling should be an automatic feature or whether scheme members should be prompted to consider lifestyling their pension fund at an appropriate time. Participants who strongly advocated automatic lifestyling for the scheme tended to have greater experience of investing.

Branded funds

Branded funds were described to participants as funds associated with big-name providers, although names of possible commercial providers were not provided as part of the explanation. It was made clear to participants that both branded and non-branded funds might potentially be part of the personal accounts scheme, and that, if so, both types of fund would be administered by the independent not-for-profit body running the scheme. The prospect that funds associated with big-name commercial providers might attract higher charges than the 'own-brand funds' was introduced as well.

On the whole participants welcomed the general idea of branded funds as a possible option within the personal accounts scheme to create choice for scheme members and generate healthy competition. However, in terms of personal interest views were mixed about whether or not participants might opt for branded funds if they were available. Overall, however, there was a general view that participants would be willing to consider branded funds alongside 'own-brand funds', and to assess factors such as the 'best deal'; safety and security; charges; and level of financial expertise when making a decision.

Investment choices – key factors and potential reactions

Having considered these key investment fund types participants were asked to consider the relative importance of seven factors in their own financial decision-making around the personal accounts scheme: level of risk and return; the option of choosing their own mix of investments; ethical investing[4]; whether the fund is lifestyled; whether the funds are 'own-brand'; whether they are associated with a recognised big-name company; and low charges.

Three factors stood out as being **most important** for participants across the groups: level of risk and return, the option of choosing your own mix of investments, and low charges. The two factors that were considered **least important** across the focus groups were: socially responsible investment (SRI) funds and funds associated with a big-name company.

Charges

Most participants understood the idea of pension fund charges. Some lower earners, however, felt very strongly that fund charges were essentially another tax on savers and were concerned about the potential impact of charges on the value of pension funds that were low risk or offered a guaranteed minimum return. Participants as a whole were unwilling to pay more for investment features that might be offered as part of the personal accounts scheme, although a few thought they might be willing to pay more for a guaranteed fund, SRI fund or to ensure experienced fund managers.

Default fund

The concept of a default fund option appeared to be well understood by participants and was well received across all the groups. The main advantage of this fund, it was felt, was to kick-start pension saving for people who were not ready or did not want to make an active investment choice. Most participants felt strongly that a default fund should be a low-risk pension fund, in order to protect the pension savings of members who had not made an active investment choice and to minimise the potential for investment losses. The importance of information in helping members to make the choice about whether or not to stay in the default fund was raised spontaneously by participants.

Balance between active choice and the default fund

Apart from a few participants who expressed a personal preference for staying in a default fund option, most participants considered that they would personally want to make an active choice.[5] The personal preference for making an active investment choice was largely driven by a desire to have individual control over the level of investment risk – which generally meant ensuring it was low risk.

4 'Ethical investing' was used as a shorthand term for socially responsible investing.

5 However, it's important to note that based on evidence from similar types of pension schemes in Sweden and the US, in reality, it seems likely that most personal account scheme members will remain in the default fund.

Barriers and enablers to making an active investment choice

When explained to them, participants across the focus groups were generally able to comprehend the key concepts and possible investment options that might be offered as part of the personal accounts scheme. This suggested that, in the context of the focus groups, understanding was not a particular barrier for participants. These concepts may be harder for individuals to understand when they are not explained in person.

Lack of confidence in financial decision-making was identified as the main barrier to active choice by lower earners of different ages who did not have a pension or investments. These and other participants felt that investment choices in the personal accounts scheme should be simple and straightforward. The provision of information was also considered key to enabling scheme members to make active investment choices[6]. Previous research, however, indicates that, in itself, giving people information is not enough to drive action and that even those who intend to take action may be overly optimistic about their future behaviour[7].

Participants expressed a wish for jargon-free information about possible investment options, in the form of booklets or leaflets or an information pack sent out in advance of the launch of the personal accounts scheme. Some participants, particularly those with no investment experience, wanted clarification around the meaning of different levels of risk. Pictorial information such as graphs or pictures would, it was felt, help to convey key messages and concepts. In contrast to other participants, the highest earners with investment experience tended to want more detailed information such as past pension performance and pension calculators.

As well as written materials, participants mentioned a range of possible delivery channels for information and support including workplace seminars, internet-based resources, telephone helplines and television campaigns. Participants did not discuss in any detail their views about who might provide the information, although there was a spontaneous assumption by some of Government involvement.

There was also an appetite for professional advice among some participants. It was not clear from the discussion whether they would expect to pay for this advice or not, although the payment of commission to advisers was mentioned. In terms of ongoing information provision, annual statements – either paper-based or online – were commonly mentioned as a good means of providing scheme members with information about the performance of their personal account pension fund.

---

6 Please note that a separate study specifically explored the information people may need when deciding whether to participate in a workplace pension scheme. Respondents stated that they would require information that would allow them to assess whether investing in a workplace pension would be financially worthwhile for them and also to assess possible risks: McAlpine, C., Marshall, H. and Thomas, A., 2008. *The information people may require to support their decision to remain in, or opt out of, a workplace pension*. DWP Research Report No 540.

7 Design Technology, 2007. *Turning good intentions into action: challenges for the provision of financial advice*. University of Warwick.

1 Introduction

This report contains the findings from qualitative research undertaken by the Personal Finance Research Centre (PFRC) and ECOTEC Research and Consulting Limited on behalf of the Department for Work and Pensions (DWP). This chapter outlines the background and policy context for the research, along with the research aims and objectives and the research methods used. It also provides a short review of previous research relevant to this study.

1.1 Background

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aim of these reforms is to overcome the decision-making inertia that currently characterises individuals' attitudes towards pension saving and to make it easier for individuals to save for their retirement. They are particularly targeted at low to median earners, amongst whom under-saving for retirement is currently widespread. The measures set out in the Act include a duty on employers to automatically enrol their employees into qualifying workplace pension provision and to provide a minimum contribution towards the pension saving for those employees who choose to participate. This duty will come into force from 2012.

Employees will be automatically enrolled if they are aged between 22 and State Pension age, have gross annual earnings of around £5,035 or more[8] and are not already members of a qualifying workplace pension scheme. Employees will be able to opt out of the scheme if they wish, and those who choose to opt out may be automatically re-enrolled after a set period of time (expected to be a minimum of three years). Employees who are not automatically enrolled may choose to opt-in to a qualifying workplace pension scheme.

Employees who choose to remain members of a qualifying workplace pension scheme will receive at least three per cent of their qualifying earnings (between a band of £5,035 and £33,450 in 2006/07 earnings terms) from their employer,

8 The earnings limit is £5,035 in 2006/07 earnings terms and will be uprated in line with earnings using the Average Earnings Index.

and a further one per cent from the Government in the form of normal tax relief. The minimum overall contribution needs to be eight per cent, so employees of an employer that contributes three per cent will need to put in four per cent from their pay[9]. Employees and employers may contribute more than the minimum if they wish[10].

The Pensions Act also allows for the establishment of the personal accounts scheme. This will be a trust-based, defined contribution occupational pension scheme that employers must enrol their employees into if they do not have, or do not wish to use, their own qualifying workplace pension scheme. The personal accounts scheme will be run at arm's length from Government by a sole corporate trustee established as a Non-Departmental Public Body (NDPB).

The personal accounts scheme will be required to offer a default fund into which the contributions of members who do not make an active investment choice will be invested automatically. It may also offer a limited choice of investment funds for those who do want to make an active choice. Investment decisions, including what the default fund will look like and the degree and type of wider fund choice that will be offered, are legally a matter for the scheme's trustees who are required to act in the members' best interests. However, the Personal Accounts Delivery Authority (PADA), the public body who are responsible for setting up the personal accounts scheme, will make recommendations about the investment strategy for the trustees' consideration.

This research has been designed to provide information to help DWP and PADA understand the attitudes and preferences of eligible individuals with regard to investment fund choice within the personal accounts scheme. However, the findings are also of relevance to employer-run qualifying workplace schemes. The funds covered in this research were selected purely to ensure a range of key investment types were discussed, and there is no guarantee that the trustees will consider, or decide to offer, these as part of the personal accounts scheme.

This research forms part of a wider programme of research and analysis to inform the Government's reforms to encourage and enable more people to save for retirement. For research which explores individuals' attitudes to key aspects of the reforms and the personal accounts scheme in more detail, please see *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey* (DWP Research Report No. 550), and the follow-up study

---

9 Please note that the minimum contributions policy was slightly different at the time of fieldwork for the study, and that respondents were presented with information that reflected the policy situation at the time. Please see footnote no. 46 for further details.

10 However, contributions into the personal accounts pension scheme will be capped at £3,600 (2005/6 earnings terms). The contribution limit will be uprated in line with earnings using the Average Earnings Index.

Why people may decide to remain in or opt out of personal accounts: Report of a qualitative study (DWP Research Report No. 551)[11].

1.2 Aims and objectives

Other research commissioned by DWP has explored in detail public attitudes to the personal accounts scheme[12]. The overall aim of this research was to explore attitudes to investment choice and risk within the personal accounts scheme among those who fall into the eligible group for automatic enrolment. The research considered three main areas:

- individuals' understanding of, and appetite for, financial risk, both generally and in relation to saving for retirement;
- reactions to, and preferences for, potential investment fund choices within the personal accounts scheme, and reasons for these reactions and preferences;
- the likelihood of individuals making an active choice of investment funds, the factors they would consider, and what would enable or hinder active choice.

1.3 Research methods

Qualitative research, in the form of 14 focus groups, was used to meet the aims of this research. Focus groups aim not only to elicit people's opinions on a subject, but also to develop an understanding of why people hold certain views. They offer participants the opportunity to raise issues that they consider to be important, and through group interaction, allow participants to collectively make sense of an issue and construct meanings around it[13].

1.3.1 Topic guide

A topic guide was used to facilitate the group discussions. As the personal accounts scheme was an emerging policy area at the time of the research, it was necessary for information about the scheme and some possible key options for investment fund choice to be introduced to participants throughout the course of the groups.

---

11 Webb, C., Pye, J., Jeans, D., Robey, R. and Smith, P., 2008. *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*, DWP Research Report No 550 and Gray, E., Harvey, P. and Lancaster, J., 2008. *Why people may decide to remain in or opt out of the personal accounts scheme: Report of a qualitative study*, DWP Research Report No 551.

12 Webb, C., Pye, J., Jeans, D., Robey, R. and Smith, P., *op. cit.*, Gray, E., Harvey, P. and Lancaster, J., *op. cit.* and Hall, S., Pettigrew, N. and Harvey, P., 2006. *Public attitudes to personal accounts: Report of a qualitative study*, DWP Research Report No 370.

13 Bryman, A., 2001. *Social Research Methods*. Oxford University Press.

Explanations of key concepts (such as pension funds and risk and return) were also provided at relevant points in the discussion, to try and ensure a common understanding among participants. Showcards were used to support the verbal explanations given to participants. Facilitators were given more detailed versions of the showcards to use as briefing notes, to ensure that standard explanations were provided across all the groups.

The topic guide was designed to build up participants' knowledge and understanding of the personal accounts scheme and the key investment fund types over the course of the group discussion. Individually tailored funds were the first possible investment choice to be discussed, in order to start with the option that would offer scheme members the greatest freedom of investment fund choice. The idea of a default fund was the last option to be discussed in the focus groups, once participants had considered each of the other possible fund choices in detail. The topic guide and the showcards used in the focus groups are provided in Appendix A. The briefing notes used by facilitators are provided in Appendix B.

1.3.2 Pilot

A pilot exercise comprising two focus groups was conducted in January 2008 to test and refine the topic guide. The main change made to the topic guide post-pilot was to cut back earlier sections on attitudes and understanding of risk, to allow more time to consider investment choice within the personal accounts scheme.

Changes were also made to some of the showcards, to make explanations clearer and simpler. These included an extra showcard (showcard C) to diagrammatically illustrate the average performance of investments over time, compared with savings. Diagrammatic illustrations were also included on existing showcards to explain the personal accounts scheme (showcard D), individually tailored accounts (showcard H), risk-based funds (showcard J), and lifestyled funds (showcard M). In addition, scenarios that had been used to explore some possible fund options (a guaranteed minimum return fund, a fund invested in a socially responsible way, and branded investment funds) were removed. Finally, facilitators were instructed to clarify the role of Government in the delivery of the personal accounts scheme, namely that it will be run by an independent not-for-profit body at arm's length from Government.

The pilot focus groups counted towards the final number of groups, and were analysed alongside the mainstage focus groups.

1.3.3 Fieldwork

The main fieldwork (comprising 12 focus groups) was carried out in January and February 2008 in five locations across the UK. The groups each lasted approximately two hours. Researchers from PFRC and ECOTEC Research and Consulting Ltd, who are trained and experienced in qualitative research methods, facilitated all the focus groups. Participants each received £40 in shopping vouchers as a thank you for taking part in the research.

From the pilot and main-stage focus groups, it was clear that discussion within the groups was shaped by individual participants' preconceptions about pensions and saving for retirement – and negative preconceptions in particular. As a result, it required considerable effort to engage these participants in a broader discussion about investment choice within the personal accounts scheme.

1.3.4 Analysis

The focus groups were recorded, with the participants' permission, and fully transcribed to allow for detailed analysis. Information from the transcripts was transferred to thematic grids, forming the basis of the analysis. This approach allows for the rigorous and systematic interpretation of qualitative data. Second tier analytical grids were then produced, to structure the key themes for reporting. This information was used to write the report. Where relevant, the report also draws on findings from previous research studies.

1.4 Research design

The focus of the research was people in the target group for automatic enrolment into a qualifying workplace pension under the Government's reforms: employees working in the private sector; earning over £5,000 gross per year; aged between 22 and State Pension age (currently 60 for women and 65 for men); and not currently a member of a workplace pension scheme.

The eligibility criteria for this study represent a simplified and slightly altered version of the eligibility criteria for automatic enrolment that will apply in 2012. The key differences are:

- the current study covers only employees in the private sector, whereas the reforms will apply to employees in both the private and public sectors; and
- the current study does not cover individuals who have a workplace pension, whereas the reforms will apply to those who have an occupational pension if that pension is not of sufficient quality to be deemed a qualifying workplace pension scheme. As members of workplace pension schemes may not know whether or not their employer contributes, it was decided to exclude people with any employer pension provision from the focus groups.

In order to explore a full range of views and opinions, quotas for the focus groups were set on a number of key attributes: age; individual gross earnings; gender; and ownership of personal pensions and investments, in order to include individuals with different experience and knowledge of pensions and investments which in turn would be likely to impact on their attitudes. Previous research[14] has highlighted important differences in financial decision-making between men and women in families with children, and so three groups comprised women only. The rest were recruited to have a mix of men and women. Full details of the sample design are provided in Appendix C.

Participants were recruited by Droy Fieldwork Research. A structured questionnaire was used to recruit people to quota and to gain informed consent. A copy of the screening questionnaire is provided in Appendix D.

1.5 Research review

A short review of existing research was carried out at the outset of this research project, to summarise what was already known about people's understanding of, and attitudes to, investment risk and choice; and the use of terminology and language when discussing investment choice and risk with consumers. The review focused on those studies that were considered to be relevant to this research project. The findings of the review are reported below and derive from qualitative research projects unless otherwise indicated.

1.5.1 People's understanding of investment risk

Recent qualitative research indicates that most consumers had a basic understanding of the **risk-reward relationship** (i.e. higher risk meant potentially greater rewards; lower risk meant they stood to lose less but in turn the rewards would be less)[15]. Beyond this, however, understanding was limited. Most did not have a clear idea of what these risks actually were and many did not appreciate the impact of time on risk[16].

There seems to be considerable confusion among consumers about the **levels of risk** associated with different investment products and fund types[17]. A random survey of the British population found that participants lacked understanding of the risks associated with different means of retirement savings and different types of pension plans[18]. Most consumers in a recent qualitative study believed (wrongly)

---

14 Westaway, J. and McKay, S., 2007. *Women's financial assets and debts*. The Fawcett Society.

15 IFF Research Limited, 2007. *Investment risk rating: Consumer attitudes towards risk*. Financial Services Consumer Panel.

16 Ibid.

17 Conquest Research Limited, 2004. *Consumer understanding of financial risk.* FSA Consumer Research Report No 33. Financial Services Authority.

18 Clark, G.L. and Strauss, K., 2006. *Pension-related individual risk propensity, and the effects of socio-demographic characteristics and a spousal pension entitlement*. Oxford University Centre for the Environment.

that there was no capital at stake in low-risk investments[19]. The Baseline Survey of Financial Capability indicates that some risk-averse consumers may take out investment products unaware that there is any financial risk involved[20].

Qualitative and quantitative research consistently shows that people's knowledge and understanding of pensions is generally poor[21]. Many participants in a recent qualitative study were unaware that pension funds were invested on the stock market, and instead tended to view them as long-term savings accounts[22].

1.5.2 People's attitudes to investment risk

Research shows that **attitudes to investment risk** depend on factors such as personality, circumstances, level of financial knowledge and experience, and extent of financial product holding[23]. Quantitative research carried out in the US identified a similar range of factors, including income, wealth, age, marital status, gender and level of education[24].

On the whole, UK consumers have been found to be risk averse - particularly non-savers and those on low incomes[25]. A recent DWP survey with individuals who would be eligible for automatic enrolment into a qualifying workplace pension under the Government's reforms found that their financial risk profile was fairly risk averse. Using respondents' answers to a lottery-type question it classified over four in ten (44 per cent) as risk averse, about two in ten (17 per cent) as mildly risk averse, and only three in ten (29 per cent) as risk loving[26]. Both UK and US research

---

19 IFF Research Limited, 2007 *op. cit.*

20 Atkinson, A., McKay, S., Kempson, E. and Collard, S., 2006. *Levels of financial capability in the UK: Results of a baseline survey*. Financial Services Authority.

21 For example, see Clery, E., McKay, S., Philiips, M. and Robinson, C., 2007. *Attitudes to pensions: The 2006 survey*. DWP Research Report No 434; Summers, B., Ironfield-Smith, C., Duxbury, D., Hudson, R. and Keasey, K., 2005. *Informed choice: consumer preferences for information on pensions*. In: Journal of Financial regulation and Compliance 13(3); Hayden, C., Boaz, A. and Taylor, F. , 1999. *Attitudes and aspirations of older people: A qualitative study*. DSS Research Report No 102.

22 Bunt, K., Adams, L., Koroglu, Z. and O'Donnell, E., 2006. *Pensions and pension reform*. DWP Research Report No 357.

23 Conquest Research Limited, 2004 *op. cit.*

24 Finke, M. and Huston, S., 2003. The brighter side of financial risk: Financial risk tolerance and wealth. In: *Journal of Family and Economic Issues* 24(3).

25 Atkinson *et al.*, 2006 *op. cit.*; Hall, S., Pettigrew, N. and Harvey, P., 2006 *op. cit.*

26 Webb, C., Pye, J., Jeans, D., Robey, R. and Smith, P. *op. cit.*

indicates that women tend to be more financially risk averse than men[27]. Attitudes to risk can, however, change over time as needs alter and people's capacity to absorb potential losses varies[28].

In relation to pensions, 64 per cent of people in a recent national survey believed that a private pension scheme linked to the stock market was too much of a risk[29]. Similar views have been expressed by consumers in qualitative research; given the choice, many people would opt for a low-risk pension fund, despite the likely lower rate of return[30]. In another survey, participants were asked to rate, on a scale of 1 to 5, a range of potential features of a pension scheme that they would value. Four in ten (37 per cent) gave a high rating (4 or 5) to the concept of a guaranteed minimum level of pension[31].

1.5.3 People's understanding of, and attitudes to, investment choice

Previous research indicates that (with some exceptions) consumers generally find choice in pension schemes confusing and feel ill-equipped to make decisions about the sorts of funds they should invest in, without first seeking professional advice[32]. For some groups (low income and those without pension provision), even in the case of making a choice from a shortlist, reservations about making a provider choice persisted[33]. For these reasons, default pension funds have proved popular in countries such as Sweden and the USA.

Similarly, some parents in the UK have struggled to take the decisions necessary to open a Child Trust Fund (CTF) account, namely the type of account they should open and the provider they should open it with[34]. It is estimated that around three in ten CTF accounts have been or will be opened by HM Revenue and Customs (HMRC), because parents have not deposited their CTF voucher within the 12-month period before it expires[35]. At least some of these parents will not have opened accounts because of difficulties making investment decisions.

---

27 Westaway and McKay, 2007 *op. cit.*; Bajtelsmit, V. and Bernasek, A., 1996. Why do women invest differently than men? In: *Financial Counselling and Planning* Volume 7.

28 Conquest Research Limited, 2004 *op. cit.*

29 Clery et al., 2007 *op. cit.*

30 Bunt *et al.*, 2006 *op. cit.*

31 Summers *et al.*, 2005 *op. cit.*

32 Bunt *et al.*, 2006 *op. cit.*

33 Hall *et al.*, 2006 *op. cit.*

34 Kempson, E., Atkinson, A. and Collard, S., 2006. *Saving for children: A baseline survey at the inception of the Child Trust Fund*. HMRC Research Report No 18.

35 HMRC, 2006. *Child Trust Fund Statistical Report 2006*. www.hmrc.gov.uk

1.5.4 Use of terminology and language

The findings outlined above suggest that, on the whole, consumers struggle to understand the terminology and language used around pensions and investments. Recent research suggests that consumers are often unable to distinguish the difference between the investments funds that go to make up investment products and the products themselves[36]. There may also be disparities between consumer and adviser definitions of risk, for example a consumer may classify a product as low risk while an adviser may position it as very low/no risk[37].

Recent research on consumer understanding of risk carried out on behalf of the Actuarial Profession concludes that:

> *In providing financial advice, the discourse should be in everyday language and require the customer to have no understanding of the underlying financial markets or the normative rational choice models. The rationale is that people don't have the time, inclination or aptitude for finance, while at the same time they worry extensively about their financial welfare and its management*[38]*.*

Even so, without *'a broader understanding of the core logic and financial principles of pensions'*, consumers may arguably still find it difficult to understand any information or advice they receive[39].

Pension providers will undoubtedly have carried out extensive testing to produce information for consumers that aims to be appropriate and accessible. Unfortunately, this research is likely to be commercially sensitive and therefore not publicly available.

1.6 Report outline

The remainder of this report is structured as follows:

- Chapter 2 explores participants' attitudes to and understanding of risk, both generally and in relation to saving and investments;
- Chapter 3 starts by considering participants' views about saving for retirement. It goes on to provide an overview of participants' knowledge of and initial reactions to the key features of the workplace pension reforms and the personal accounts scheme;
- Chapter 4 examines participants' views about investment choice and risk in the context of the personal accounts scheme, including their reactions to individually tailored funds and risk-based funds;

---

36 IFF Research Limited, 2007 *op. cit.*

37 Conquest Research Limited, 2004 *op. cit.*

38 Goodman, A. (undated). *Consumer understanding of risk* (page 19). The Actuarial Profession.

39 Vickerstaff, S. and Cox, J., 2005. 'Retirement and risk: the individualisation of retirement experiences?' In: *Sociological Review* 53(1).

- Chapter 5 considers participants' reactions to several other key investment fund types: guaranteed minimum return funds; socially responsible investment funds; lifestyled investment funds; and branded investment funds;
- Chapter 6 summarises participants' views about the relative importance of possible different fund options when choosing an investment fund within the personal accounts scheme. It then goes on to explore reactions to the idea of a default fund and the participants' views of their likelihood of making an active investment choice on the basis of the information they had been provided with;
- Chapter 7 considers how well participants were able to understand key concepts and possible options that were presented to them in the groups. It then explores other barriers that might hinder or prevent individuals from making an active investment fund choice within the personal accounts scheme. It also looks at the types of information and support participants felt they needed to make an informed choice; and
- Chapter 8 summarises the findings from this research and draws together participants' views and preferences in relation to investment choice in the personal accounts scheme.

In interpreting the findings, it is important to remember that participants were asked for their reactions and preferences to possible investment choices based on the current information that could be provided about the scheme. As we go on to discuss, it was not uncommon for participants to have questions that could not be fully answered within the focus groups. Moreover, there was evidence that some participants struggled to engage fully in all of the discussion, either because of lack of understanding or lack of interest in the subject or, particularly towards the end of group discussions, simply because of the amount of new information they had been asked to consider.

Verbatim quotations are used to illustrate particular viewpoints. These views are not necessarily representative of all participants. Where quotations are used, attributes are given in the following order: age, income[40], personal pension and investment holding. Unless otherwise indicated, quotations are from mixed-gender groups and groups that comprise participants with a mix of family types.

---

40 For ease of reference, the income bands are shown as £5-15K, £15-25k, £25-35K, £35-50K. The upper ranges used for recruitment, however, were respectively £14,999; £24,999; £34,999 and £49,999.

2 Attitudes to and understanding of financial risk

The focus groups began with a discussion of participants' attitudes to financial risk and moved on to explore their understanding of risk, particularly in the context of saving and investing. This chapter reports these findings in the order they were discussed in the groups.

Summary: Attitudes to financial risk

Across the groups as a whole there was a general consensus that most participants were unwilling to take much risk with their money. This was the case even over the long term (five years or more) and few participants mentioned the potential for risk and return to balance out over time. The most common reasons cited for being averse to taking risks related to lifestage: the responsibility of raising a family, taking on large financial commitments such as a mortgage and, among older participants, the need to protect any savings they had built up over time. However, some participants were willing to take higher risks with their money to give themselves the chance of making higher returns. These participants tended to be young and single or higher earners.

Participants generally came to the groups with a grasp of the basic differences between saving and investing. There was agreement across the groups that a savings account was a low-risk product, which meant that returns were low but capital was not at risk. Stocks and shares were commonly regarded as a much higher risk than a savings account, with participants recognising that the potential for high returns was balanced by the risk of losing some or all of the money invested. Pensions were generally rated as being the same or higher risk than stocks and shares, although some younger participants thought they were lower risk than stocks and shares. The discussion among

Continued

participants was dominated by the perceived risk of getting a poor return on the money invested in a pension, based on bad experiences of friends or family, or negative media stories. Some participants expressed concern about the risk of making a 'bad choice' of pension due to their lack of knowledge and understanding of pensions.

When it came to considering risk as a factor in financial decision-making, views were mixed. Some participants (notably those on lower incomes without a private pension or investments) would not consider taking out anything more risky than a savings account; their sole focus, therefore, would be on the level of return available from savings accounts. Other participants felt it was important to consider the potential returns whatever the product.

2.1 Attitudes to financial risk

In order to gauge appetite for risk, at the start of each group participants were asked how much risk they would be willing to take with their money[41].

In keeping with previous research, the general consensus across the groups as a whole was that most participants were unwilling to take much, if any, risk with their money. Some participants were united in their unequivocal opposition to taking any risks with their money at all. It was notable that these participants were lower earners who did not have private pensions or investments, and tended to be women.

Participants offered a range of reasons for their unwillingness to take significant risks with their money – either in relation to saving and investing or with regard to budgeting and money management more generally. The most common reasons related to life-stage: typically the responsibility of raising a family and/or taking on financial commitments such as a mortgage or household bills. While these participants might have been willing to take some risks with money in the past, this had decreased over time as their financial and family obligations became their main priority.

> F1: *'Since I've had children I'm much more sensible, you have to be… I used to spend every penny and I used to go out and just spend it and now I don't….'*
>
> F2: *'I think as you get older you learn, don't you, as you go along, you learn by experience I suppose.'*
>
> F1: *'And you have more commitments as well, like your mortgage, and your bills and all those sorts of things.'*
>
> (30-39 years, £15-25K, no private pension or investments, women-only group)

---

41 In order to facilitate discussion, the idea of a 'risk ladder' was introduced, with a scale from zero (no risk) to 10 (high risk). No explicit meaning was attached to the numbers on the scale, so participants' perceptions of the scale were entirely subjective. For this reason we have not referred to the numbers on the scale in the report.

There was a sense among these participants that taking risks with money was irresponsible in these circumstances, and was often likened to gambling.

> *'I think you're more risky when you're younger. I think most people would say that. Once you get a house and kids you can't afford to gamble your weeks' wages.'*
>
> (40-49 years, £15-25K, no private pension or investments)

Some older participants also cited the need to plan for retirement and to protect financial nest-eggs as reasons for their unwillingness to take risks.

Aside from the link between lifestage and attitude to risk, it was clear that taking risks was simply not in the nature of some participants, who described how they liked to 'play it safe' with their money. Finally, some participants in their 40s and 50s reported becoming more cautious as a result of their negative experience of taking out an endowment mortgage, which had left them with mortgage shortfalls.

A few participants said they were more prepared to take risks when it came to money. They tended to be either young single adults or older, better-off participants. For these participants, taking risks with money meant 'living for the day' and largely focused on a tendency to spend rather than save money.

> *'I believe in live for today, and honestly whether it be money or whatever, I just go for it. I just think, well tomorrow might not ever come so just enjoy what you've got today.'*
>
> (22-29 years, £5-15K, no private pension or investments)

> *'I suppose I'm more risk taking, like I spend every penny rather than save. My husband is the other side and he's very cautious.'*
>
> (40-49 years, £35-50K, personal pension and investments)

For some better-off participants in their 30s and 40s, taking risks was associated with taking what they considered to be calculated risks to make returns on investments, such as investing in buy-to-let property or share-dealing. A few participants also related risk-taking to the fact that they had set up their own businesses, or taken opportunities to advance their careers.

As well as discussing participants' general attitudes to risk, they were also asked specifically about their attitudes to risk in relation to saving over the long term, defined as five years or more. Only a small number of participants, all personal pension-holders, talked about the opportunity for risk and return to balance out over the long term, so that losses sustained on investments in the short term might be made good over time.

Most participants, however, would not countenance the idea of taking any more risk over the long term than they would over the short term. In other words, even over the long term many would only be willing to take a low level of risk with their money, and as we go on to discuss in the following chapters, this was reflected in subsequent discussions around participants' preferences in relation to the personal accounts scheme. Indeed, some participants felt they would be more cautious if they were investing over the long term, in order to safeguard the savings they had accrued.

> *'…if you'd managed to save quite a bit, say over three years or something, and take a risk with that three years of savings, it's a complete waste of all that hard work.'*
>
> (22-29 years, £25-35K, no children, no private pension or investments)

The exception to this was in relation to investing in property, which was raised spontaneously by participants in several groups, mainly (but not exclusively) by higher earners[42]. These participants regarded property as a 'safer bet' over the long term than other types of investment, including pensions. In their view, therefore, investing in property was a risk worth taking.

> *'If you had the money I think a good risk is things like where you could maybe afford to buy a second property or something… I mean if it was property I'd definitely take a risk because you can make money on that.'*
>
> (22-29 years, £5-15K, no private pension or investments)

When asked again at the end of the focus groups, participants' attitudes to risk had generally not been affected in any way by the discussion, and stayed more or less the same.

2.1.1 Understanding financial risk

Having established participants' attitudes to risk, the focus groups moved on to explore, in detail, their understanding of risk. In order to facilitate discussion around risk and return, the key features of investments, and the differences between savings and investments, were explained to them along with the fact that investments are designed for the longer term and involve some level of risk, but tend to give a better level of return over the long term than savings accounts (see showcards B and C in Appendix A).

Prior to any explanations being given, participants across the focus groups demonstrated at least a rudimentary understanding of the key differences between savings and investments. As a result, they generally perceived pensions to be an investment rather than a form of savings. As we go on to discuss in the following chapters, however, the preference of participants in relation to the personal accounts scheme was often for a pension fund that was low-risk and to their minds it would more closely resemble a savings account than an investment in this respect.

---

42 The focus groups took place in January and February 2008, just prior to a period of volatility in the UK housing market.

The different risks associated with savings and investments received greatest attention from the participants. Consequently, the feature most commonly associated with savings was the fact that capital was not at risk, something that was attractive to many participants given their risk-averse attitude. In contrast, investments were considered to be risky, with the potential to lose some or all of the money invested and no certainty about how much an investment might ultimately be worth. The level of risk associated with different savings and investments is discussed in detail in the following section.

Most of the groups also distinguished between investments as a long-term financial commitment in which money was tied up, as opposed to savings which could generally be more easily accessed for short-term needs, specific targets or emergencies. Financial returns were occasionally mentioned spontaneously, but less often than either risk or the length of time during which people would not be able to access their money.

Once the stimulus materials were introduced, they were generally well understood and tended to reinforce the views that participants had already voiced. There were exceptions, however, including a few lower earners who were sceptical that investments would out-perform savings, even over the longer term.

2.1.2 Risk and financial products

Again, using the risk ladder as a guide, participants were asked to rank different types of savings and investments (a savings account with a bank or building society; stocks and shares; pensions) by the level of risk they associated with that product.

The consensus across the focus groups was that a **savings account with a bank or building society** was a low or no-risk product. When asked what they meant by low risk, participants talked about the fact that the capital in a savings account was not at risk, so in effect was 'guaranteed money'. Only one or two participants mentioned inflation risk in relation to savings, i.e. the fact that the value of savings may not keep pace with the rate of inflation over the longer term.

There was a general awareness among participants that taking a low risk with money meant accepting a low rate of return. Participants in some groups talked about getting a 'guaranteed return' from an ordinary savings account; for these participants, the security of knowing they would get their capital back plus some interest clearly outweighed the fact that it was a low return.

> *'You're not going to get as much return, obviously, you're not going to make as much money, but it's going to be safe, steady, you know, it's just going to plod along really.'*
>
> (22-29 years, £5-15K, no private pension or investments)

Across the focus groups participants agreed that **stocks and shares** represented a much higher risk than a savings account. For some participants, the fact that they lacked any knowledge or understanding of stocks and shares was enough to make them seem a high-risk investment.

> *'I just wouldn't have a clue so I wouldn't even contemplate it.'*
>
> (22-29 years, £5-15K, no private pension or investments)

The main feature associated with a high-risk product like stock and shares, however, was the potential to *'win or lose big'*. So, while participants generally recognised that stocks and shares offered the opportunity for high returns, the risk was that investors might lose some or all of the money that had been invested.

> F1: *'I know somebody who lost everything, stocks and shares at high risk, it was a lot of money to lose.'*
>
> F2: *'It's not guaranteed.'*
>
> (30-39 years, £15-25K, women-only group, no private pension or investments)

For this reason, some participants felt that investing in stocks and shares was only appropriate for people on higher incomes than them, who could bear the potential losses. This is in keeping with the general unwillingness among participants to take risks with money outlined above. It was notable that, while participants in several of the groups cited examples of friends or family members losing money on stocks and shares (as the quote above illustrates), no-one spontaneously mentioned any comparable instances of money being made from investments in stocks and shares. This apparent lack of positive messages about investments may have helped shape some participants' negative attitudes to risk.

Only a few participants with personal pensions mentioned the possibility of managing risk, by having a spread or portfolio of investments.

> M: *'That's why I said it's a high risk, because you don't know what you're going to get.'*
>
> F: *'Well that's why you wouldn't put it all in one area, you'd have to put a big spread, you know, if you'd got the money to do it, spread it around.'*
>
> (50-59 years, £15-25K, personal pension)

When asked to rank **pensions** on the risk ladder, participants in most of the focus groups placed them about the same or higher risk than stocks and shares. There seemed to be two main reasons why pensions were perceived in this way. First, participants talked about the risk of getting a poor return on money invested in a pension, for example due to shortfalls in private pension funds or stock market volatility. In some cases, this was based on their own experience or the experience of people they knew; in other cases it was based on negative stories in the media.

Secondly, participants mentioned the collapse of pension fund schemes, with the risk that investors lost most or all of their pension savings. Participants cited as examples the Maxwell pension scandal and more recent media stories about the failure of employer pension schemes when firms went into liquidation[43].

> *'…you see these poor people who have been sold, they have been part of company pension schemes or whatever who have been working for companies for 30 years knowing their money was safe, and then actually their money isn't safe and they are left with nothing… it's quite difficult to say, 'Is it risky or isn't it risky' because you're sold something that you think, my money is safe and actually they've been conned haven't they, because somebody has spent their money.'*
>
> (40-49 years, £25-35K, women-only group, personal pension)

For these reasons, some participants expressed the view that pensions (and particularly employer pension schemes) were becoming more risky than they were in the past. A few participants also perceived there to be other 'risks' associated with pensions. These included the perception that income from a personal pension may be liable for income tax, and that people may effectively be penalised in retirement for having small amounts of savings that take them just above the eligibility threshold for social security and other benefits (such as Pension Credit or free prescriptions)[44].

As with stocks and shares, some participants mentioned the risk of making a 'bad choice' of pension due to lack of knowledge and understanding. Indeed, when asked about the risk associated with pensions, a few participants on lower incomes (who had neither a private pension nor any investments) admitted to not knowing there was any risk associated with investing in a pension.

> *'I don't know enough about pensions to say really to be honest, because I just thought you paid the money in and you got it back out again. I didn't realise that it was a risk of any description… I didn't realise it was an investment; I thought it was more like a savings for the future sort of thing.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

A few younger participants felt that pensions were rather lower-risk than stocks and shares; this seemed to be based largely on their positive perceptions of employer pension schemes. The highest earners (£35,000 or more) who all had personal pensions and investments felt that the level of risk associated with a pension depended entirely on the pension fund choices made by individual members – they could therefore be high or low risk.

---

43 In 1991, Robert Maxwell was found to have stolen more than £400 million from the Mirror Group Newspapers' pension scheme.

44 In fact, in England, Wales and Scotland all people aged 60 or over can get free NHS prescriptions and eye tests (and dental examinations are free in Wales).

2.1.3 The role of risk and return in financial decision-making

The balance of views across the focus groups was divided as to whether participants would mainly focus on the potential returns or the risk of financial losses, if and when they came to take out savings and investments.

For some lower-income participants, who generally did not have private pensions or investments, the idea of taking out anything more risky than a savings product was felt to be out of the question. Their focus would therefore solely be on the level of return they could achieve from a savings account.

Other participants felt that it was important to mainly consider the potential returns, or at least to give risk and return equal consideration. They argued that to focus solely on losses would preclude ever taking any risks, and therefore the potential for getting higher returns. While some of these participants had both a personal pension and investments, others had neither.

> *'Well I don't think any of us enters into an investment, savings type situation anticipating losses otherwise you wouldn't be there. So the losses I don't think ever come into it.'*
>
> (30-39 years, £35-50K, personal pension and investments)

Finally, there were participants who reported having a largely pessimistic outlook and considered that their main focus would be on the risk for losses. These tended to be mainly participants on lower incomes who had neither a private pension nor any investments, but also included some personal pension holders.

As we go on to discuss in Chapter 6, level of risk and return was identified as a key factor by most participants when it came to the idea of choosing a pension fund within the personal accounts scheme, and on balance most participants expressed a preference for a low-risk pension fund, although some said they were interested in taking higher risks.

3 Understanding the context: attitudes to retirement saving, the workplace pension reforms and the personal accounts scheme

Summary: Understanding the context – attitudes to retirement saving, the workplace pension reforms and the personal accounts scheme

Unsurprisingly, participants who already had a personal pension generally considered saving for retirement to be a medium or high personal priority, in order to provide financial security and a decent standard of living for themselves in old age. In contrast, participants with no private pension tended to consider saving for retirement a low personal priority at the present time, although this did not necessarily mean that they felt it was unimportant. The main reason given by participants for this low prioritisation was concerns about the affordability of saving for retirement in the face of competing demands on their income, such as spending on family[45].

Continued

[45] It is important to note other research has found that when individuals are provided with information on the contributions that they would be required to pay into a qualifying workplace pension scheme in actual monetary terms, affordability does not emerge as a significant barrier to remaining in the scheme: Smith, P., Webb, C., Pye, J., Robey, R. and Jeans, D., 2008. *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No 550.

On the whole participants had a good grasp of the key aspects of the workplace pension reforms and the personal accounts scheme. There was a general openness to the reforms, which were seen to provide a ready-made solution to, and incentive for, saving for retirement that required little or no decisions or action by individuals. Indeed, there was some relief from participants with no private pension provision, who had shown concern during the early discussion about knowing what route to take to save for retirement. Automatic enrolment was an immediate attraction for lower earners and younger respondents, and no participants raised concerns about the affordability of the individual contributions. There were mixed views, however, about the scheme's perceived link to Government, and some participants had concerns about an entirely new scheme with no track record or reputation. Calls for accessible and clear information to aid decision-making were commonplace.

3.1 Attitudes to saving for retirement

The discussion began with broad questions about saving for retirement in general. The idea was to gain understanding of the 'starting point' for people's views; openness to the idea, personal inclination to save for retirement and the perceived relevance to their current situation. This provided a backdrop for responses to the concept of the personal accounts scheme and the potential choices within that framework.

Participants gave their views and reasons for considering saving for retirement a current priority for them personally, or otherwise. Perhaps not surprisingly, participants who already had a personal pension generally considered saving for retirement to be a medium or high personal priority. The main reason that participants gave for this prioritisation was the need to provide financial security and a decent standard of living for themselves in old age.

In contrast, participants with no private pension or investments generally considered saving for retirement to be a low personal priority, at least at the present time. This did not necessarily mean that they considered saving for retirement to be unimportant. Indeed, for some participants, the focus group discussion brought to the fore their concerns about not having any provision for retirement – concerns which until then had largely been buried or denied.

> *'I don't worry about it every day, it's only because we're talking about it now, it's made me think about it.'*
>
> (22-29 years, £5-15K, no private pension or investments)

The affordability of pension contributions in the face of competing demands on their income was a recurrent concern among participants who considered saving for retirement to be a low priority, particularly low earners and those aged under 50. For participants with families, current priorities tended to be dominated by spending on children and the home. In keeping with previous research[46], younger participants (and especially those without children) generally prioritised living today over saving for tomorrow. Getting a foot on the property ladder was also a concern for some of the younger participants, which combined with current spending needs displaced any thoughts of saving for retirement.

> *'I mean at my age it's all about worrying about getting the money for your house, your car and every day living, you don't tend to think, you know, you're dealing with that which is going to matter for the next 10 years, never mind paying out more for a pension.'*
>
> (22-29 years, 25-35K, no private pension or investments, no children)

For older participants who did not have a private pension, the question of whether or not they could afford to save was closely linked to the perceived value of saving in a pension. As they felt they could only afford to save small sums at best, they questioned the value of saving for retirement at all, as they were worried it could affect their eligibility for financial and non-financial State support once they retired. Some preferred to spend what they earned now, and rely on being able to work past State Retirement Age.

The issue of how best to save for retirement was also raised across the groups. Spontaneously, participants raised questions and concerns about whether pensions were the 'best' vehicle for saving for retirement. This comprised a number of aspects.

First, not having a private pension in many cases meant that participants had a limited personal understanding of them. Secondly, negative media stories and/or the experiences of others (such as friends, family or colleagues) served to undermine the perceived value of a pension as a way to save, as did lack of certainty about the outcome of pension saving. That said, there was some mention of employer pensions being an exception to this because the additional contribution from the employer provided some inherent benefit.

Among lower income groups and women-only groups, their main concerns focused around safety and security. There was also a palpable sense that they did not know what to do for the best in terms of saving for retirement. These twin concerns often led them to favour savings accounts or National Savings and Investments (NS&I) products over pensions and investments, mainly because they perceived the former to be lower risk than the latter.

> *'…personally I'd rather put it in an interest account, a high interest one, save up and just forget it and pretend it's not even there and just sort of 30 years down the line you know that money is going to be there.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

---

46 Pettigrew *et al.*, 2007 *op. cit.*

Some participants with personal pensions and those on higher incomes recognised that there was no one 'right' way to save for retirement. They felt that putting money into a range of savings and investment vehicles would help spread the risk and maximise the opportunity for return.

> *'… my sort of philosophy is no eggs in one basket, you know, I've got many baskets with many eggs.'*
>
> (30-39 years, £35-50K, personal pension and investments)

As outlined in the previous chapter, property was raised spontaneously by participants as an example of a 'good investment' because it was perceived to offer greater opportunities for return than other forms of investment. It came up again in the discussion about saving for retirement as a possible alternative to investing in a pension[47].

Factors envisaged as having a discernable impact on future priorities and views about saving for retirement were based around life stages and included age; a new job or promotion; owning property; children being less dependent; and the realisation of retirement being in sight.

3.2 Attitudes to the workplace pension reforms and personal accounts scheme

As a new area of pension policy, before examining views towards investment choices and risk within the personal accounts scheme, it was necessary to introduce the 'nuts and bolts' of the reforms to participants. The purpose of seeking views on the key principles was to provide contextual information to frame later opinions about the array of possible choices within the personal accounts scheme.

The concept of automatic enrolment into a workplace pension scheme and the personal accounts scheme was presented as something which aims to make it easier and more worthwhile for people to save for retirement (see showcard D, Appendix A). The building blocks of the reforms were then presented in turn:

- Available to employees earning over £5,000 and aged between 22 and State Pension age.
- Automatic enrolment with the opportunity to opt out.

---

47 Please note that the fieldwork took place in January and February 2008, before the start of the recent housing market volatility.

- 4% contribution from the individual deducted from wages, 3% contribution from the employer and 1% from the Government in the form of tax relief.[48]
- Low charges.
- Additional to the State Pension, providing the opportunity to build up an individual pension pot.
- Run by an independent not-for-profit body (not Government). The fact that this body would be trustee-based like other occupational pension schemes was not explained to participants, as it was felt to be unnecessary and potentially confusing in the context of this research.

Participants were asked for their first impressions of the reforms. This discussion also provided a means of ensuring that all participants were comfortable with these general principles before any further details were introduced.

Awareness of the reforms and the personal accounts scheme was unsurprisingly scant across all the groups given that the communications strategy around the reforms had not yet begun. Among the few participants who had heard of the reforms, levels of knowledge were at best rudimentary. Sources of information among participants who had heard of the reforms and the scheme included: television news; tabloid newspapers; radio; and a postal survey from an employer.

On the whole participants grasped the concept and the key elements quickly and well. This was demonstrated by their haste to know more details and to try to unpick some of the possible implications of what they had heard. Automatic enrolment was instantly understood, both the perceived pros and cons. There was some initial confusion about how the personal accounts scheme might sit with the existing State Pension and if contributions might be pooled (as with National Insurance Contributions) and redistributed. In response to this, it was explained that contributions made to a personal accounts scheme would effectively comprise an individual pot.

Where further clarification on topics had to be provided, these tended to be interrelated and included: the role of the Government; the independence of an independent body; whether the reforms and personal accounts scheme would

48 At the time of fieldwork, it was explained that the basic policy for those who choose to save is that the employee has to contribute a minimum of 4% of a set band of their earnings to the pension scheme, and will receive an extra 1% in the form of tax relief and a minimum employer contribution of 3%. However, please note that since the time of fieldwork minimum contributions are described in a different way. Minimum employee contributions are no longer referred to, only a minimum employer contribution of 3% and a minimum overall contribution of 8%. If the employer chooses to contribute the entire 8%, employees may not have to contribute at all depending on the scheme rules or their contract.

replace the state pension; and about it effectively consisting of personal pots rather than one pooled one.

Unlike the preceding discussion about saving for retirement generally, the issue of affordability was not raised by any of the groups in relation to the reforms and scheme. Where the issue of employee contributions was raised, it was in reference to whether the amount contributed could be increased.

In some cases facilitating this discussion was challenging as it brought to the surface some related frustrations either with pensions generally or with Government. Where participants had a greater experience of pensions or investments there was some difficulty in moving the discussion on from their initial questions. In particular, older and more affluent groups had an immediate desire for detail, wider than the key features presented, pertaining to their personal circumstances, concerns and preferences.

Across the focus groups, there was a general openness to the idea of the reforms and the personal accounts scheme. Above all, participants felt it offered individuals a way of saving for retirement which was easily available and accessible; and provided an incentive to save. Participants across all groups identified the reforms and scheme as particularly advantageous for younger people, including those under the age 22 starting point. This view was more widespread among older participants and reiterates findings from other research around the reforms and the personal accounts scheme where even individuals who do not feel the scheme is right for them tend to view it as a positive thing for others.

> P1: *'But for like 20 year olds it might work.'*
>
> P2: *'I do tend to agree, I think it* [interest in pensions] *was quite low, you know, when I was in my 20s I didn't think about pensions then, I thought "oh I'll do it when I'm older", I just don't think it would be enough for me.'*
>
> (40-49 years, £25-35K, personal pension)

> *'I'm 58 going on 59 so what would I get out of that?'*
>
> (50-59 years, £5-15K, no private pension or investments)

Among those with no private pension provision, having voiced concerns about saving for retirement earlier in the discussion, they were relieved when an apparently ready-made solution was presented.

> *'… I'd feel quite secure and think "right that's done for me, I haven't got to go and shop around", I know what they're doing, I know that, that goes out of my salary and all that and that would benefit me, it takes it out of my hands and it's not for me to worry about.'*
>
> (22-29, 5-15K, no private pension or investments, mix of family types)

Automatic enrolment was an immediate attraction for the lower earning groups and youngest participants; the need for decision and action being taken out of their hands was considered a real plus.

Some participants, notably those with anti-Government views, took issue with the concept of automatic enrolment, specifically the notion of needing to take action if you did not want to be part of the reforms or the personal accounts scheme. Even those who expressed negative views towards automatic enrolment, however, could generally see the potential benefits of the scheme for young people.

There was a degree of wariness on the part of some participants about this being a completely new scheme and concerns that there should be adequate information to aid informed decision-making. Individual participants with more negative views about Government tended to extensively analyse the information given and question the integrity of the facts, for example, they were suspicious that the State Pension would be phased out despite reassurance that this would not be the case.

During this initial discussion, the idea of the scheme being independent from Government and run by a body set up specifically for this purpose was received positively, but participants also raised questions about the accountability, transparency and scrutiny of this body.

> *'How independent is the company going to be that runs it? They will still need to answer back to the Government.'*
>
> (30-39 years, £15-25K, women-only group, no private pension or investments)

The concept of an independent body reassured some who were concerned by recent media reports or personal experiences of administrative errors concerning personal data. There was, however, displeasure amongst other participants that the Government would not be managing the scheme. Views were thus torn between the perceived gains and losses. Where individual participants had strong political views or strong negative views about the Government in general, even the distant/overseeing role meant for them that the independent body was not independent enough. The subject of the independent not-for-profit body is explored further in Section 5.4, where it is considered in the context of discussion about branded funds.

3.2.1 Other issues raised

Lower-income participants, older participants, and participants in the women-only groups expressed some caution about the personal accounts scheme and focused on their need for trust and safety in their discussion and questions. Individual participants, mainly younger workers, picked up issues around employment that were relevant to their situations including short-term contracts, moving employers and temporary/agency work. Lower earners, particularly those in their 40s and 50s, had specific questions about the potential effect of saving into a personal account on eligibility for State support in retirement and about what would happen to the money saved in a personal account if the scheme member died before drawing a pension. Higher income groups questioned the potential impact of other people's personal account investment decisions on their account and any links between the personal accounts scheme and State Pension payments to current pensioners or civil service pensions.

Initially, the response to the idea of an employer contribution was positive and the showcard (showcard D, Appendix A) was thought to illustrate the contributions clearly and effectively. Where individual participants personally worked for a small or medium-sized business, or had some connection with them, the potential impact on, or consequence of, an employer contribution was raised quite early in the discussion. These participants anticipated the possible negative responses of these employers, for example non-compliance, employers seeking ways to avoid payment or offering incentives to employees to opt out; and the consequence for wages, pay rises and prices.

Across all groups there were some participants who remained unconvinced that the personal accounts scheme would not eventually replace the State Pension. Even after restating and clarifying the facts, there remained participants whose suspicions were not allayed. This level of cynicism appeared in different forms, for example questioning the reasoning and motive for introducing the personal accounts scheme and theories about it being a form of taxation or a pot which could be dipped into by Government.

Given the preceding discussion about risk within the groups, it was perhaps to be expected that this theme carried through to the discussion about the personal accounts scheme. Risk and safety was a particularly dominant issue for the women-only groups, lower-income and older groups. Concerns were wide ranging, some at quite a broad level and others quite specific and often linked to current media stories. Questions were raised about personal confidence to make choices, the quality of any information to support decision-making, the safety of non-UK investments, safety of data and some calls for a guarantee.[49] Suggestions about using building society savings accounts as a safer option also came primarily from participants in the women-only groups.

Information provision was raised spontaneously at this early stage by women-only and lower income groups.

> *'I think, "obviously educate me a bit more on it" for one thing.'*
>
> (22-29 years, 25-35K, no children, no private pension or investments)

---

49 It should be noted that when they came on to discuss the Guaranteed Minimum Return (GMR) fund as a potential option within the personal accounts scheme (see Section 5.1), participants willing to opt for this fund as it was explained to them were few and far between.

Information and support to help people make informed investment decisions around the personal accounts scheme is discussed in detail in Chapter 7.

A desire for further details about the scheme was prevalent among the older and higher income groups but also with individual participants across the groups with specific interest or experience of financial matters.

> *'There's too many vague points there that none have covered. Supposing as a couple my husband and I, say he put in every week and then pegged it* [died] *at the age of 64 and 9 months what would happen to his pot.'*
>
> (50-59 years, £15-25K, personal pension)

For many of these participants, their responses at this initial stage and throughout the group were conditional on being able to access more information on these unknowns and it being agreeable to them.

Specific factors which were of interest to some respondents but were not appropriate to answer in the context of this research included: whether or not it would be possible to transfer funds to and from other pension schemes into the personal accounts scheme; whether or not there would be an option within the scheme to have 'payment holidays' in relation to individual contributions; whether or not the scheme would be open to self-employed people and if so how this would work; the death benefits that would be offered by the scheme; how easy or difficult it would be to leave the scheme after a number of years.

4 Views on investment choice

This chapter examines participants' views about investment choice and risk in the context of the personal accounts scheme, including their reactions to individually tailored funds and risk-based funds. Please note that although these funds were discussed in relation to the personal accounts scheme they will not necessarily be offered by the scheme[50].

Summary: Views on investment choice

Participants largely viewed the idea of investment fund choice within the personal accounts scheme as something that, in theory, was wholly positive, as it would help scheme members to achieve their desired risk profile. This was conditional on participants being able to make decisions that met with their personal preferences. Lack of understanding about pensions and investments generally and lack of confidence to make investment decisions were perceived to be the main barriers to exercising personal choice.

When asked to consider what might constitute a manageable number of funds from which to choose, most suggested between three and five. Higher earners (£25,000 or more) expected funds to be available across the whole range of risk levels, from low to high, but most participants tended to favour a spread of low and medium-risk fund options. Some type of limit on the upper end of the risk profile was favoured, in the main, by lower earners and older participants in their 50s who welcomed anything which provided in-built protection from risk. Participants felt strongly that funds should be in distinct risk bands to aid differentiation and, therefore, choice.

Individually tailored funds: Individually tailored funds were presented as funds which allow each scheme member to choose the mix of investments that make up their own pension fund. The stimulus material (see showcard H,

Continued

50 The scheme will be run by a trustee body and all investment decisions will be their responsibility.

Appendix A) included an example of a hypothetical mix of investments to show the type of choice a scheme member could make under this type of fund. A verbal explanation of the key facts was provided alongside this, which emphasised that if this type of fund was introduced it would allow scheme members to choose the mix of investments that would make up their pension fund, and that the mix of investments selected would affect the level of risk that their pension contributions would be exposed to.

Asked what they thought generally about the scheme possibly offering members the option to choose the mix of assets that would go to make up an individually tailored fund, participants by and large viewed this option positively. This was seen to offer people the opportunity to make decisions in accordance with their personal preferences. Asked whether or not they might personally be interested in the possible option of an individually tailored fund, participants of all ages and incomes said they would be. This might partly be explained by the fact that individually tailored funds were the first possible fund option to be introduced, and participants were as yet unaware of the possible risk-based fund option (see below). While some wanted to exercise personal control to ensure their pension fund was low risk, others (mainly higher earners) were interested in doing so to achieve higher levels of return. However, some participants felt that this type of fund would require too much time, effort and financial confidence, and some younger respondents especially felt strongly that they would not want the responsibility of making this kind of choice.

Risk-based funds: The possible option of risk-based funds was introduced to participants as an off-the-shelf product where a financial expert had chosen the types of investments that would be included. It was explained to participants that a risk-based fund would consist of a ready-made mix of assets and provide an average level of risk – low, medium or high (see showcard J, Appendix A). Participants were asked to consider the idea of being able to choose a specific risk profile to suit them from a suite of funds where the choice of investments was already made.

Asked what they thought generally about the personal accounts scheme possibly offering members the option of risk-based funds, participants overall felt it would provide a simple, effective and manageable level of choice, which provided a potentially greater and broader level of appeal than an individually tailored fund. Even so, they felt it would probably be necessary to offer both individually tailored funds and risk-based funds to cater for the different needs and preferences of the scheme's members. Asked whether or not they would personally be interested in the risk-based fund option, most interest was expressed by participants with no current private pension. Younger participants who had been put off the idea of investment choice by the individually tailored funds found the risk-based funds more straightforward and less confusing. Some respondents, however, still felt that such an investment choice would be too complex for them.

4.1 Fund choice

The aim of this part of the group discussion was to gain a depth of understanding about participants' attitudes to fund choice: understanding of choice; the level of choice; confidence in making a choice; and what drives active fund choice.

After establishing a common understanding of what constitutes a pension fund, the possible option of an individually tailored fund was introduced first, on the basis that it would offer scheme members the greatest freedom of personal choice. Starting with this type of fund provided the opportunity to introduce the constituent parts of any pension fund, including different asset classes, dividing investments across asset classes and, therefore, targeting potential for risk and return. This meant that in subsequent discussions about investment fund choices where the mix of assets and overall risk level was prescribed, participants already had an understanding of what this comprised.

In order to encourage participants to engage in the idea of making an active choice, explicit mention of a possible default fund was purposely avoided until after participants had discussed the range of possible investment fund choices within the personal accounts scheme. It also meant that participants could discuss the default fund in the knowledge of the possible alternatives to it.

4.1.1 Introducing the concept of fund choice

The reason for offering the possible option of investment fund choice within the personal accounts scheme was summarised for participants as providing choice for those who want it about how their money is invested. Participants were introduced to the principles of investment choice within the personal accounts scheme (see showcard E, Appendix A). It was outlined that the independent not-for-profit body might offer a limited number of funds from which individual members could make a choice; that all members might have the opportunity to make a choice of fund but would not have to do so if they did not want to. It was also made clear that members might be able to switch their pension pot to a different investment fund within the personal accounts scheme further down the line.

Participants were then introduced to a broad definition of a pension fund (see showcard F, Appendix A) with the purpose of establishing a fair and common understanding across all the groups before asking for specific views relating to possible investment fund choices. Specifically, participants were told that pension funds comprised a mix of different investments that may vary from fund to fund, the value of investments may go up or down, there are charges for running pension funds, pension funds are long-term investments that on average give a better return than savings accounts in the long term, and the longer investments have to grow, the bigger the pension pot is likely to be.

4.1.2 Initial response to fund choice

Views on the possibility of having a choice of investment funds within the personal accounts scheme were chiefly positive. This was conditional on participants feeling confident to make these choices and ensuring that the choices they made met their personal preferences. This in turn depended on the provision of sufficient clear and transparent information.

Some participants favoured having investment fund choice as a feature of the personal accounts scheme. They highlighted the value of personal control and responsibility; being able to limit risk level to their own preferences; flexibility; and its potential to encourage more people to stay in the scheme. In contrast, a few participants, who were broadly negative about the scheme in general, felt that investment fund choice might be confusing and showed concern that it might be accompanied by a hard-sell approach. They commonly proposed the need for some form of guaranteed return on pension savings.[51] The concept of having one standard all-purpose fund was proposed by older participants, as a means to achieve parity across all members of the scheme, remove potential sources of confusion and to place the responsibility for the scheme firmly with the independent not-for-profit body rather than with individual scheme members.

As chapter 2 indicates, the early part of the group discussions focused on participants' attitudes to, and understanding of, financial risk. Perhaps not surprisingly, then, the link between choice and exposure to risk was raised in all discussions of investment fund choice. Participants talked about how to avoid or control risk or achieve personal risk preference as a condition of making a choice. A consistent view was that choice was a positive means of achieving lower risk – be that no risk, low risk or a guarantee of no loss. Relatively few respondents valued choice as a means of being able to positively select higher risk investments, and to balance the opportunities for risk and return; these respondents were invariably higher earners with pensions and investments.

Theoretically, the idea of having choice had a strong appeal to participants, although lack of understanding and confidence to make choices were identified as barriers to taking up that opportunity, particularly for the lowest income groups and younger participants who did not have a personal pension (more detailed discussion about barriers to active choice is provided in Section 7.2). Participants currently least confident in making choices considered there to be some mystique around financial decision-making and likened the process of making an investment fund choice to playing the lottery, with either good or bad results. The risk of making a 'wrong' decision in relation to pensions or investments was also raised in the earlier part of the group discussions. Key reasons for this view were that these

[51] However, when they came on to discuss the Guaranteed Minimum Return (GMR) fund as a potential option within the personal accounts scheme (see Section 5.1), participants willing to opt for this fund as it was explained to them were few and far between.

respondents considered themselves likely to make poor choices due to lack of understanding or ‘bad luck’, perceived investments as unpredictable and therefore high risk and, essentially, could not envisage a ‘middle-ground’ outcome. In the discussion about fund choice, the idea of choices being either right or wrong was most prevalent among the women-only and lowest income groups.

Concerns about the effective smooth running of the administration of investment fund choice were raised by the highest income groups who had experience of personal pensions and investments. Their concerns and unease stemmed from recent media reports about administrative errors and personal data safety.

4.1.3 Manageable number of funds

Participants were directed to think about what might be an acceptable or manageable number of funds from which to make a choice. Most participants suggested that between three and five fund choices be offered.

> *‘… yes it gives you a choice, I know people are not too keen on too much choice, but yes, I think if you’ve got maybe three or four or something.’*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

Participants in the women-only groups typically went one stage further and spontaneously proposed a simple choice between three funds – low, medium or high risk.

4.1.4 Risk parameters

As in an earlier part of the group discussion, the idea of a risk and return ladder was used to facilitate discussion about risk in the context of investment fund choice – participants were asked to consider the highest and lowest levels of risk that should be available in the personal accounts scheme and how the range of risk should be spread.

Higher income groups (£25,000 or more) favoured funds being available across the full range of risk. Other groups favoured a spread of funds, from no-risk funds up to a medium level of risk. Views about the lowest and highest risk parameters of these funds opened up discussion about the idea of freedom of choice versus capped risk levels. Views on risk levels focused on four main issues: freedom of choice; morality of exposure to risk; simplicity of choice; and personal preference within an expected range of risk levels.

Higher levels of risk were expected and sought by the higher earners, and those with experience of investing. Other participants who were more risk averse by nature appreciated that some people may, unlike them, want to take higher risk and have the prospect of greater return. Views were divided about whether this higher appetite for risk should be catered for within the personal accounts scheme. Lower earners (below £25,000) questioned the sense and morality of having risk of any kind associated with the personal accounts scheme. These participants inherently favoured a lower-risk fund themselves and raised the possibility that funds within the personal accounts scheme might offer a guaranteed return[52].

Earners of £25,000 or more and participants currently investing in a personal pension expressed greater levels of discontent with the concept of some kind of limit at either end of the risk spectrum and considered freedom of choice paramount. This said, individual participants expressed concerns about the potential impact on other savers of making losses due to their preference for higher risk funds. Lower earners perceived that having some limits on risk would provide inbuilt protection by steering savers away from this course.

> *'They should have it capped so the worst you can do is actually get your money back you've invested, so without any interest or whatever, get your basic money back.'*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

4.1.5 Information to support fund choice

Positive views of choice were conditional on being able to feel confident and informed when making these choices. Participants with greater experience of pensions and investments considered that without the confidence and ability to make fund choices, a no-risk fund would be necessary to provide an option for people with limited understanding.

The youngest and lowest income groups consistently called for information, education and support to make informed choices.

> *'The thing about this it's 4% of your wages over your lifetime going in for 45 years, you know, that's going to be a huge amount of money. I'd like to, if it was me I'd probably want to look into it as much as I can and go for the best options.'*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

A contrasting concern was that information had the potential to detract from choice-making rather than facilitate it. Rather than something which enables and empowers people to make choice, information was described as something which can be over-facing and actually off-putting because of the way it is presented and the level of information which needs to be processed to make a decision.

> *'… like the mobile phones they give you all these different packages and it gets all very confusing, you think well you might think of doing this one or that one and you sort of get bombarded with science.'*
>
> (40-49 years, £15-25K, no private pension or investments)

---

52 However, when they came on to discuss the GMR fund as a potential option within the personal accounts scheme (see Section 5.1), participants willing to opt for this fund as it was explained to them were few and far between.

The groups naturally began to think about ways of conveying information about the topics discussed and this is discussed in detail in Chapter 7.

4.2 Individually tailored funds

Having discussed the general idea of investment fund choice, the discussion of key fund types started with **individually tailored funds**, which, if introduced, would provide individuals with the greatest freedom of fund choice – the choice to select the mix of investments that make up their pension fund.

The stimulus material (see showcard H, Appendix A) used to explain individually tailored funds included an example of a hypothetical mix of investments to show the type of choice a scheme member could make if they selected this type of fund. A verbal explanation of the key facts was provided alongside this, which emphasised that if this type of fund was introduced it would allow scheme members to choose the mix of investments that would make up their pension fund, and that the mix of investments selected would affect the level of risk that their pension pot would be exposed to.

Section 4.2.1 outlines participants' understanding of this possible fund option, while Section 4.2.2 explores what they thought generally about the scheme offering individually tailored funds. In Section 4.2.3 we move on to examine whether participants were personally interested in the idea of individually tailored funds.

4.2.1 Understanding of 'individually tailored' funds

All groups reached a basic to good level of understanding of the concept. At the very least participants understood the purpose to be to afford people personal choice and control about how their money is invested, and that investments in the different asset types expose the investment to different levels of potential risk and opportunity for return. Participants with personal pensions had the most advanced level of understanding and sometimes had personal experience of making this type of choice.

Participants without a private pension asked most questions, mainly about the detail of how to go about making this choice. Once the concept had been introduced, the youngest participants had many questions about asset classes and the process of making these sorts of decisions. The lowest earners and women-only groups (excluding those with a personal pension) jumped forward in the discussion to information and advice needs, often proposing the idea of limits as a way of steering people against 'too much' risk and providing some form of protection.

In questioning the detail of how this choice might operate, some sticking points came to the surface. The main one was around information to assist choice, namely the quality of information and level of detail (enough versus it being over-facing). Also the idea of caps on risk taking was an issue for some people. One women-only group became very focused on the idea that their pension pot would be too small to warrant dividing the money between asset classes, so determined that this kind of choice was only warranted once the pot had built up. These sticking points spilled over into the next layer of discussion about including this type of fund in the personal accounts scheme and whether it appealed to them personally. As with other topics discussed, participants in their 50s with a personal pension were reluctant to discuss personal preferences in the absence of more details and concrete information.

There were individual participants who had begun, even at this early point, to find the whole idea of thinking about risk, the finer details of the personal accounts scheme and actively engaging with making choices daunting and irrelevant to them outside of this discussion.[53] These participants remained part of this discussion but tended to only join in when they had particularly positive or negative responses to add.

4.2.2 Initial response to individually tailored funds

Initial responses were based on the general principles of individually tailored funds and whether or not participants felt that the personal accounts scheme should offer this option, regardless of whether or not they were personally interested in it (the personal preferences of participants are discussed in Section 4.2.3). The focus at this stage was to think about all the people who would be automatically enrolled into the personal accounts scheme, although inevitably personal views did inform participants' responses to some extent.

Having the option

Participants, by and large, considered the option of being able to choose the asset classes that make up an individually tailored fund to be a feature which would offer people the opportunity to make decisions specific to their personal preferences. There were, however, some reservations, particularly among participants not currently saving in a private pension, about the extent to which this might appeal to the main target audience for the personal accounts scheme. There was also some consideration that different age groups may respond differently and need different types of information and support. Those more experienced in investing considered that the experience of making these choices, reviewing and managing them would provide an active learning experience.

The younger participants had the most difficulty thinking outside of their personal preferences in relation to this topic and some thought it inconceivable that others would want to make this type of decision which seemed to them complex and confusing. Engaging these younger groups in this discussion was challenging and

[53] As mentioned in Section 4.1, in order to encourage participants to engage in the idea of making an active choice, explicit mention of a possible default fund was purposely avoided until after participants had discussed the range of possible investment fund choices within the personal accounts scheme.

many had already spontaneously suggested that there might be an option which served their preference for low risk while involving less effort and involvement on their part.

Applying limits to risk taking

Encouraging participants to talk about possibly having limits to the level of risk available within the personal accounts scheme was straightforward in relation to discussions about reducing risk, but most did not recognise a need for a limit at the lower end of the risk spectrum.

Current pension holders and investors had strong negative views about placing restrictions on risk taking and perceived it as reducing personal freedom. However, these participants did acknowledge that this would be a way to curb irresponsible risk-taking and protect scheme members, and in fact assumed that such restrictions would exist within the scheme. The women-only groups echoed the view that choice should mean complete choice but appreciated the benefit of limits as a way of protecting and informing members. However, in these groups only the women with no current pension provision personally valued this idea. The older groups were the most supportive of restricting the level of risk in individually tailored funds, regarding it as a means of ensuring that scheme members could not be exposed to the potential risk of losing all their pension savings.

4.2.3 Personal preference for individually tailored funds

Personal interest in this type of fund was exhibited across all age and income groups. Participants who were personally attracted to this option placed conditions on their preference, namely clear and easily accessible information, access to help and support, and the ease and simplicity of making the choices. In addition, participants with experience of investing wanted to know the extent to which funds would be actively managed and how often fund choices could be reviewed and changed.

There were various reasons why participants were personally attracted to this fund option. Lower-income participants were drawn to the idea of being able to decide on their own definition of risk and be as cautious as they felt they needed to be. It should be noted, however, that as individually tailored funds were the first possible fund option to be introduced, it may well be that these participants felt that this might be their best (or only) option for choosing a low-risk fund. They may have, therefore, expressed less interest in the possible option of individually tailored funds had risk-based funds been discussed first.

Current pension and investment holders considered this fund type a good opportunity to manage risk and to seek returns. These participants showed most interest in utilising the full range of asset classes and expressed interest in being able to invest in certain industries or in certain regions such as South East Asia or the emerging economies of Eastern Europe.

'Again it's all about eggs in one basket, that way you're spreading your risk, you're not saying I want to go specifically this way or that way, you're saying I want to get a spread across the board.'

(30-39 years, £35-50K, personal pension and investments)

Equally, there were some participants who expressed little or no personal interest in this possible option if it were available. Reasons for not being attracted to this sort of fund were wide-ranging and included: the effort and time to make choices; the lack of relevance to someone seeking a no- or low-risk fund; the perceived need for ongoing involvement and monitoring of funds; and, fundamentally, a lack of confidence in, and understanding of, higher risk asset classes. As mentioned above, women-only groups with no current personal pension focused on the possibility that their pension pot would be too small to make dividing it between different asset classes sensible, and considered this option not worthwhile until pension savings had built up.

'It's not that much money to share about.'

(30-39 years, £15-25K, women-only group, no private pension or investments)

Confidence levels and information needs

Among those participants who were personally interested in the possible option of individually tailored funds, having adequate information and support to make these types of investment decisions and to feel confident in those decisions was a key concern. Confidence to take this kind of decision was lowest among the lower income groups.

'I mean it does sound appealing but I'd need a little tutorial about how it would pertain to me and how it would suit me, so I don't know how easily I would jump at it, I'd be a little bit apprehensive.'

(22-29 years, £15-25K, no children, no private pension or investments)

Provision of clear information was seen to be paramount. However, participants were quick to highlight the need for balance between being able to make an informed choice and being over-faced by the time needed and/or complexity of processing the information provided. Participants in the lowest income category in particular, whilst positive about the opportunity to choose funds, were clear that they would need to seek some kind of help and support to make these decisions. However, cynicism and distrust in information and advice sources was apparent among participants aged 50 plus with personal experience of pensions and investments.

The ongoing need for information, not just at the point of the initial decision, was regarded as a necessity with individually tailored funds. Participants who had both a personal pension and experience of investing highlighted the need for transparency of information and the opportunity for members to act on that information instantly, for example having access to online monitoring and fund management facilities. Across the board, participants interested in this option considered a regular and clear statement to be a key tool in facilitating personal confidence in, and management of, this fund type.

> *'… there should be almost some free compulsory course offered to everybody to come along to understand what this is all about.'*
>
> (30-39 years, £35-50K, personal pension and investments)

4.3 Risk-based funds

The concept of an individually tailored fund introduced the idea of being able to choose a specific mix of assets to produce a highly personalised fund. The option of **risk-based funds** was then introduced as an off-the-shelf product where a financial expert had chosen the types of investments that would be included.

It was explained to participants that a risk-based fund, if made available, would consist of a ready-made mix of assets and provide funds with average levels of risk – eg. low, medium or high (see showcard J, Appendix A). Participants were asked to consider the idea of being able to choose a specific risk profile to suit them from a suite of funds where the choice of investments was already made.

Section 4.3.1 outlines participants' understanding of this possible fund option, while Section 4.3.2 explores what they thought generally about the scheme offering risk-based funds. In Section 4.3.3 we move on to examine whether participants were personally interested in the idea of risk-based funds.

4.3.1 Understanding of 'risk-based' funds

The stimulus material again used a shopping analogy with the fund containing a ready-made mix of assets. Understanding of, and engagement with, this concept was good. It is also important to note that the discussion around risk-based funds served to draw in some (but not all) participants who had shown little interest in the idea of individually tailored funds.

The only aspect which, in some cases, needed further clarification was the idea of risk-based funds having an average or combined level of risk. Where financial security had become a sticking point, individual participants considered that a low-risk profile fund should contain purely investments of that risk level. In these instances the idea was reiterated that the fund comprises a mix of assets, which together gives an overall risk profile. Participants with an existing personal pension were accustomed to the idea of having 'eggs in different baskets' to spread risk and opportunity for return. This idea was often used to explain the purpose of having a mix to other participants and, following explanation, the reasoning for this was understood well.

4.3.2 Initial response to risk-based funds

Risk-based funds attracted the attention of participants who had found the idea of individually tailored funds daunting or too involved. Even so, there remained individual participants who did not want to think about the make-up of a pension fund at all. In addition, some individual participants would discuss the topic in general but would not be drawn to give personal preferences in the absence of further details.

Asked what they thought generally about the personal accounts scheme offering members the option of risk-based funds, participants overall felt that it would provide a simple, effective and manageable level of choice which would potentially have broader appeal to scheme members than an individually tailored fund. This option was seen to give scheme members less to think about and therefore less to worry about.

> *'… for me it would take away the stress of choosing how much percentage goes in high, medium and low. You just know that someone will do it for you and hope that they're doing it.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

Even so, participants thought it was necessary for the scheme to offer both types of choice – individually tailored funds and risk-based funds, to cater for different needs and preferences, even if, personally, participants favoured one type of fund more than another. Some of the general appeal of this fund was wrapped up in the way participants thought it might operate. Participants considered that to make this type of choice an individual might only need to tick a box on an application form that corresponded to their risk preference, making it an easy and simple process as well as an easier decision than that required for an individually tailored fund. Further discussion included the ease of applying caps to this kind of fund and the presentation of choice being easier because there was less detail to impart.

4.3.3 Personal preference for risk-based funds

Personal preference for the risk-based fund approach sat, almost wholly, with participants with no current private pension. These participants perceived the risk-based fund to be simple and straightforward because it involved a one-off choice between a limited number of funds, unlike the individually tailored fund which they considered would require ongoing monitoring and member involvement. Younger participants in particular considered this approach less confusing and stated that, as completely inexperienced investors, they would have more confidence in making a decision like this between a small number of funds. That said, there remained some call among the youngest participants for an option which offered no need for any active choice or action.[54]

---

[54] In order to encourage participants to engage in the idea of making an active choice, explicit mention of a possible default fund was purposely avoided until after participants had discussed the range of possible investment fund choices within the personal accounts scheme. It also meant that participants could discuss the default fund with the knowledge of the possible alternatives to it.

'… there's too much choice, too much to think about, that to me, that's just confusing, you know, all those, God you don't know where to think first.'

(22-29 years, £5-15K, no private pension or investments)

With the exception of older participants (aged 50 or more) on lower incomes, those who currently held a personal pension wanted more detail about the risk-based fund than they were provided with. In particular, they wanted to know what mix of investments lay beneath the wrapper of each risk profile, which may have been prompted by the earlier discussion about the idea of individually tailored funds. Even among these participants who favoured the level of choice and control offered by the individually tailored fund, however, there was interest to find out the detail of what risk-based funds entailed. If the detail about asset classes matched their personal preferences and, indeed, definitions of a particular risk level, then these participants thought they might consider this option.

In contrast, participants without a current private pension and also older participants found the packaged risk-based funds personally appealing and favoured the simplicity and perceived lack of effort or expertise needed to choose one.

Among these participants who personally favoured a risk-based fund there were some reservations: the first being the definition of risk and whether it matched their personal preferences. Also, there was still a desire among participants to have a forecast and know the outcome of investing in this way. There was minor concern about whether a decision that is easy to make might mean people engage less and, therefore, do not take on board the potential consequences of their actions.

Preferred risk profile

Personal risk preference was divided again by whether or not participants were currently investing in a personal pension. Participants without a private pension erred towards the lower risk profile while those with a personal pension favoured a medium to high risk profile. However, and the youngest and oldest in this particular group, as well as those on lower income, also displayed a higher level of caution and so a preference for lower risk funds.

The most cautious – generally found among the youngest, oldest, low income and women-only groups – retained concerns about there being any risk at all but considered that with reassurances about risk definition and forecasts, a low-risk fund held some personal appeal.

'Again they need to give you figures of what the return would be in the low risk, medium risk and high risk because it would influence what you were to do.'

(30-39 years, £15-25K, women-only group, no private pension or investments)

Older participants, with a personal pension, suggested the need for lifestage-based risk profiles so that individuals could choose on this basis and have a trigger to change to a more appropriate fund profile at key points in their life. These participants spontaneously mentioned 'lifestyled' investment funds, familiar to them from their personal experience of pensions, as something which could be an option for investment funds within the personal accounts scheme.

Higher earners who had a personal pension again called for detail on the mix of investments and risk levels within a risk-based fund. This was not purely to be better informed but to ensure a breadth of investments and that any risk could be spread and, therefore, managed.

There was strong feeling across all groups that labels for risk-based funds should be meaningful and not arbitrary and must be simple to understand without the aid of a long explanation. Participants expressed great dislike for numbers or meaningless descriptive terms. Across the board participants favoured the approach used in the research: low, medium and high.

> *'I think that is self-explanatory you understand it straightaway.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

Participants suggested that if there were more than three risk-based funds the additional funds could be called, for example, low-medium, medium-high. Younger participants and those in the lower income groups suggested the use of examples (such as best and worst case scenarios) to explain to scheme members what different risk profiles might mean in terms of potential returns and losses, and what factors members should consider when selecting a risk profile.

4.4 Balance of personal preference for individually tailored funds and risk-based funds

Comparing participants' reactions to the individually tailored and the risk-based funds, on balance the risk-based funds held most personal appeal for participants without a private pension. In turn, individually tailored funds held most interest for participants with a current personal pension. These preferences were also, in part, a function of age and income.

However, there were instances where participants' preferences went against the overall trend. Participants without a private pension who favoured individually tailored funds saw them as providing the opportunity to control risk and ensure their fund's risk level met with their personal need and preference. Participants with a personal pension who favoured risk-based funds did so because they perceived them as involving a simpler process to reach the same conclusion: a mix of investments across asset classes with a low-risk threshold.

The youngest participants mainly favoured the risk-based funds, and women-only groups similarly voiced relief at the possible option of a risk-based fund rather than an individually tailored fund. Even so, they said they would be interested in an individually tailored fund if it meant they were able to take less risk and if the decision was made by a financial expert rather than themselves. There was some call for something even simpler and less involved than the risk-based fund across all income groups, although there was some interest in individually tailored funds among participants on higher incomes. Participants in the lowest income range expressed the least confidence in making choices within either of these fund types.

Participants who felt positively about both types of fund suggested a hybrid between the two to enable choice of a mix of risk profiles, rather than asset classes, therefore making the choice easier to understand and more accessible. It was proposed that this hybrid fund would allow them to choose the percentage contribution which could be invested in each level of risk rather than asset class, for example 100 per cent in low risk fund or 50 per cent in low risk and the rest split across medium and high risk. It was seen to offer the flexibility of the individually tailored fund and the simplicity of the risk-based fund. This idea was picked up again during later discussions about the GMR fund where participants suggested that personal contributions be invested in GMR and the employer and Government contributions in higher risk investments (see Section 5.1). This suggestion was offered by participants in all groups as there was interest in taking the opportunity to achieve more return from the employer and State contribution balanced by exercising caution with the personal contribution.

5 Other investment fund options: reactions and personal preferences

This section explores participants' initial reactions and personal preferences to a number of possible fund options (in addition to those discussed in the previous chapter): Guaranteed Minimum Return (GMR) funds, funds that are invested in a socially responsible way (Socially Responsible Investment (SRI) funds), lifestyled funds, and branded funds. These were explained to participants as discrete and separate funds, although in reality it is possible to have a fund with more than one of these features, for example one that is both guaranteed and lifestyled. Please note that although these funds were discussed in relation to the personal accounts scheme, they will not necessarily be offered by the scheme[55].

Summary: Other investment choice options – reactions and personal preferences

Generally, participants welcomed the possibility of the personal accounts scheme offering the key fund types discussed, as they felt that investment choice for scheme members was a good thing. However, personal interest in investing in each of the funds varied considerably.

Guaranteed Minimum Return (GMR) funds

GMR funds were presented to participants as one of the possible fund options for the personal accounts scheme that might be available as one of the risk-based funds. Guaranteed funds can operate in different ways, but this one was described as a fund in which the capital invested and a minimum level of return would be guaranteed; and as a trade-off for that guarantee, there

Continued

[55] The scheme will be run by a trustee body and all investment decisions will be their responsibility.

would be a loss of a proportion of the return over and above the minimum level (showcard K, Appendix A) [56]. Therefore, such a guarantee would ultimately have to be paid for by members accepting potentially lower investment returns.

Participants felt the GMR fund was a valuable option for the personal accounts scheme to offer to its scheme members. However, those willing to personally opt for the GMR fund were few and far between. Most of those participants who favoured lower risk funds were not prepared to accept the reduced opportunity for return associated with the GMR fund as it was described. Where there was support it was from participants who valued absolute certainty above the potential for return and were willing to accept this compromise. This came wholly from lower income participants in the women-only groups and over-50s groups. Interestingly, participants frustrated by the reduced opportunity for return spontaneously explored an extension or alternative to the GMR fund, where they would be able to invest half of the contributions (conceived of as their own contributions) into the GMR fund and have the opportunity to seek greater levels of return with the employer contribution and tax relief. This alternative option was perceived to balance the need for security and return.

Socially Responsible Investment (SRI) funds

SRI funds were presented to participants as funds that might exclude and/or include shares in companies on ethical or environmental grounds, and/or which might aim to influence the companies they invest in to act in a more ethical or environmentally responsible way (showcard L, Appendix A). The possible risk profile of an SRI fund, possible returns and charges were not included in the explanation.

When asked for their general views about the personal accounts scheme possibly offering the choice of an SRI fund, participants either considered it a positive option for the scheme, or felt that it would have to be an option to reflect political interest in ethical and environmental concerns. On a personal note the fund held little appeal for most participants who spontaneously voiced concerns that SRI funds might offer lower returns or incur higher charges, and who prioritised returns over ethical principles when it came to investment decisions. Some, however, were personally interested in ethical investments, and for these participants this view was strongly held and was reflected throughout the rest of the discussion.

Continued

[56] Although it is unlikely that a guaranteed fund will be offered by the personal accounts scheme due to the high costs that providing it would incur, it was included in this study so that attitudes to a full range of funds occupying various points on the risk spectrum could be explored.

Lifestyled fund

The concept of lifestyling was described to participants as the gradual movement of pension pots from higher risk investments (shares and bonds) into lower risk and potentially lower return investments, to protect the pension savings that had been accrued by the scheme member from downturns in the stock market (Showcard M, Appendix A). Participants were told that in these funds lifestyling would be automatically implemented in the five to ten years prior to retirement age.

The general view of most participants about the concept of lifestyling as a way to protect pension savings as members approached retirement was that this would be a positive feature of the personal accounts scheme. Opinion was divided, however, about whether or not lifestyling should be an automatic feature or whether scheme members should be prompted to consider lifestyling their fund at the appropriate time. Some participants felt that it should be a feature of all funds offered by the personal accounts scheme. Those who strongly advocated lifestyling tended to have greater experience of investments. When asked whether they might be interested in lifestyling personally, it held the greatest appeal for older participants (aged 40 or over) and higher earners. Those who favoured lower risk funds could not see that they would personally get much benefit from lifestyling as their fund would already be exposed to low risks only.

Branded funds

Branded funds were described to participants as funds associated with big-name providers, although names of possible commercial providers were not provided as part of the explanation (there was no showcard). It was made clear to participants that both branded and non-branded funds might potentially be part of the personal accounts scheme, and that, if so, both types of fund would be administered by the independent not-for-profit body running the scheme. The prospect that funds associated with big-name commercial providers might attract higher charges than the 'own-brand funds' was introduced as well.

On the whole participants welcomed the general idea of branded funds as a possible option within the personal accounts scheme, to create choice for scheme members and generate healthy competition. However, in terms of personal interest, views about whether or not participants might opt for branded funds if they were available were mixed. Overall, however, there was a general view that participants would be willing to consider the idea of branded funds alongside own-brand funds, and to assess factors such as the 'best deal'; safety and security; charges; and level of financial expertise when making a decision.

5.1 Guaranteed Minimum Return (GMR) funds

GMR funds were presented to participants as one of the funds that might be available within the range of risk-based funds they had just discussed. Although it is unlikely that a guaranteed fund will be offered by the personal accounts scheme due to the high cost that providing it would incur, it was included in this study so that attitudes to a full range of funds occupying various points on the risk spectrum could be explored. Guaranteed funds can operate in different ways, but this one was described as a fund in which the capital invested and a minimum level of return would be guaranteed; and as a trade-off for that guarantee, there would be a loss of a proportion of the return over and above the minimum level (see showcard K, Appendix A). By this point in the focus groups participants had already explored their own preferences in terms of potential risk and opportunity for return in relation to pensions. The point was reiterated to participants that defined contribution pensions do not provide any guaranteed minimum amount at retirement age, rather it depends on the level of contributions and how well the investments have performed over time.

Section 5.1.1 outlines participants' understanding of this possible fund option. Section 5.1.2 starts by exploring what participants thought generally about the scheme offering this type of GMR fund and then moves on to examine whether participants were personally interested in the idea.

5.1.1 Understanding of GMR funds

From the outset of this part of the group discussion, participants were keen to engage with the topic – especially those who had consistently expressed a preference for no-risk or low-risk fund choices.

The concept as laid out in the stimulus material was relatively straightforward and participants seemed to understand it. The basic premise of safety and certainty was understood by all. Participants already had a grasp of the difference between capital and return, as this had featured in earlier discussions. However, among the youngest participants and those with the lowest incomes, there were many questions but importantly, also some disbelief that if scheme members opted for this fund the level of return they received would be reduced. Understanding of the idea of a guarantee related back to earlier discussions (see Section 2.1.2) about the perceived guarantee provided by a savings account. Despite explanation that the reduced returns enable, in part, the provision of a guarantee, there was a perception that the independent not-for-profit body running the personal accounts scheme would be making some sort of profit from the reduced return. Some older participants made comparisons with endowment mortgages, which caused some initial confusion. Some younger participants particularly struggled with the rationale for such reduced returns.

Time was taken to ensure that all groups understood the way in which such a GMR fund would operate – particularly the fact that the guaranteed level of return was effectively paid for by the loss of a proportion of returns over and above the set minimum.

Understanding of what a GMR fund meant in terms of financial outcomes was closely related to participants' personal expectations and beliefs about what constituted a satisfactory level of return and, indeed, whether the advantages of a guaranteed minimum return were perceived to outweigh the disadvantages.

As a result, participants with no private pension often equated the return and security provided by a GMR fund with a building society account. At least some of them were concerned that this might mean that the actual value of the fund would not keep pace with inflation over time. In contrast, participants with a personal pension perceived the GMR fund as one where the returns would keep pace with inflation. They (and other participants) were generally keen to know the actual rate of return for a possible GMR fund before deciding whether or not it was an option they would ever consider.

5.1.2 Initial response to, and personal preference for, GMR funds

Across the board participants deemed the GMR fund to be an option that the personal accounts scheme should offer to its members. Participants suggested that the fund might be of particular interest to certain groups, including: people approaching retirement with pension savings they wanted to protect; people who were unwilling to tolerate any level of risk; and people who had previously not shown any interest in saving for retirement. That said, when participants provided feedback on how attractive the GMR fund was to them personally views were not so clear-cut.

When asked if they would personally be interested in this type of fund, few participants thought they would opt for the GMR fund as it was explained to them. Those with an existing personal pension and those on higher incomes took the view that the GMR fund held little appeal for them personally, due to the fact that they felt it offered them insufficient control over investment choice, and because of the reduced potential for returns it involved.

Other participants who had previously preferred low-risk or no-risk pension funds (typically those on lower incomes with no personal pension provision) nonetheless found the GMR fund unattractive personally because of the idea that a proportion of any returns above a minimum level would effectively be lost. Participants felt that this factor provided little or no incentive to save.

Where there was personal preference for the GMR fund it was typically expressed by participants on lower incomes, women-only groups who considered such a fund to be a safer option than a low-risk fund, and participants in their 50s who were distrustful of pensions in general. Some support was also found among higher income female participants with existing personal pensions; they felt it was a good personal option in what they considered to be an uncertain economic climate in which they would be uncomfortable taking financial risks. The security and certainty of the fund was incentive enough for them to personally choose the GMR fund.

Interestingly, some participants spontaneously suggested an alternative to the type of GMR fund that was explained to them. This involved scheme members being able to invest their own personal contribution into a GMR fund but then having the freedom to seek greater levels of return by investing the employer contribution and the tax relief in a higher-risk fund. This alternative proposal was perceived to balance the need for security and return.

> *'…if you contribute in say the 4% and then the employers are contributing the 3% you can play with their 3% and you'll have a guarantee for that 4%.*
>
> *Then I can gamble with the 3% into something more adventurous.'*[57]
>
> (50-59 years, £5-15K, no private pension or investments)

5.2 Socially Responsible Investment (SRI) funds

SRI funds can operate in a variety of ways and this was reflected in the information that was shown to participants. The showcard (see showcard L, Appendix A) provided examples of different ways in which socially responsible investments might be made: they might exclude and/or include shares in companies on ethical or environmental grounds and/or they might aim to influence the companies they invest in to act in a more ethical or environmentally responsible way. Participants were told that, for the purpose of the group discussion, an SRI fund would be an off-the-shelf fund; as such, scheme members would choose the fund and not the mix of underlying investments that made up the fund. The possible risk profile of an SRI fund, possible levels of return and charges were not included in the explanation.

Section 5.2.1 outlines participants' understanding of this possible fund option. Section 5.2.2 starts by exploring what participants thought generally about the scheme offering and SRI fund and then moves on to examine whether participants were personally interested in the idea.

5.2.1 Understanding of SRI funds

Irrespective of participants' personal interest in an SRI fund, it was on the whole easily understood. Even with a basic level of understanding participants likened an SRI fund to choosing a 'green' energy company as your electricity supplier. The understanding of the youngest participants tended to surpass that of other

---

57 Please note that the minimum contributions policy was slightly different at the time of fieldwork for the study, and that respondents were presented with information that reflected the policy situation at the time. Please see footnote no. 48 for further details.

groups. Across all the subjects discussed it was here that the youngest participants exhibited greatest depth of understanding through perceptive questions about: level of returns; how often the list of SRI companies would be reviewed and refreshed; the cost implications of investing in an SRI fund; how investments would be categorised; and how the choice would be presented.

Higher-income groups with a personal pension questioned how decisions would be made about which investments were categorised as SRI, and who would make these decisions. Their argument centred on the belief that different people have different perceptions about what is a socially responsible investment; they proposed therefore that only an individual could determine whether an investment was an SRI or not.

> *'Ethical is so much, one person's ethics, what I may think is ethical you may think is horrific.'*
>
> (40-49 years, £ 35-50K, personal pension and investments)

Meanwhile, participants in the older and higher income categories spontaneously expressed concern that an SRI fund might give lower potential levels of return compared to non-ethical investments. For these groups the key question was about low returns versus high returns rather than the wider consequences of investing in an SRI fund or not. As with other subjects the participants with current investments wanted more details about the SRI fund and how it would operate.

5.2.2 Initial response to, and personal preference for, SRI funds

When asked for their general views about the personal accounts scheme possibly offering the choice of an SRI fund, participants either took the positive view that an SRI fund should be an option for members or felt that, for political reasons, it had to be an option because of the perceived link between the scheme and the Government[58].

> *'The Government are peddling all this green, green friendly, we're all getting used to it aren't we, so it's the way of the times really isn't it now.'*
>
> (40-49 years, £5-15K, no private pension or investments)

Indeed there was some surprise among individual participants across the groups that socially responsible investment funds might not be an automatic or standard feature across all personal account funds, particularly given the involvement of the Government in the design of the scheme.

---

[58] Please note that in reality investment decisions are solely the responsibility of the personal accounts scheme's trustees and not the Government, and that the scheme will be run at arm's length from Government by an independent not-for-profit body.

'I'd prefer it not to be an option, I'd prefer it that they're telling you that they only invest in it.'

(40-49 years, £25-35K, women-only group, personal pension)

Among the youngest groups, those who were personally interested in an SRI fund considered that the same end could be achieved through the personal choice of investments within the option of an individually-tailored fund. As a result, they were the only participants to question whether an SRI off-the-shelf fund was required as part of the scheme. Even so, there was a general sense that an SRI fund was good for public relations and was a positive and well-meaning idea.

When asked whether or not they would personally consider the idea of an SRI fund, there were some participants who personally valued this option even after others had spontaneously raised concerns about possible lower returns. These participants tended to retain this view throughout further discussions about making choices within the personal accounts scheme suggesting that their views about the benefits of SRI funds are strongly held (see Section 6.1).

'I'd hate to think my money was making landmines or bombs or guns or something like that.'

(40-49 years, £5-15K, no pension or investments)

The wider view across most of the participants, however, was that this fund held no personal appeal. This was generally because it was perceived to offer lower opportunities for return (although returns had not been mentioned in the explanation given to participants at the outset of the discussion). Across all income and age groups the dominant personal view was that interest in return outweighed ethical standpoints, especially if additional charges would be incurred due to the assessing and labelling of SRI funds, which some participants thought there might be.

'People tend to go for the environmentally friendly stuff when it benefits them, and I genuinely think if people are putting money into something they couldn't give a monkeys if it was arms firms or what, or if it was manure.'

(40-49 years, £5-15K, no private pension or investments)

Participants were keen to suggest other ways in which social, ethical and environmental concerns could be addressed by interested individuals, for example recycling, energy saving measures and 'green living'. These participants felt that for them personally the cost in terms of time to evaluate the options for the personal accounts scheme, level of returns and perceived higher charges for an SRI fund outweighed the benefits of such a fund. In response to this there were strong views that this option should be presented simply for example as a tick-box on an application form. Participants also thought that at some point the implications of choosing an SRI fund should be made clear to people, for example, in a pop-up box on a web page that explains the key features.

5.3 Lifestyled investment funds

A lifestyled fund was presented as a possible personal accounts scheme choice using stimulus material (see showcard M, Appendix A). It was described as the gradual movement of pension pots from higher risk investments (shares and bonds) into lower risk and potentially lower return investments in order to protect the pension savings that had been accrued by the scheme member, for example from downturns in the stock market. Participants were told that this lifestyling element would be automatically implemented in the five to ten years prior to retirement age.

Section 5.3.1 outlines participants' understanding of this possible option. Section 5.3.2 starts by exploring what participants thought generally about the scheme offering the option of lifestyling and then moves on to examine whether participants were personally interested in the idea.

5.3.1 Understanding of lifestyled investment funds

Across the board participants had a good grasp of the concept of lifestyling, how it might work and its potential implications. They felt that the showcard was clear and concise.

> *'That's the clearest thing of all we've heard tonight.*
>
> *… it is quite self-explanatory, it is quite good, yes, to be fair.'*
>
> (50-59 years, £15-25K, personal pension)

The graph (on showcard M in Appendix A) was a useful aid to understanding, but once understood it served to focus participants' attention on the proportion of the investment that would be in shares. Participants were reminded that even the lowest risk profile off-the-shelf fund would contain a mix of investments across different asset classes.

Participants who expressed a personal preference for low-risk funds felt that the possible option of lifestyling was of little relevance to them because from the outset they would choose funds that were exposed to very little risk. This limited their willingness to engage in discussion around the topic. There were also participants for whom the depth of discussion about pensions and investment choice was too detailed to retain their interest. As with the preceding discussion of SRI funds, these participants tended to take a backseat in the discussion once they had expressed this view.

In contrast, participants with current personal pensions and investments took to this discussion with ease, as for most it was either a familiar concept or one with which they had personal experience (for example through the Child Trust Fund[59] (CTF) or an existing personal pension that was lifestyled in a similar way).

5.3.2 Initial response to, and personal preference for, lifestyled investment funds

In terms of their general views, participants appreciated the fact that lifestyling set out to protect members' pension savings and act as a safety net, and as such felt that it should be a feature of the personal accounts scheme. However, they were divided about whether it should be an automatic or an optional feature.

Some participants were strong advocates of the option being automatic, whilst others thought that individual members should be able to make a choice about lifestyling once they reached the 'trigger point' five to ten years prior to retirement age, based on market conditions and the size of their pension savings at that point in time.

> *'I think perhaps it should tell you how much you're at, at that point, would you like it to carry on or would you like us to move it into a low risk now.'*
>
> (22-29 years, £5-15K, no private pension or investments)

A further suggestion from both younger and older participants was that lifestyling should be a standard feature of the personal accounts scheme to protect all investors and to remove this layer of choice; for the younger participants this echoed their thoughts about the proposal for an SRI fund.

> *'I think it should happen automatically, I don't think it should be a choice.'*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

The women-only groups supported the idea of lifestyling as a feature of the scheme, however also felt that this option too detailed and complex for people who were starting out saving for retirement.

When asked whether or not they were personally interested in lifestyling, it was particularly popular with the older participants and those earning £25,000 or more. However, some participants in the higher income groups felt that, should they opt for the individually tailored fund, the ongoing monitoring and management of their investments they felt would be required by this type of fund would negate the need for automatic lifestyling. Among the participants without a current

---

59 The CTF is a savings and investment account for children, which they can access when they reach the age of 18. Children born on or after 1 September 2002 receive a £250 voucher to start their account. There are a range of CTF accounts, including stakeholder accounts. Money deposited in a stakeholder account is invested in stocks and shares. Unlike other equity-based accounts, however, the risks in a stakeholder account are reduced in a number of ways including 'lifestyling', whereby money in the account starts to be moved to lower risk investments or assets once the child reaches the age of 13.

private pension, personal support for lifestyling was often conditional on members being asked to make the choice about whether or not to lifestyle their fund at a suitable time prior to retirement (eg. five to ten years) rather than at the outset of their scheme membership. That said, there was a greater personal preference for low-risk investments among these groups which planted some doubt about the relevance of lifestyling to them.

As with other topics, participants raised the issue of information needs to support informed choices about features such as lifestyling.

5.4 Branded investment funds

Participants, by this point in the group discussion, were familiar with the idea of having fund choice within the personal accounts scheme, and with the idea that the scheme would be run by an independent not-for-profit body. At this juncture the possibility was introduced to participants that branded funds (associated with big-name providers) may also be offered under the banner of the personal accounts scheme.[60]

It was made clear to participants that both branded and non-branded funds might potentially be part of the personal accounts scheme and that, if so, both types of fund would be administered by the independent not-for-profit body. It was also explained that such branded funds would still attract the same contribution levels from the individual, employer and the State (in the form of tax relief). Names of possible commercial providers were not provided as part of the explanation, although participants did mention some commercial providers they were familiar with. The prospect that funds associated with big-name commercial providers might attract higher charges than the 'own-brand funds' provided by the independent not-for-profit body was introduced as well.[61]

Section 5.4.1 outlines participants' understanding of this possible fund option. Section 5.4.2 starts by exploring what participants thought generally about the scheme offering branded funds and then moves on to examine whether participants were personally interested in the idea.

---

60 There was no stimulus material for this section of the group discussion.

61 It was thought unnecessary, and potentially confusing, in the context of the research to go into any additional detail about the independent not-for-profit body being trustee-based as in standard pension schemes. Equally, it was thought that the simplest way to differentiate between branded and own-brand funds was to introduce them as funds offered by big-name providers or by the independent not-for-profit body respectively but then stressing that both types would be offered under the banner of the personal accounts scheme.

5.4.1 Understanding of branded funds

Presenting the option of branded investment funds brought the discussion full-circle as it focused on who would be designing and managing the fund rather than the possible options and features within funds. In responding to the idea of branded funds participants explored which factors would contribute to their preference and possible decision and the discussion became a comparison between funds designed and managed by big-name providers and the independent not-for-profit body[62]. Section 3.2 provides some insight into participants' initial reactions to an independent not-for-profit body, raised during the introduction to the personal accounts scheme. On presenting the possible alternative of commercial providers also offering funds as part of the personal accounts scheme, participants began to set the two options side by side to compare and contrast what they knew about each. For example, participants in their 50s with personal pensions associated greater levels of safety with funds managed by an independent body as they perceived there to be intrinsic Government accountability and responsibility (although it had been explained to them that the scheme would be run at arm's length from Government).

Participants with a current personal pension and some with other investments had more experience and knowledge of commercial providers and therefore, stronger views about this subject. Participants who had strong negative or positive views about Government also took to this subject with ease. Participants with distinct views about commercial fund managers and/or the independent body (and its perceived association with Government) were far more willing to develop discussion around this topic and come to personal conclusions.

Other participants, with little or no investment experience, wanted more information about both options. However, having little or no experience of investing money, these participants were uncertain about exactly what they would want to know about the providers to help them to make this choice. There were also participants who simply found this an option too far, partially because it was introduced towards the end of group discussions but also because the idea of fund providers held no meaning or interest for them.

Participants generally understood what was meant by branded and non-branded funds, but some struggled with the rationale as to why the personal accounts scheme might offer such an option. It caused most difficulty for participants in their 20s and 30s who did not have private pensions. These participants often had to be reminded about the benefit of the employer contribution to explain how the personal accounts scheme would differ from what is already available to them on the open market. While these participants could relate to the idea of stimulating

62 It is possible that the personal accounts scheme's trustees may appoint fund managers working for commercial firms to manage the scheme's 'own-brand' funds, however for the purposes of simplicity this issue was not touched on in this research.

competition, they commonly reported uncertainty about what this option meant to them and focused on the level of unknown information (such as the track records of fund providers and the potentially varying fund charges) and, as we go on to discuss in the next chapter, for some this discussion served to cast doubt in their minds about aspects of the scheme they had originally accepted.

5.4.2 Initial response to branded investment funds

Asked for their general views, participants welcomed the possible option of branded funds within the personal accounts scheme as a means of offering choice to scheme members and stimulating competition. The only opposition to the concept of branded funds stemmed from older participants with current personal pensions who considered this option unnecessary in the context of the personal accounts scheme. These participants were firmly against the idea of branded funds within the personal accounts scheme and considered that the two markets should be distinct. In addition, there was a suggestion from participants in the youngest and lowest income group that in the interest of simplicity the commercial providers could offer individually tailored funds, but the risk-based funds should be non-branded; therefore offering more choice to those with more interest in choice and vice versa.

> *'If you have the standard one it should be by that independent body, if you're tailoring it and stuff like that you can go out to the individual ones.'*
>
> (22-29 years, £5-15K, no private pension or investments)

There was some concern about the possibility of higher charges being levied by commercial fund providers and negativity about the idea of the private sector making money out of the personal accounts scheme. The oldest participants within these groups proposed that the non-branded funds provided the opportunity for members to make choices purely based on risk and return unclouded by the complexity of brand choice.

When asked whether or not they would personally be interested in the idea of branded funds, participants tended to be ambivalent about the idea, and against the idea of higher charges which they thought they would incur. Even so, they felt they would require more detail and reassurance about the managers running the funds and about whether branded or non-branded funds would present the best deal for them before ruling out this option. However, some participants personally welcomed the healthy competition and opportunity to shop around offered by the inclusion of commercial providers in the scheme; they felt more confident that such a choice would enable them to find the 'right' option for them.

Participants in their 30s in the women-only groups exhibited most uncertainty about the prospect of choosing between branded and non-branded funds and were confused about where the highest level of trust and security would be found. Older participants with a personal pension, who were against branded funds being an option at all, were naturally not interested in taking up this option themselves. All of them were, however, currently saving into a pension fund with commercial providers in the open market. In contrast, older participants without a current private pension showed most interest in the possible option of branded funds and were already clear that this was their preferred option.

5.4.3 Balance of personal preference for branded and non-branded funds

There was a fair amount of uncertainty among participants about whether they would be likely to choose the option of branded funds or that of non-branded funds. The highest levels of uncertainty were expressed mostly by participants in their 30s irrespective of income levels or personal pension-holding. The women-only groups in this age range (as mentioned in Section 5.5.2) were preoccupied with notions of trust and safety in choosing a pension fund, and their uncertainty stemmed from the fact that they were unsure how to identify these qualities in a fund provider. Other participants who expressed uncertainty nonetheless felt they would be able to shop around between branded and non-branded funds provided they had sufficient information. It is of course impossible to speculate whether or not they would do this in practice.

Where participants felt confident to rule out one fund provider type over another in terms of their personal preference, they typically ruled out branded investment funds. By and large, participants either nominated the non-branded funds as their preferred personal choice or remained open to the idea of non-branded funds being first port of call, subject to being satisfied about specific details of the independent not-for-profit body and reassurance about levels of scrutiny, regulation and expertise that would apply to it.

6 Investment choices: key factors and potential reactions

The previous two chapters considered, in detail, participants' reactions to and preferences for possible investment fund choices that might be made available within the personal accounts scheme. This chapter begins with a summary of participants' views about the relative importance of different features of the key fund types discussed. It then goes on to explore reactions to the idea of a default fund and the features that participants felt a default fund should have. The final section considers the likelihood of participants making an active investment choice if they were enrolled into the personal accounts scheme at this point in time, based on the information they had been provided with in the group discussion.

Summary: Investment choices – key factors and potential reactions

Having considered these key investment fund types, participants were asked to consider the relative importance of seven factors in their financial decision-making around the personal accounts scheme: level of risk and return; the option of choosing your own mix of investments; ethical investing[63]; whether the fund is lifestyled; whether the funds are 'own-brand'; whether they are associated with a recognised big-name company; and low charges.

Three factors stood out as being **most important** across the groups: level of risk and return, the option of choosing your own mix of investments, and low charges. Level of risk and return was identified as a key factor by participants in most groups. The two factors that were considered **least important** across the focus groups were: socially responsible investment (SRI) pension funds and funds provided by a big-name company.

Continued

[63] Ethical investment was used as a shorthand term for socially responsible investments on showcard N.

The idea of pension fund charges was easily understood by most participants. Some lower earners felt very strongly that fund charges were essentially another tax on savers and were concerned about the potential impact of charges on the value of pension funds that were low risk or offered a guaranteed minimum return. Participants as a whole were unwilling to pay more for investment features that might be offered as part of the personal accounts scheme, although a few thought they might be willing to pay more for a guaranteed fund, socially responsible fund or to ensure experienced fund managers.

The concept of a default fund option appeared to be well understood by participants and was well received across all the groups. The main advantage of this fund, it was felt, was to kick-start pension saving for people who were not ready or did not want to make an active investment choice. Most participants felt strongly that a default fund should be a low-risk pension fund, in order to protect the pension savings of members who had not made an active investment choice and to minimise the potential for investment losses. The importance of information in helping members to make the choice about whether to stay in the default fund was raised spontaneously by participants.

Despite this generally positive view of the idea of a default fund, most participants across the groups considered that they would themselves want to make an active choice in relation to the personal accounts scheme[64]. The personal preference for making an active investment choice was largely driven by a desire to have personal control over the level of investment risk – which generally meant ensuring it was low risk.

6.1 Key factors when choosing a fund

In the earlier sections of the group discussions, participants had considered, in detail, each of the possible investment options that might be available in the personal accounts scheme, based on the information and explanations provided. The next section (described here) was designed to summarise participants' views

64 Please note that a recent Department for Work and Pensions (DWP) survey with individuals who would be eligible for automatic enrolment found that the majority (68 per cent) said they would make an active investment fund choice if automatically enrolled into the personal accounts scheme: Webb, C., Pye, J., Jeans, D., Robey, R. and Smith, P. *op. cit.* However, other research on investment behaviour shows that, in practice, inertia means that the majority of pension scheme members end up in a default fund: Cronqvist & Thaler, 2004. *Design choices in privatized social-security systems: Learning from the Swedish experience* Papers and Proceedings of the 116th Annual Meeting of the American Economic Association.

about the relative importance of different features of the possible fund options. Participants were asked which of the following seven factors they would personally rate as the most important and least important when choosing a personal account: level of risk and return; the option of choosing your own mix of investments; ethical investing (SRI funds); whether the fund is lifestyled; whether the funds are 'own-brand'; whether they are associated with a recognised big-name company; and low charges (see showcard N, Appendix A).

6.1.1 Most important factors

Three factors stood out as being **most important** across the groups:

- level of risk and return;
- the option of choosing the investments that make up your pension fund;
- low charges.

Level of risk and return was identified as a key factor by most participants. From the ensuing discussion, it was clear that participants were predominantly concerned about the ability to choose the level of risk in their pension fund, rather than the level of return (although the two are closely interrelated) and for many participants this meant being able to choose a low-risk fund.

Many participants highlighted **the option of choosing the investments that make up a pension fund** as one of the most important factors for them. The reasons for this varied from a desire to choose their own investments to make sure that they are low-risk (which was cited by participants in the women-only group on lower incomes); the freedom to choose between pension funds run by different managers that offered a range of levels of risk and return (cited mostly by higher earners with personal pensions and investments); and a sense of personal responsibility (articulated by lower earners in their 20s). However, some younger and lower earning participants rated the ability to **choose their own mix of investments** as least important, generally because they expressed a strong preference for a simple, low-risk pension fund or lacked confidence to make investment decisions.

As outlined in Section 3.2, the description of the personal accounts scheme given to participants included the fact that it is intended to have low charges. Many participants considered **low charges** to be one of the most important factors in choosing a personal account, however it was difficult to gauge from the group discussions the strength of feeling about low charges. From the more general discussion about charges that ensued (see Section 6.1.3), however, it was clear that this was a contentious issue for some of the participants.

The other factors that participants were asked to consider were only of high importance to a few people. Only a few participants felt strongly about the importance of having non-branded funds. In the discussion earlier about the possibility of having branded funds, these participants had expressed strong concerns and suspicions about the involvement of commercial companies in the personal accounts scheme. One was a group of older men and women in their 40s, who were high earners (£35,000 to £50,000) and had both a personal pension and investments. The other was a group of women in their 30s, on lower incomes (£15,000 to £25,000) who did not have private pensions or investments.

The idea of a **lifestyled** pension fund was generally not considered to be a key factor in participants' decision-making.

6.1.2 Least important factors

The two factors that were considered **least** important across the focus groups were the ability to choose:

- a pension fund that was invested in a socially responsible way (SRI funds);
- branded funds associated with a recognised big-name company.

As outlined above and in Section 5.2, only a handful of participants across the focus groups expressed a strong preference for the possible option of an **SRI pension fund**. It is perhaps not surprising, therefore, that participants in most of the groups felt that this was one of the least important factors they would consider when making decisions around the personal accounts scheme.

For most participants, being able to choose a pension fund associated with a **recognised big-name company** within the context of the personal accounts scheme would, they felt, be of marginal importance in their decision-making. Some of these participants had expressed strong negative views about the idea of big-name providers when it was presented to them earlier in the discussion. Other participants generally either had mixed or fairly positive views about this aspect of the personal accounts scheme when it was presented to them earlier, suggesting that other factors simply ranked higher in importance for them.

Of the other factors that participants were asked to consider, some of the youngest participants and lower earners rated the ability to **choose their own mix of investments** as least important, generally because they expressed a strong preference for a simple, low-risk pension fund or lacked confidence to make investment decisions. The provision of **non-branded funds** was considered least important by some of the high earners with investment experience (described above) who all wanted to be able to choose pension funds associated with recognised big-name companies.

6.1.3 Charges

The next part of the discussion about making investment choices focused on charges. Pension fund charges and the low charges proposed for the personal accounts scheme were mentioned to participants earlier in the group discussions (see Sections 3.2 and 4.1). At this point in the discussion charges for pension funds were explained more fully, including the fact that there are charges on all company and personal pension schemes to cover costs such as administration and investment expertise; that these charges can vary from fund to fund; and reiterating that the charges for pension funds offered by the personal accounts scheme will be comparatively low (see showcard O, Appendix A).

The idea of pension funds incurring charges was accepted and not questioned by most of the participants. However, some reacted strongly and very negatively to the idea of charges being levied on pension funds provided by the personal accounts scheme. These individuals tended to be lower earners, and some were from the women-only groups. The negative response expressed by some participants focused on the perception of charges being an extra tax on pension fund members, or possibly a means by which pension providers can increase their profits.

> *'They want you to invest it in a pension, then they want to take more money off you, it's just take all the time.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

These respondents also questioned why pension fund members had to pay charges when savings account holders did not[65]. The main concern expressed by participants was the potential impact of charges on the value of pension pots that were in a low-risk fund or one that offered a guaranteed minimum return.

Participants were asked whether or not there were any features they might pay more for within the personal accounts scheme. On the whole, they were unwilling to consider paying more for additional features. However, a few lower-income participants who expressed strong views against pension fund charges, nonetheless, felt on reflection that they would be prepared to pay more for a personal account pension fund that had a guaranteed minimum return. At the other end of the spectrum, some of the highest earners with investment experience considered they would be willing to pay more for fund management expertise and experience.

> *'If you've got somebody coming offering you low fees, or you go with someone who is reputable, known and has a proven track record, who would you go with, if they were slightly more expensive? I'd rather pay a little bit more knowing that the investment was* [in] *safe* [hands] *and all of that.'*
>
> (30-39 years, £35-50K, personal pension and investments)

A few people across different groups who strongly favoured socially responsible investments were prepared to pay more to ensure that their money was invested in a socially responsible way.

---

65 There are costs associated with the running of savings accounts, but these are taken into account in the rate of interest that is paid on savings, rather than being expressed as a charge.

Apart from these examples, only a few participants across different groups suggested features that they might be willing to pay higher charges for, for example, a 'platinum account' where members could pay more to have greater access to information about pension fund performance and to be involved in managing their pension fund, or 'extras' like paper rather than online statements.

6.2 Reactions to the default fund

The personal accounts scheme will be required to offer members who do not wish to make an active investment fund choice the option of a default fund. The idea that members will not necessarily have to make a choice was introduced early in the discussion, as part of the explanation about investment choice within the personal accounts scheme (see Section 4.1). However, in order to encourage discussion around possible investment choices and to prevent participants who had a preference for the default fund not engaging in the discussion on this basis no details about the default fund were revealed until the later stages of the discussion, when it was introduced as a topic for discussion in its own right. Participants were told that the contributions of scheme members would automatically be invested in a default fund if they did not make an active fund choice; that the default fund would be designed to balance the potential for risk and return; and that it would have low charges (see showcard P, Appendix A).

In order to distinguish the concept of a default fund clearly from the idea of making an investment choice, particular emphasis was placed on the fact that a default fund would be designed to cater to a wide range of needs, and so is not tailored to individual members' needs and preferences. It was also stressed that members could choose to move their pension contributions out of a default fund to another fund and then back into it again (or vice versa) if they so wished.

6.2.1 Understanding of the default fund

Across the groups as a whole, the concept of a default fund appeared to be well understood by participants and indeed there were only a few of instances where any clarification about the main features of the scheme was required. The idea of a default fund had in fact already been raised spontaneously by some participants as part of earlier discussions about the general features of the personal accounts scheme.

6.2.2 Initial response to the default fund

As in previous qualitative research on the personal accounts scheme[66], most participants responded positively to the concept of a default fund.

Respondents felt that the main advantage of having this type of fund in the personal accounts scheme was that it provided a 'kick-start' to pension saving for people who were not ready or who did not want to make an active choice, either because they did not understand enough to make a choice, or because they did

[66] Hall *et al.*, 2006 *op. cit.*

not have the time or motivation to look into the choices that might be open to them.

'I think there should be something like that, because there are going to be people out there that really don't want to make those sorts of choices, they just want it almost took out of their hands.'

(30-39 years, £5-15K, women-only group, no private pension or investments)

For these reasons, it was considered to be particularly valuable for young people – a view expressed by participants of all ages.

M1: *'Because they* [pensions] *usually start at 21 and you might not know anything about it if you're not in that industry, so you just leave it until you do know a bit more and can make a sort of qualified decision.'*

M2: *'It gives you a kick-start kind of thing, and then if you do want to you can look into it further and then decide based on that.'*

(20-29 years, £5-15K, no private pension or investments)

However, some of the youngest participants expressed negative views about the idea of a default fund. This was based on a general dislike of the concept of automatic enrolment and the perceived removal of individual choice.

Even this group, however, recognised the value of a default scheme for other young people and those not ready or able to make an active choice.

In addition, some lower-income participants reacted strongly against the label 'default fund', considering it to have negative connotations. A number of possible alternatives were suggested, including 'no frills' fund, 'standard' fund and 'basic' fund.

F1: *'If someone has got a default against them, then that's a bad thing.'*

F2: *'It's just like the standard account, you know, just the standard account.'*

F3: *'Yes, that's it, no frills to it.'*

(30-39 years, £15-25K, women-only group, no private pension or investments)

Some participants spontaneously questioned why the default fund would simply not be a low-risk fund (or in some cases a GMR fund) offered as part of the risk-based investment options they had discussed earlier. This view tended to be expressed by lower earners with no investment experience, who preferred the idea of a low-risk pension fund. But advocates of this idea also included some better-off participants who had a personal pension, and in some cases investments as well. To offer a default fund in addition to a low-risk fund was, to their minds, unnecessary and potentially confusing to scheme members. Indeed, when it came to discussing the features that a default fund should have, most participants agreed it should be a low-risk fund (see Section 6.2.3).

6.2.3 Features of the default fund

Having gauged initial reactions to the idea of a default fund, the groups went on to discuss the key features they felt a default fund should have. Level of risk and the idea of having some kind of guarantee were generally spontaneously raised by participants (the risk ladder was again used to facilitate discussion about the possible risk profile of a default fund), but they were prompted on whether or not they felt a default fund should be a lifestyled fund or invested in a socially responsible way.

With regard to **level of risk**, participants generally felt strongly that the default fund should be a low-risk (or in some cases no-risk) pension fund, although a few participants felt that the default fund should be medium risk, to offer the potential for higher returns.

There was broad agreement that the default fund ought to be low-risk in order to protect the pension pots of members who had not made an active choice and to minimise the potential for investment losses. Some participants considered that it would be unethical or unfair for members in a default fund to be exposed to anything more than a low level of risk.

> *'It might be for people who don't really understand it as well, so it doesn't seem fair for their money to be gambled with if they don't understand what it is.'*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

Indeed, some participants considered that the default fund should offer some form of guarantee with regard to investment returns[67]. It is notable that most of these participants had a personal pension, and in some cases investments as well. As such they had little personal interest in a default fund but seemed concerned that the pension pots of individuals who would be likely to stay in the default fund, such as young people, should be protected.

> *'… why can't they just do the default fund and just say your money is going to grow 2% a year, or 1.5% a year?'*
>
> (50-59 years, £15-25K, personal pension)

An alternative reason for having a low-risk default fund, expressed by a few older participants with low incomes, was that members should not have the opportunity to benefit from the potential to make higher returns if they had not made an active fund choice.

There were mixed views about whether or not a default fund should be a lifestyled fund. Some participants felt this should be a standard feature of a default fund, particularly if all pension funds in the personal accounts scheme were lifestyled.

---

67 However, when they came on to discuss the GMR fund as a potential option within the personal accounts scheme (see Section 5.1), participants willing to opt for this fund as it was explained to them were few and far between.

These participants had generally responded positively to the idea of lifestyled funds earlier in the discussion. Other participants questioned the need for a default fund to be lifestyled if it was low-risk (as they felt it should be). Previous qualitative research[68] on the personal accounts scheme reported positive feedback from the general public to the idea of a lifestyled default fund.

Whether or not a default fund should be **invested in a socially responsible way** was also discussed. In keeping with earlier discussions about an SRI fund, there was a strong view among most participants that a default fund should not be invested in a socially responsible way if its function was to provide a 'general purpose' fund for people who did not make an active choice.

> *'If they couldn't be bothered to choose do you really think they're going to be bothered to be ethically correct?'*
>
> (30-39 years, £35-50K, personal pension and investments)

Some of the youngest participants, however, felt that a default fund should be invested in a socially responsible way (and lifestyled) if this was a standard feature of all funds offered through the personal accounts scheme.

> *'I don't think they should miss out on anything, just because they haven't chosen something.'*
>
> (22-29 years, £15-25K, no children, no private pension or investments)

In common with earlier discussions around investment choice, participants in some groups spontaneously raised the issue of **information needs** in relation to a default fund. Two aspects were mentioned: first, the need to make new members of the personal accounts scheme who did not make an active choice aware that their pension savings were going to be invested in a default fund, and the implications of this in terms of potential risk and return. Second, the need to remind members who had continued to save into the default fund over the longer term what the possible implications of this in terms of potential returns and size of their final pension pot might be.

> *'How many people will do that, automatically enrol* [into a default fund] *and forget about it, you might have something, you might not have anything at the end of it.'*
>
> (22-29 years, £25-235K, no children, no private pension or investments)

The provision of an annual statement was suggested as a means of trying to counter this, to prompt default fund scheme members into considering making an active choice.

---

68 Hall *et al.*, 2006 *op. cit.*

6.3 Likelihood of making an active choice

Having discussed in detail participants' reactions to, and views of, a default fund, participants were asked to consider whether or not they personally would be likely to make an active choice of funds if they were automatically enrolled into the personal accounts scheme. It is important to remember when interpreting these findings, that participants were basing their views on their understanding of the fund options that were presented to them during this discussion, which may or may not be similar to those actually offered by the personal accounts scheme. It is also important to bear in mind that due to the focus group process most participants were relatively engaged with the idea of making a choice of investment fund by this stage of the discussion, possibly more so than a lot of personal accounts scheme members will be.

Some participants expressed a personal preference for staying in a **default fund**. They tended to be women in their 20s and 30s, on lower incomes and without a pension or any investments. They were generally attracted by the ease and simplicity of investing in a default fund.

Most participants across the groups, however, considered they would personally make an **active choice** in relation to the personal accounts scheme. They included a mix of participants in terms of age, income and investment experience. However, some recognised that they would need time to consider the various options open to them before making a choice, and acknowledged that this might mean starting off in a default fund.

> *'I think it would take a while to make a choice because you'd want to make sure you've read up everything you need to and you're fully informed before you make that decision because it's a big decision.'*
>
> (30-39 years, £15-25K, women-only group, no private pension or investments)

Personal preference for making an active choice was largely driven either by a desire to have a choice of pension funds (typically among better-off participants with investment experience) or to have personal control over the level of investment risk – which generally meant ensuring that it was low risk. Some participants with a preference for a low-risk pension fund felt they would consider the default fund initially, but if it did not meet their requirements in terms of being sufficiently low risk, they would opt to make an active choice.

7 Making an active investment choice: barriers and enablers

This chapter starts by considering how well participants were able to understand the key concepts and possible fund options that were presented to them over the course of the group discussion. It goes on to explore other barriers that might hinder or prevent them from making an active and informed fund choice within the personal accounts scheme. The final section looks at the types of information and support participants considered they (and people like them) would need if they were to make an active investment choice in the context of the personal accounts scheme[69].

Summary: Making an active investment choice – barriers and enablers

As earlier chapters indicate, participants across the focus groups were generally able to comprehend the key concepts and possible investment options that might be offered as part of the personal accounts scheme. This suggested that, in the context of the focus groups, understanding was not a particular barrier for participants. These concepts may be harder for individuals to understand, however, when they are not explained in person.

Continued

[69] Please note that a separate study specifically explored the information people may need when deciding whether to participate in a workplace pension scheme. Respondents stated that they would require information that would allow them to assess whether investing in a workplace pension would be financially worthwhile for them and also to assess possible risks: McAlpine, C., Marshall, H. and Thomas, A., 2008. *The information people may require to support their decision to remain in, or opt out of, a workplace pension*. DWP Research Report No 540.

Lack of confidence to make investment decisions was identified as a barrier to active choice particularly by lower earners who had no direct experience of private pensions or investments. To enable them (and people like them) to make an active choice, these participants felt that investment choices in the personal accounts scheme should be simple and straightforward – a point echoed by other participants as well. Although not explicitly mentioned by participants it is also worth remembering that, whilst individuals' lack of motivation or confidence in making decisions on pension provision is designed to be overcome by automatic enrolment, other evidence suggests that inertia may, nonetheless, be a barrier that prevents individuals from making an active investment choice.

From the outset of the discussion about the personal accounts scheme participants spontaneously highlighted the need for information to support them (and others) in making active choices. This was particularly the case among women, younger participants and those on lower incomes who did not have investment experience. Without information and advice, some participants felt they would lack the confidence to make an active investment choice, even though they expressed a desire to do so. Previous research, however, indicates that, in itself, giving people information is not enough to drive action and that even those who intend to take action may be overly optimistic about their future behaviour[70].

In order to make informed investment choices, participants expressed a wish for jargon-free information about possible investment options. Some participants, particularly those with no investment experience, wanted clarification around the meaning of different levels of risk, perhaps through best and worst case scenarios. Pictorial information such as graphs or pictures would, it was felt, help to convey key messages and concepts. In contrast to other participants, the highest earners with investment experience tended to want more detailed information such as past pension fund performance and pension calculators.

As well as written materials, participants mentioned a range of possible delivery channels for information and support including workplace seminars, internet-based resources, telephone helplines and television campaigns. Participants did not discuss in any detail their views about who might provide the information, although there was a spontaneous assumption, by some, of Government involvement.

There was also an appetite for professional advice among some participants. It was not clear from the discussion whether they would expect to pay for this advice or not, although the payment of commission to advisers was mentioned. In terms of ongoing information provision, annual statements – either paper-based or online – were commonly mentioned as a good means of updating members about the performance of their pension fund.

70 Design Technology, 2007. *Turning good intentions into action: challenges for the provision of financial advice*. University of Warwick.

7.1 Knowledge and understanding of key concepts and possible options

The stimulus materials and standard explanations used in the focus groups were designed to be as simple and easy as possible for participants to understand. Participants were generally able to comprehend the key concepts around the reforms and the personal accounts scheme and the key investment options that might be offered as part of the scheme. This suggested that, with this sort of explanation, understanding was not a particular barrier for participants when thinking about the personal accounts scheme generally and investment fund choice in particular.

Several participants valued the fact that they were 'walked through' the idea of automatic enrolment and the personal accounts scheme step-by-step – something they acknowledged would be unlikely to happen when the scheme was introduced, at least not in the same detail. Despite this careful explanation, some participants struggled with the mounting number of options and choices that were presented to them as the discussion group progressed.

Two topics seemed to cause some confusion among a few of the participants, despite the explanations and further clarification provided to them. In both cases, this confusion seemed to be mainly driven not by a lack of understanding but rather by participants' negative reactions to the funds as they were presented, which meant they were reluctant to accept the explanations given to them.

The first was the idea of a **Guaranteed Minimum Return (GMR) fund**, which did not seem to be fully grasped by some participants, despite repeated attempts to explain the concept in different ways to them. In particular, as discussed in Section 5.1, participants were reluctant to accept that, in order to secure a guaranteed minimum return, scheme members would have to forfeit a proportion of any return above the minimum.

The second was **branded investment funds**, the idea of which was questioned by several participants. They struggled to understand why commercial providers would be involved in the personal accounts scheme, particularly when the initial stimulus material had emphasised the role of an independent not-for-profit body in running the scheme and providing investment funds. In addition, for these and other participants, the introduction of the possible involvement of commercial providers seemed to make them question their earlier positive response to an independent not-for-profit body, which gave rise to further questions about its constitution and relationship to the Government.

Earlier research indicates that many people may have a poor understanding of tax relief in relation to savings and investments[71]. It was, however, only spontaneously

---

71 Institute for Public Policy Research, 2003. *Tax efficient saving: the effectiveness of ISAs*. Institute for Public Policy Research.

raised by a few of the older female participants who had personal pensions, who said they found the concept of tax relief confusing.

7.2 Barriers and enablers to making an active choice

As the earlier chapters indicate, the issue of confidence to make investment choices arose throughout the course of the group discussions. When asked directly whether or not they personally would feel confident to make an active investment choice in relation to the personal accounts scheme, many participants expressed a lack of confidence. These participants ranged in age from their 20s to 40s, but all were on lower incomes and none of them had a private pension or any investments.

> *'I think when you're talking about money you've got to know what you're doing, you've got to feel confident and I wouldn't right now with things like that, pensions and shares and stuff.'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

Two recurrent themes were raised by these participants. The first was a view that investment choices in the personal accounts scheme should be simple and straightforward, a point echoed in other groups as well. Although participants generally understood the key concepts, as mentioned in earlier chapters some participants struggled with the layers of choice that were built up over the course of the group discussions.

> Q: *'What are the key messages in terms of choices?'*
>
> F: *'Not too many choices, because you switch off, don't you?'*
>
> (30-39 years, £5-15K, women-only group, no private pension or investments)

Findings from previous research indicate that, while people value choice they are easily overwhelmed by it – particularly in contexts where the costs associated with making a 'wrong' choice are perceived to be high (such as making major financial decisions)[72].

The second theme was a need for information and advice to enable informed decision-making. This was mentioned in nearly all the focus groups, whether or not participants said they felt confident to make decisions. This information, it was felt, had to be in plain language that could be easily understood. Previous research, however, indicates that, in itself, giving people information is not enough to drive action and that even those who intend to take action may be overly optimistic

---

[72] Iyengar, S. and Lepper, M., 2000. When choice is demotivating. Can one desire too much of a good thing? In: *Journal of Personality and Social Psychology* 79. Cited in: Singh, S., McKeown, W., Myers, P. and Marita, S., 2005. *Literature review on personal credit and debt*. RMIT University.

about their future behaviour[73]. Information and support needs are discussed in detail in the following section.

Although not explicitly mentioned by participants, inertia may also be a barrier to active investment choice. Apart from higher earners who were already making personal pension provision, most participants expressed the view that saving for retirement was for them a fairly low personal priority – at least at the present time. While automatic enrolment will overcome people's apathy towards making any pension provision, inertia may nonetheless be a barrier that prevents them from making an active investment choice.

7.3 Information and support needs

From the outset of discussion about the personal accounts scheme, and without any prompting, participants highlighted the need for information and advice to support them (and others) in making informed choices. This was particularly the case among women, younger participants and those on lower incomes who did not have investment experience. As noted in the previous chapter, without information and advice, some participants felt they personally would lack the confidence to make an active investment choice within the personal accounts scheme, even though they expressed a wish to do so. It is important to note, however, that these are the views of participants who had been provided with detailed information and engaged in in-depth discussion about the personal accounts scheme and the possible fund options that might be made available through the scheme. They may not, therefore, represent the views of the wider target group, some of whom will be less engaged with the decision-making around investment fund choice.

In earlier qualitative research[74], participants called for clear and concise information around the personal accounts scheme and not surprisingly the same was true of focus participants in this study. In order to make active investment choices, they wanted jargon-free information around possible pension fund options, in the form of booklets or leaflets, or an information pack sent out in advance of the launch of the personal accounts scheme.

> *'The booklet would be in plain language, and not so thick that people don't bother going through it.'*
>
> (40-49 years, £35-50K, personal pension and investments)

Some participants, particularly those with no experience of pensions or investments, wanted clarification around the meaning of the different levels of risk (low, medium and high) that had been discussed earlier in relation to risk-based funds, for example through best/worst case scenarios. Pictorial information, it was felt, such as graphs or pictures, could be used to help convey key messages

---

73 Design Technology, 2007. *Turning good intentions into action: challenges for the provision of financial advice*. University of Warwick.

74 Hall *et al.*, 2006 *op. cit.*

and concepts. In contrast to other participants, the highest earners with personal pensions and investments talked about wanting more detailed information to facilitate their decision-making, such as past pension fund performance, pension forecasts and pension calculators.

Aside from written materials such as leaflets and booklets, a wide range of possible delivery channels for information and support to help people make informed decisions were mentioned, including: workplace seminars, internet-based resources, telephone helplines and television advertising. Participants did not discuss in any detail their views about who might provide the information, although there was a spontaneous assumption by some of Government involvement.

> *'…if the Government is going to launch this, I feel that they've got to advertise it on the telly like they do with that digital switchover, hand information packs out, so everybody's got the information at their disposal a couple of months in advance, so that when they are put into it you can decide straight away.'*
>
> (40-49 years, £15-25K, no private pension or investments)

There was also an appetite for professional advice among some participants, through personal contact with a financial adviser – participants mentioned independent financial advisers or an adviser in a bank or building society. It was not clear from the discussion, however, whether participants would expect to pay for financial advice or not. One or two participants were concerned that financial advisers might be motivated more by targets and financial incentives (namely commission) than providing advice that was in the client's best interest. A few participants talked about discussing the matter with friends or family, or waiting to see what others in their peer group did.

In terms of ongoing information provision, annual statements (either paper-based or online) were commonly mentioned as a means of updating members about their pension fund and as a way of prompting default fund members to take action, although other research shows that these rarely lead to action in practice[75]. Some participants were also keen to be able to have online access to information about their own pension fund on an ongoing basis.

Although participants were animated in discussing the need for information and support to make active choices, previous research indicates that, in itself, giving people information is not enough to drive action. Indeed, intention, the research suggests, is not always a guarantee of action, as people tend to be overly optimistic about their future behaviour. The research suggests several ways of improving the skills and knowledge that people need to take action, including giving consumers confidence in their own ability to manage their finances, and making things as easy as possible to complete – for example by improving their understanding of the matter at hand or, at a practical level, designing simple application forms.

---

75 Design Technology, 2007. *Turning good intentions into action: challenges for the provision of financial advice*. University of Warwick.

Indeed, in the group discussions around investment choices related to risk-based funds, participants had suggested having tick-boxes on an application form as a quick and easy way of enabling scheme members to make choices.

8 Conclusions

The general consensus across the groups as a whole was that participants were unwilling to take much, if any, risk with their money whether in the long or short term. This was generally attributed to the responsibilities of raising a family and the need to keep up with financial commitments, such as mortgages and household bills. Particularly among those on lower incomes, the idea of taking any risks when you had little or no spare money was considered irresponsible. For some participants, a lack of understanding about investment products rendered those products inherently risky. Where participants said they were prepared to take some financial risks, these tended to be either young single adults or older, better-off participants with investment experience.

Most participants seemed to have at least a rudimentary understanding of risk, and generally defined pensions as a form of investment rather than savings. However, most participants' description of their risk preference for a personal account pension fund more closely resembled a savings account than an investment – undoubtedly a reflection of their risk-averse tendencies.

The following sections go on to draw out the main conclusions from this research in relation to the workplace pension reforms, the personal accounts scheme and the idea of investment fund choice within the scheme.

8.1 Attitudes to saving for retirement, the workplace pension reforms and the personal accounts scheme

Participants who already had a personal pension generally rated saving for retirement as a medium to high priority, as we might expect. In contrast, participants with no private pension provision tended to consider it a low personal priority at the present time. This was mainly driven by concerns about the affordability of saving for retirement when they perceived that they had many competing demands on their income. Even though they ranked saving for retirement as a low priority, the discussion prompted some participants to voice their concerns about their lack of financial provision for retirement.

When introduced to the concept of the workplace pension reforms (including automatic enrolment and the minimum employer contribution) and the personal accounts scheme, participants were generally open to and positive about the idea, with matched contributions from employers having particular appeal. Participants with no private pension provision tended to perceive the reforms and the scheme as a ready-made solution for people like them, which at the outset was seen to require little or no decisions or action.

8.2 Investment fund choice within the personal accounts scheme

The possibility of the personal accounts scheme offering a choice of investment funds to its scheme members was generally popular with participants. There were caveats however – participants felt that the number of funds that scheme members had to choose from had to be manageable (generally between three and five funds), and there had to be clear differentiation between different levels of risk in order to help individual scheme members make the right choice for them. Those participants with a greater appetite for risk commonly favoured freedom to choose across all risk levels. Others felt that there should be restrictions on investment fund risk, so that personal account scheme members were protected against the potential risk of losing all their pension savings.

Participants advocated the need for both individually tailored funds and risk-based funds within the personal accounts scheme, to cater for different needs and preferences. On balance the risk-based funds held most personal appeal for participants without a private pension and, in turn, individually tailored funds held most interest for participants with a current personal pension.

Higher earners expressed more interest in making medium to high risk investment choices with the prospect of balancing this higher risk with greater opportunity for return. Participants who were more risk-averse appreciated that some people may, unlike them, want to take higher risks and have the prospect of greater return. Views were divided among participants about whether this higher appetite for risk should be catered for within the personal accounts scheme.

Socially Responsible Investment (SRI) funds were generally thought by participants to be a necessary option within the personal accounts scheme, but held little personal appeal for all but a few participants.

Across the board, participants supported the inclusion of a Guaranteed Minimum Return (GMR) fund in the personal accounts scheme to encourage pensions saving among others. Personal interest in this option as presented to participants was, however, rare. Lower-income participants with a strong preference for a low-risk pension fund were deterred by the GMR fund's reduced potential for return. They resented the fact that a proportion of any returns above the minimum would be forfeited to pay for the guarantee – this was seen as unfairly penalising scheme members who wanted to safeguard their pension savings.

There was strong support among participants for the idea of lifestyled pension funds as a way of protecting pension savings in the run-up to retirement. Views were mixed, however, on whether a lifestyled fund should be automatic within the personal accounts scheme, or whether scheme members should instead be prompted to decide whether or not they wanted their fund to be lifestyled at the appropriate time.

Under the umbrella of the personal accounts scheme, the idea of being able to choose between funds managed by big-name commercial providers or non-branded funds proved popular across the board, both for the scheme as a whole and as a matter of personal interest. There was a general willingness to consider branded funds alongside non-branded funds and to base decisions on an assessment of factors such as the 'best deal'; safety and security; charges; and level of financial expertise.

However, by and large, participants either identified non-branded funds as their preferred choice or they remained open to the idea of branded funds, subject to further information and reassurances about scrutiny and regulation of the body and the expertise of the people who would run it. It seems reasonable to assume that if participants could not satisfy themselves about these issues, they would instead look to big-name commercial providers for a pension fund within the personal accounts scheme. Relative to other factors, however, branded investment funds were considered to be of marginal importance when it came to making investment fund choices.

8.3 Making active investment fund choices within the personal accounts scheme

Three factors stood out as being most important across the groups in terms of making investment choices within the personal accounts scheme: level of risk and return; the ability to choose your own mix of investments; and low charges. The two factors that were considered least important across the focus groups were: pension funds invested in a socially responsible way (SRI funds); and branded investment funds provided by a big-name company.

The concept of a default fund was well received across all the groups. The main advantage of this fund, it was felt, was to kick-start pension saving for people who were not ready or did not want to make an immediate active investment choice. As it was felt that the people who would make use of this fund were likely to be relatively unengaged or by default ill-informed, participants considered it vital for the default fund to be simple and low risk.

Regardless of their positive views about the default fund, and irrespective of group composition, most participants considered that they would personally make an active choice in relation to the personal accounts scheme. The motivation for making an active investment choice was largely driven by a desire to have personal control over the level of investment risk – which generally meant ensuring it was low risk. For some higher earners, it offered the opportunity to consider higher risk funds that might offer higher returns.

8.4 Barriers and enablers to making an active choice

Participants were generally able to grasp, with relative ease, the concepts presented to them. This suggested that, with explanation, understanding was not a particular obstacle to making investment choices. In contrast, lack of confidence was identified by lower earners as an important barrier to taking these types of decisions. To overcome this, participants across the groups felt that investment choices in the personal accounts scheme should be simple and straightforward.

Although not raised by the participants, inertia may also be a significant barrier to active investment choice. Apart from higher earners who already had a personal pension and investments, most participants felt that saving for retirement was, for them, a fairly low priority at the current time. While automatic enrolment is designed to overcome people's apathy towards making pension provision, inertia may still act as a barrier that prevents them from making an active investment choice.

Throughout all discussions, participants raised the need for information and support which would enable choices to be made in line with their personal preferences. In this respect, participants valued the 'walk through' of the key concepts and features of the personal accounts scheme provided to them, and the opportunity to ask questions and raise concerns. However, evidence from other research indicates that giving people information alone is not sufficient to drive action. Even the intention to take action may not be followed through, as people tend to be overly optimistic about their future behaviour[76].

As well as written materials, participants mentioned a range of possible delivery channels for information and support including workplace seminars, internet-based resources, telephone helplines and television campaigns. There was also an appetite for professional advice among some participants, and independent financial advisers or an adviser in a bank or building society.

---

76 Design Technology, 2007 *op. cit.*

Appendix A
Topic guide and showcards used in group discussions

Department for Work and Pensions

Public attitudes to investment choice and risk

Topic guide

Introduction (5 mins)

- Thank participants for attending – discussion due to last between 90 minutes and two hours.
- I am/we are researchers from the Personal Finance Research Centre, an independent research centre at the University of Bristol – we do a lot of work on personal finance, including pensions, saving, financial decision-making.
- We've been asked to carry out this research by the Department of Work and Pensions, to help develop the government's pension policy.
- Don't need prior knowledge about pensions or saving for retirement – will explain the terms we use as we go along
- No right or wrong answers – interested in your views and opinions
- Reassure participants about confidentiality – MRS/SRA codes of conduct
- Permission to record – for analysis purposes only
- Please turn off mobile phones
- First names, who they live with, what they do

1. Attitudes to financial risk (5 mins)
SHOWCARD A: RISK AND RETURN LADDERS

- Thinking about your life generally, would you describe yourself as a risk-taker or not? Why?
- Generally, how much risk are you happy to take with your money? (show of hands)

- And how much risk would you be happy to take if you were saving money over the long term, for example, five years or more? (show of hands)

2. Understanding risk and return (10 mins)

- Are savings and investments similar or different? If so, why?
- Do you view pensions as a type of savings or type of investment? Why?

Note to facilitator: now introduce SHOWCARD B: INVESTMENTS AND SHOWCARD C: INVESTMENT vs. SAVINGS OVER TIME

- SHOWCARD A: LADDERS Where would you place the following savings and investments on the risk ladder? Why? What does this mean in terms of potential returns? **(Note to facilitator: rotate list between groups)**
  - o Stocks and shares
  - o Pension
  - o Savings account with a bank or building society
- What do you mean by 'low risk' e.g. is money is completely safe or not?
  - o Advantages/disadvantages?
- What about 'high risk' e.g. could you lose all money or only some? Does it refer to the risk of losing the money you've saved or only the risk that value might go down as well as up?
  - o Advantages/disadvantages?
- If you were thinking about taking out savings or investments, which would be uppermost in your mind – the returns you might make on your money or the losses you might make?

3. Introduction to Personal Accounts (5 mins)

- Is saving for retirement a high or low priority for you at the moment? Why?
  - o What about in the future – likely to be higher/lower priority?

The Government is bringing in a new national system for pension saving called "personal accounts" or you may have heard it called national pension saving scheme or NPSS.

Why? – pension gap, lots of people not saving or saving enough for retirement – particularly some groups like young people, and people in low paid jobs who the pensions industry don't currently cater for.

Scheme aims to make it easier and more worthwhile for people to save for retirement – because employers will also make a contribution which, together with tax relief, doubles the individuals' contribution, and because charges will be kept relatively low.

SHOWCARD D: PERSONAL ACCOUNTS

Note to facilitator: Explain key features of personal accounts using briefing notes.

Have you have heard about personal accounts and/or NPSS?

What are your initial thoughts about this proposal?

4. Choosing a fund (40 mins)
The aim of personal accounts is to keep pensions simple but also to give people the opportunity to make some choices about how their money is invested and who manages it – we are going to explore some of these choices in the next part of the group discussion.
SHOWCARD E: INVESTMENT CHOICE IN PERSONAL ACCOUNTS
SHOWCARD F: WHAT IS A PENSION FUND?

- How do you feel about having a choice of funds?
  - o What's attractive/off-putting about making this choice? Probe: how confident would you be about making this choice?
- What's a manageable number of funds to choose between? Why?

SHOWCARD G: RISK AND RETURN (as a reminder)
Level of risk and return (SHOWCARD A – RISK AND RETURN LADDERS)

1. What range of risk should be offered?
   - o What is the lowest level of risk that should be offered? What about the highest? Why?
   - o Should the funds on offer mainly be low, medium, or high risk, or should personal accounts offer a range across the three main levels of risk? Why?
   - o What does this mean in terms of potential returns?

Individually tailored funds
Explanation: Money can be invested in different asset classes – shares, bonds and cash deposits. These each have their own level of associated risk, with cash being the least risky and shares the most risky. Risk can be managed by spreading investments over a range of asset classes.

SHOWCARD H: INDIVIDUALLY TAILORED ACCOUNTS

Explanation: One option for personal accounts is to create your own individual pension fund that is tailored to your needs/situation by choosing the mix of investments (pink bits on showcard) that you want your money invested in, e.g. a mix of shares in companies and government bonds. This would enable you to decide exactly how much risk you want to expose your pension pot to.

- What is your initial reaction to this option? Should personal accounts offer this option? Why/why not?
  - o Should there be a cap on the lowest/highest level of risk people can take? Why/why not?
- Is this option attractive to you or not? Why/why not? Conditions?
  - o Probe: how confident would you be about making this choice?

Off-the-shelf funds

SHOWCARD J: OFF-THE-SHELF FUNDS
Another option for personal accounts is to have off-the-shelf funds where the choice of investments is made for you, and you only have to choose the pension fund with the risk profile that suits you best (ovals on showcard with different funds/risk profiles).

- What is your initial reaction to this option? Should personal accounts offer this option? Why/why not?
- Is this option attractive to you or not? Why/why not? Conditions?
  - o More attractive than choosing own investments? Why/why not? Probe for level of returns and how relates to desired pension income in retirement

Note to facilitator: **refer back to earlier discussion about range of risk that should be offered in personal accounts**

- What type of risk profile is most/least attractive to you? Why?
- What would be the most useful of describing different risk profiles? Why?
  - o e.g. low – medium – high; cautious – balanced – aggressive;

Guaranteed returns
Note to facilitator: **Explain that pensions do not provide any guaranteed minimum amount when you reach retirement age – depends on level of contributions and how well pension funds have performed.**

SHOWCARD K: GUARANTEED MINIMUM RETURN

- Within the range of off-the-shelf fund choices, should there be an option to have a guaranteed minimum return on the money that people invest in a personal account? Why/why not?
  - o Probe: What does this mean to you? E.g. no loss in capital invested, percentage increase/interest, worth the value of the capital invested plus inflation, guarantee of a certain income.
- Would this option be attractive to you? Why/why not?

Socially responsible investments

SHOWCARD L: What are socially responsible investments?
Note to facilitator: **Explain that SRIs also known as social, environmental and ethical funds. (Introduce Sharia funds if appropriate – no showcard for this, use briefing notes)**

- Within the range of off-the-shelf fund choices, should there be an option for people to choose where their money is/is not invested according to ethical, environmental or religious principles? Why/why not?
- Would this option be attractive to you? Why/why not? Conditions?

5. Other features that personal accounts might have (10 mins)
Lifestyling (5 mins)
SHOWCARD M: Lifestyling

- Should there be an option for people to choose whether or not their pension fund is lifestyled? Why/why not?
  - o Should lifestyling be a feature of **all** personal accounts? Why/why not?
- Would this option be attractive to you? Why/why not?

Branding (5 mins) (NO SHOWCARD)
Explanation: As discussed earlier, personal account funds will be offered by the independent not-for-profit body running personal accounts. They may also be offered by some of the big-name commercial providers, although these funds would probably have higher charges.

- What are your initial reactions to these two options? Should personal accounts offer both these options? Why/why not?
- Which of these options is more attractive to you? Why?
- What are the key things you would want to know about the body running personal accounts before making this type of choice?

6. Making investment choices (15 mins)

SHOWCARD N: CHOICES

- Bearing in mind our discussion, which of these factors would you personally rate as the **most** important when choosing a personal account? (show of hands) Why?
  - o **Least** important? Why?

  A. Being able to choose the level of risk and return in your pension fund
  B. Being able to choose the investments that make up your pension fund
  C. Knowing that your money is invested in an ethical way
  D. Having the fund lifestyled
  E. Provided by the independent body running personal accounts
  F. Provided by a recognised big-name company
  G. Low charges
- Other factors not on this list that you would take into account when choosing a personal account?
- Are these more/less important?

Explain: As we mentioned earlier, there are charges for running personal and company pension funds.
Introduce SHOWCARD O: WHAT ARE CHARGES?

- If you had to, would you be prepared to pay higher charges to have a pension fund with the features you want? [Make sure all different features that are mentioned by participants are probed] Why/why not?
  - o Other trade-offs e.g. prepared to accept lower returns?

7. Default fund (15 mins)

SHOWCARD P: DEFAULT FUND (5 mins)

- How do you feel about this option?
  - o What's attractive/off-putting about saving into a default fund?
- Probe for views about lower administration charges, not having to take the time/effort to make an active decision, not being tailored to individuals' needs

o Advantages/disadvantages of default fund vs choosing pension fund yourself?

- Which is more attractive to you – choice of funds or default fund? (show of hands) Why?

Expectations about what the default fund might look like (10 mins)
Explain: The default fund will be for everyone who does not want to make an active fund choice.

- Bearing that in mind, what key features would you expect the default fund to have?

- Given what we discussed about risk and return, would you expect it to have low, medium or high potential for risk return? Why? (SHOWCARD G: RISK/RETURN AS REMINDER)
  - o Would this make the default fund less or more attractive to you? Why?
- Would you expect the default fund to be automatically invested in socially responsible investments? Why? Why not?
  - o Would this make the default fund less or more attractive to you? Why?
- Would you expect the default fund to be automatically lifestyled? Why? Why not?
  - o Would this make the default fund less or more attractive to you? Why?

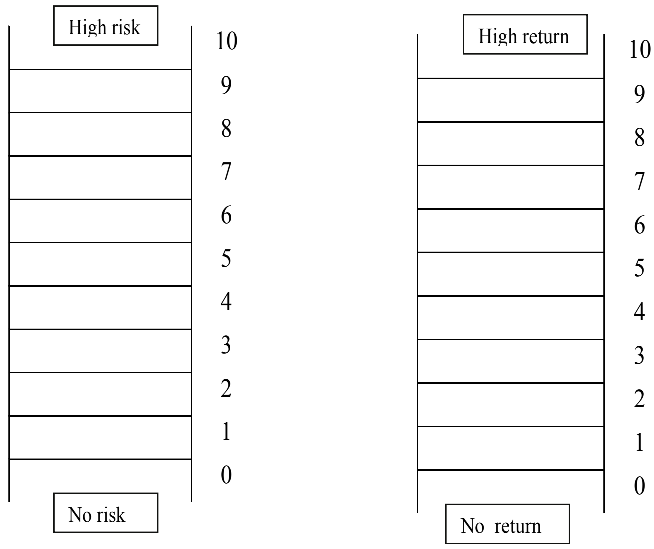
Note to facilitator – probe on similarities and difference between views on the default (for everyone) and personal views under fund choice. How does this differ? Why?

8. Summing up (15 mins)

- Reflecting on what we've talked about, have your views about risk when saving or investing your money changed at all as result of our discussion?
  - o How much risk would you be happy to take if you were putting money into a personal account? SHOWCARD A: LADDERS
- If you were automatically enrolled into personal accounts tomorrow, do you think you would be likely to make an active choice of funds?
  - o What would make you more/less likely to consider making an active choice about where your money was invested? Why? Probe: different features, clear information, confidence, prompts e.g. annual statement.
  - o Likely to make active choice as soon as possible or wait? Why?
- If wait, when would you see yourself making an active choice? Why?
- Do you think this would be likely, or is this something that you would intend to do but probably not get around to doing?
- How well-equipped do you feel about making these sorts of choices? Why?
  - o What might help and encourage you make these choices? Why?
- Looking back on all our discussion, what topics have you found easy to grasp? Why?
- What topics have been more difficult to grasp? Why?
- What might help make these topics easier to understand?
- What are the key messages that you would like us to take back to DWP about fund choice in the personal accounts scheme?

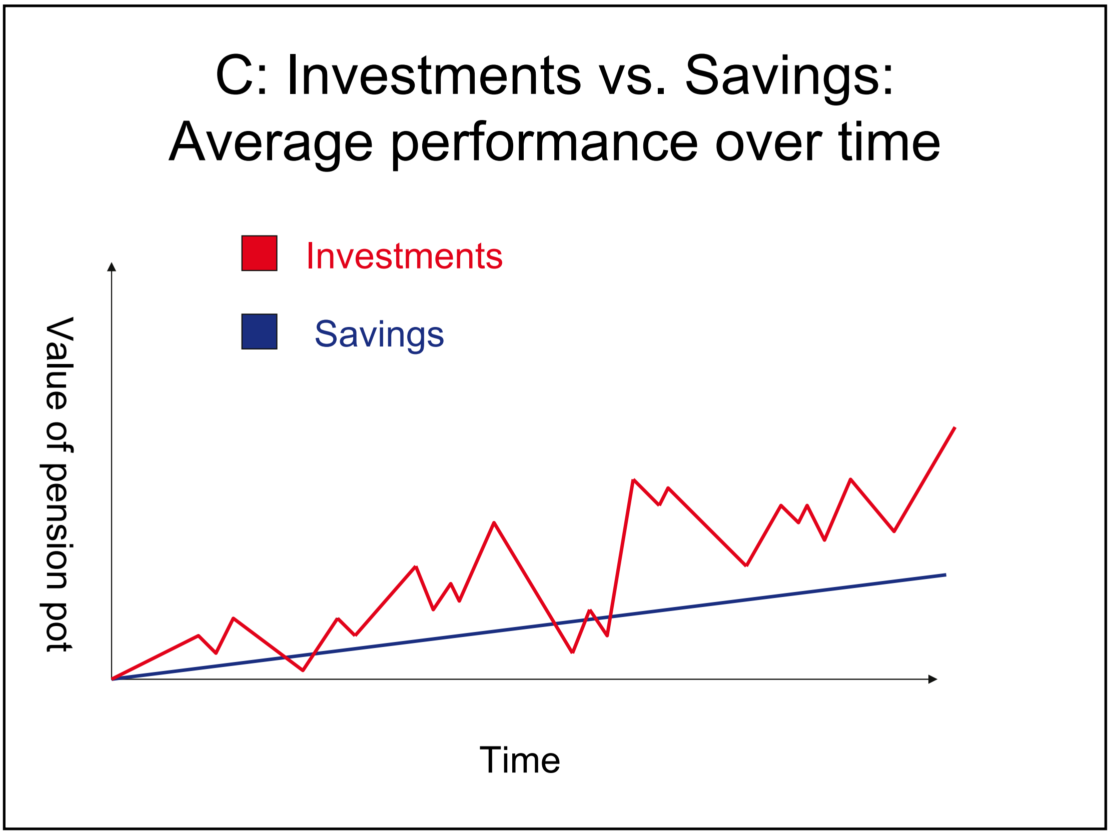
THANK AND CLOSE

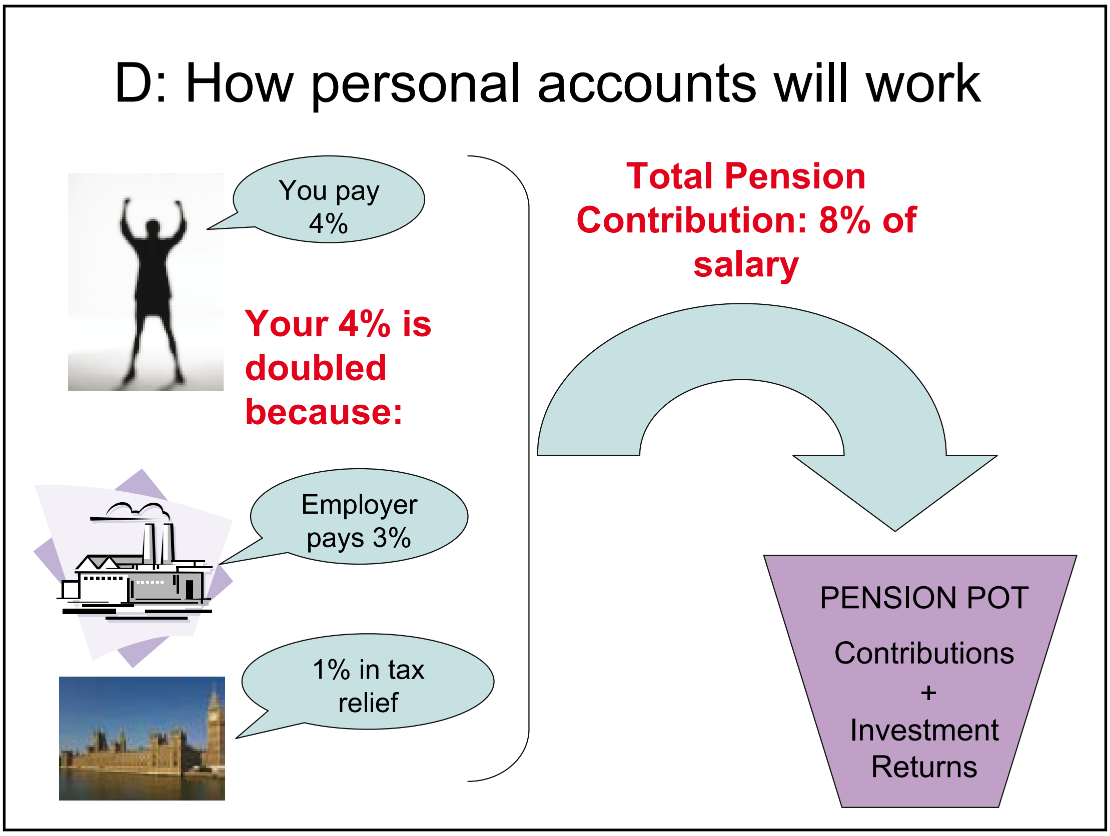
A: Risk and return ladders



B: Investments

- Designed for longer term
- Involve some level of risk – can rise or fall in value
- No guarantee you will make a profit or even get back the money you invested
- Over long term, investments tend to give better level of return than savings accounts
- Money can be invested in different ways e.g. shares, bonds, cash deposits


C: Investments vs. Savings:
Average performance over time
Investments
Savings
Value of pension pot
Time


D: How personal accounts will work
You pay 4%
Your 4% is doubled because:
Employer pays 3%
1% in tax relief
Total Pension Contribution: 8% of salary
PENSION POT
Contributions
+
Investment Returns

E: Investment choice in personal accounts

- Independent not-for-profit body will offer limited range of funds for members to choose from
- Members free to choose from this range of funds
- Able to switch money between funds
- People will not have to make a fund choice if they do not want to

F: What is a pension fund?

- Mix of different investments – mix may vary from fund to fund
- Value of investments may go up or down
- Charges for running these funds
- Over long term, investments tend to give better level of return than savings accounts
- The longer investments have to grow, the bigger the pension pot is likely to be

G: Risk and return

- More risk you are prepared to take, the higher the potential return.
- If you are not prepared to lose any of your money then you must accept a much lower level of return.
  - Over the long term, your money may have less buying power than when it was first put in

H: What is an individually tailored fund?

You choose the mix of investments that make up your fund, for example:

70% SHARES

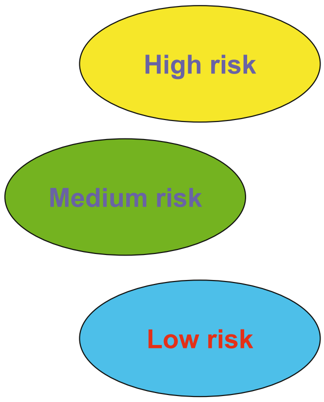
10% CASH DEPOSITS

20% BONDS

The mix you choose affects the level of risk your contributions are exposed to

J: What is an off-the-shelf fund?

The choice of investments is made for you, you only have to choose the risk profile e.g. low risk, medium risk, high risk



K: Guaranteed minimum return

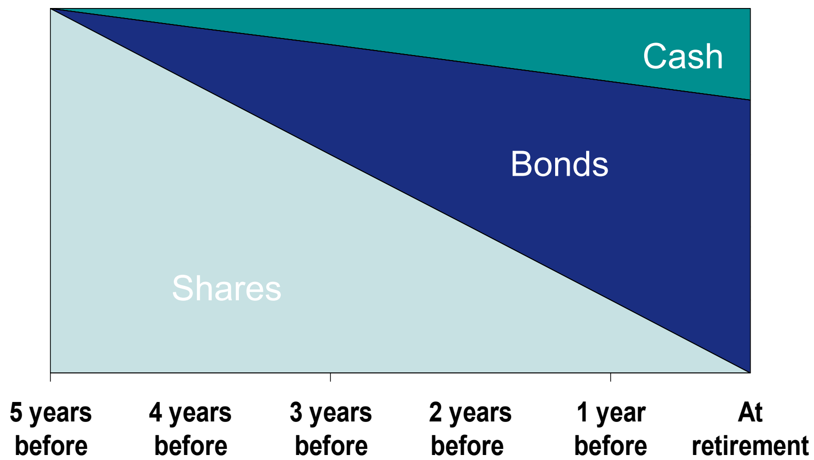
- The capital invested is guaranteed
- A minimum level of return is guaranteed
- As a trade-off for the guarantee, you lose a proportion of any return above the minimum your fund makes

L: What is a socially responsible investment?

- Exclude shares in firms on ethical or environmental grounds e.g. arms firms
- And/or include shares in firms on ethical or environmental grounds e.g. firms that aim to be environmentally sustainable, social enterprises
- And/or aim to influence the firms they invest in to act in more ethical and environmentally responsible way

M: Lifestyling

- Moves funds into lower risk and potentially lower return investments as you near retirement
- Protects the pension pot you've built up so far from losing value



N: Making choices

A. Level of risk and return
B. Able to choose own mix of investments
C. Ethical investment
D. Lifestyled fund
E. Provided by independent not-for-profit body running personal accounts
F. Provided by a recognised big-name company
G. Low charges

O: What are charges?

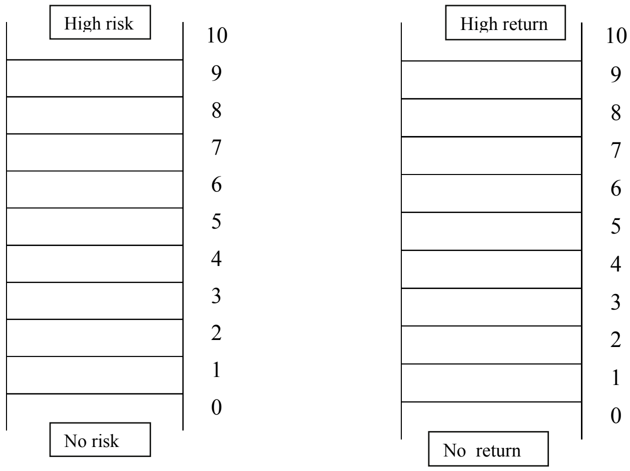
- You have to pay charges on all company and personal pension schemes
- Cover costs of administration, the investment, expertise etc.
- Charges vary from fund to fund
- Charges in personal accounts will generally be low

P: Default Fund

- If no active fund choice made, money automatically invested in default fund
- Designed to balance potential for risk and return
- Low charges
- Designed to cater for wide variety of members
  – Not tailored to individuals’ financial needs and preferences
- Members can choose to move in and out of default fund

Appendix B
Briefing notes used by facilitators

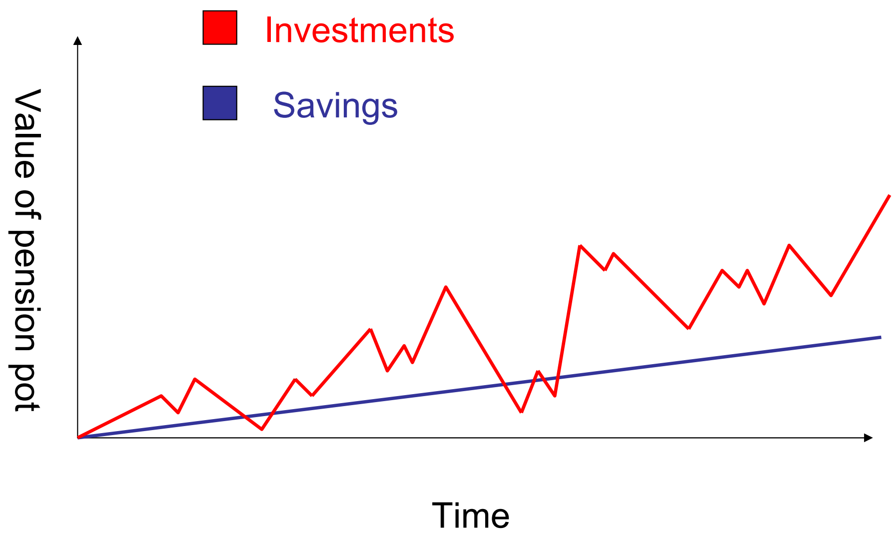
A: Risk and return ladders



B: Investments

- Investments are different from savings
- Investments are typically designed for the longer term and involve different levels of risk.
- Any money you invest will have some level of risk as assets can rise or fall in value.
- There is no guarantee you will make a profit on your investment or even that you will get back the same amount you invested in the first place
- **However, over the long term investments tend to give you a better level of return than savings accounts**
- Money can be invested in different ways – shares, bonds, and cash deposits.

C: Investments vs. Savings:
Average performance over time

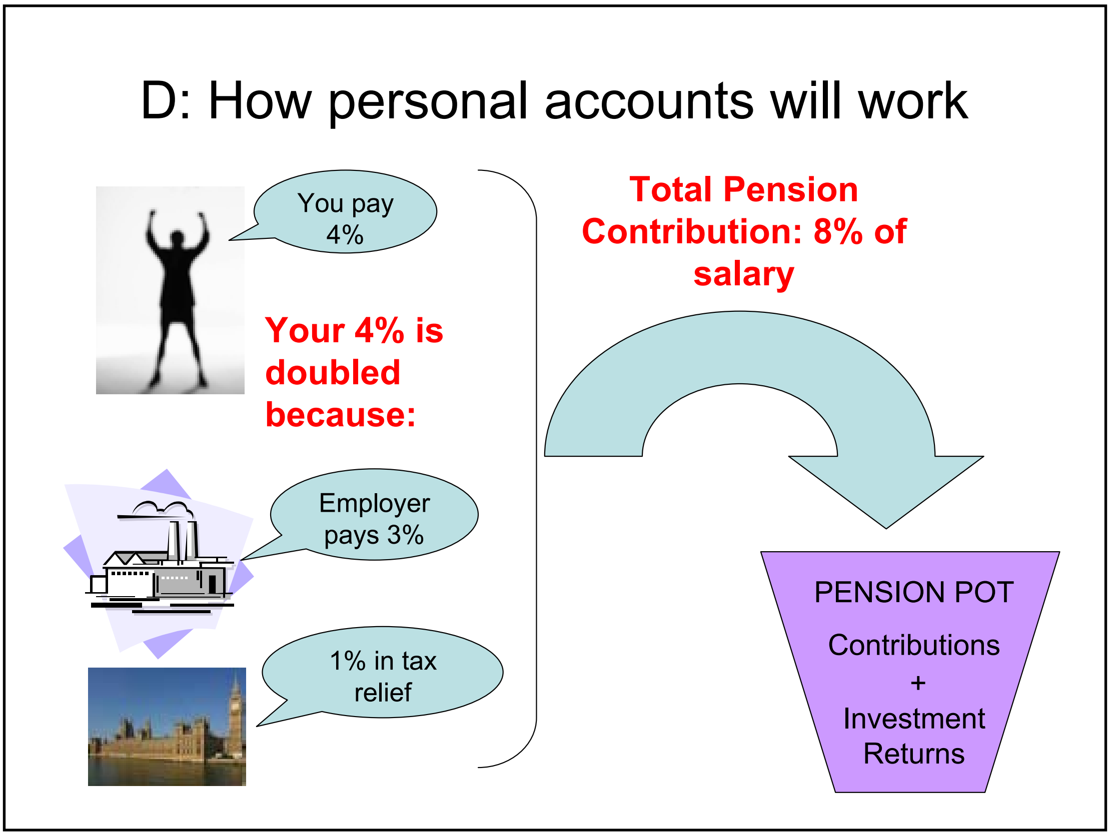


D: Personal Accounts

Use to explain Showcard D

<u>Don’t prompt</u> on annual statements

- Available to employees earning £5K+ per year
- Employees aged 22 to State Pension Age (women-60, men-64) automatically enrolled but can choose to opt out
- Employee contribution (4%) deducted from wages
- Employers contribute 3%, Government contributes 1% as tax relief – **together this doubles the employee contribution**
- Low charges
- Money invested to provide an income in retirement
- Not replacing, in addition to the State Retirement Pension – **builds up an individual pension pot**
- Run by an **independent not-for-profit body** - not the Government



E: Investment choice in personal accounts

- **Independent not-for-profit body** running personal accounts will offer a limited range of funds for members to choose from
- People will be free to choose from this range of funds
- People will be able to switch their money between the funds
- Big name providers may also offer a choice of funds
- People will not have to make a fund choice if they do not want to

F: What is a pension fund?

- A mix of different investments – the mix may vary from fund to fund
- The value of investments may go up or down
- There are charges for running these funds
- Pension funds are 'long term' investments, and on average investments give you a better return than savings accounts in the long term
- **The longer investments have to grow, the bigger the pension pot is likely to be**

G: Risk and return

- The more risk you are prepared to take, the higher the potential reward.
- If you are not prepared to lose any of your money then you must accept a much lower level of return.
- Over the long term, if you take low risk and have a low level of return, the value of the end pot may have less buying power than when the money was first put in

H: What is an individually tailored fund?

You choose the mix of investments that make up your fund, for example:

70% SHARES

10% CASH DEPOSITS

20% BONDS

The mix you choose affects the level of risk your contributions are exposed to

J: What is an off-the-shelf fund?

The choice of investments is made for you, you only have to choose the risk profile e.g. low risk, medium risk, high risk

High risk

Medium risk

Low risk

K: Guaranteed minimum return

- The capital invested is guaranteed
- A minimum level of return is guaranteed – **this minimum is usually set quite low**
- As a trade-off for the guarantee, you lose a proportion of any return above the minimum your fund makes

L: What is a socially responsible investment?

- Such funds sometimes <u>exclude</u> shares in companies on ethical or environmental grounds e.g. arms firms
- And/or they <u>include</u> shares in companies on ethical or environmental grounds e.g. firms that aim to be environmentally sustainable, social enterprises
- And/or they aim to influence the companies which they invest in to act in a more ethical and environmentally responsible way

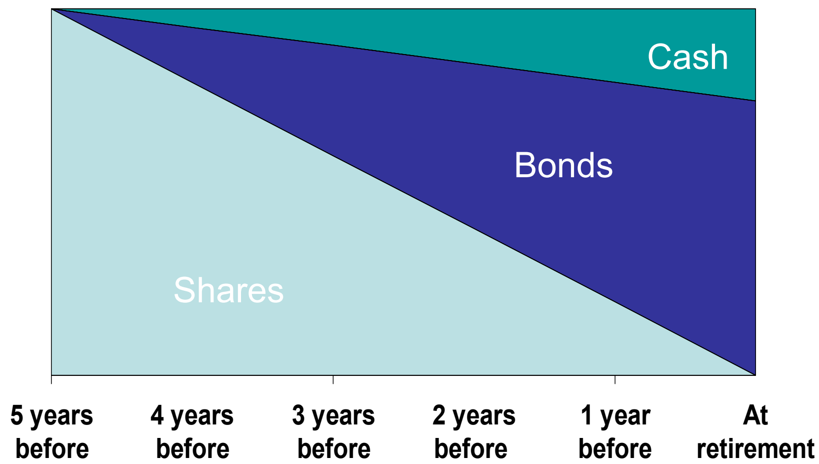
What is a Sharia fund?

ONLY USE THIS EXPLANATION IF APPROPRIATE – NO SHOWCARD

- Complies with Sharia or Islamic law, so that Muslims have personal accounts without any conflicts with their religion. It means that the pension fund will:
  - not be invested in any firm that makes money through charging interest or gambling e.g. banks, insurance firms
  - be invested according to certain ethics e.g. not in alcohol firms

M: Lifestyling

- Moves funds into lower risk and potentially lower return investments as you near retirement
- Protects the pension pot you've built up so far from losing value



N: Making choices

A. Level of risk and return **(GUARANTEED RETURNS SHOULD BE DEALT WITH HERE IF RAISED)**
B. Guaranteed return
C. Ethical investment
D. Lifestyled Fund
E. Provided by the body running personal accounts
F. Provided by a recognised big-name company
G. Low charges

O: What are charges?

- You have to pay charges on all company and personal pension schemes
- Cover costs of administration, the investment, expertise etc.
- Charges vary from fund to fund
- Charges in personal accounts will generally be low

P: Default Fund

- If no active fund choice made money automatically invested in the default fund
- Low charges
- Designed and monitored to balance potential for risk and return
- Designed to cater to the needs of a wide variety of members, but not tailored to specific individuals' financial needs and preferences
- People can choose to move in and out of this default fund

Appendix C
Focus group sample design

Group	Age	Gender	Income band	Family type	Pensions and investments	Location
1	22-29	Mix	£5-£15K	Mix	No	Sutton Coldfield
2	22-29	Mix	£15-25K	No children	No	Stanwell, Middx
3	22-29	Mix	£15-25K	No children	No	Stanwell, Middx
4	22-29	Mix	£25-25K	No children	No	Cardiff
5	30-39	Women only	£5-15K	With children	No	Sutton Coldfield
6	30-39	Women only	£15-25K	With children	No	Glasgow
7	30-39	Mix	£25-35K	Mix	Personal pension only	Glasgow
8	30-39	Mix	£35-50K	Mix	Yes	Sunbury-on-Thames
9	40-49	Mix	£5-15K	Mix	No	Cardiff
10	40-49	Mix	£15-25K	Mix	No	Cardiff
11	40-49	Women only	£25-35K	With children	Personal pension only	Sunbury-on-Thames
12	40-49	Mix	£35-50K	Mix	Yes	Sutton Coldfield
13	50-59	Mix	£5-15K	Mix	No	Cardiff
14	50-59	Mix	£15-25K	Mix	Personal pension only	Sutton Coldfield

Appendix D
Focus group screening questionnaire

Good morning/afternoon/evening. I'm from Droy Fieldwork Research (show ID and letter), an independent market research organisation working on behalf of the University of Bristol.

We are inviting a group of people to take part in a discussion about saving for retirement, and the kind of options that could be made available to people in the future to help them do this. The University of Bristol has been asked by the Department for Work and Pensions to carry out this research to help it develop its pension policy. You don't need any prior knowledge about saving for retirement, we are simply interested in hearing your views on some key issues. The group discussion will take place on [DATE] at [LOCATION] and will last between an hour and a half and two hours. To say thank you for your time and to cover any expenses incurred, we would like to offer you £40 in high-street vouchers, which you will receive at the group discussion.

Before I go any further I would like to assure you that absolutely no selling is involved, this is purely a research exercise. Droy Fieldwork and the University of Bristol are totally independent from the Department for Work and Pensions. Your participation in this research will in no way affect any dealings you have with the Department, and the findings from the research will be anonymised before being passed to them. We are looking for particular groups of people, therefore I would like to ask you some questions about yourself. All information collected will be anonymised.

NOTE TO INTERVIEWER: Shaded area indicates that the respondent falls outside the scope of the research and therefore that the recruitment can be wrapped up.

Q1.Would you be interested in taking part?

A	Yes	1	CONTINUE
B	No	2	CLOSE

Q2.SHOWCARD Do you work in any of the following areas?

A	Financial services industry	2	CLOSE
B	Pensions industry	3	
C	Public sector, e.g. teaching, the NHS, for a local authority, the government	1	
D	Journalism/media/advertising/public relations	4	
E	No, none of these	5	CONTINUE

Q3.Have you participated in a focus group discussion or depth interview for a market research company in the last 6 months?

A	Yes	1	CLOSE
B	No	2	CONTINUE

Q4.May I ask how old you are?

A	Under 22	1	CLOSE
B	22-29	2	CONTINUE
C	30-39	3	
D	40-49	4	
E	50-59	5	
F	60+	6	CLOSE

Q5.SHOWCARD Which of these best describes your work situation?

A	Working full-time (30+ hours per week)	1	ENSURE SPREAD
B	Working part-time (under 30 hours per week)	2	
C	Unemployed – seeking work	3	CLOSE
D	Unemployed – not seeking work	4	
E	Stay at home to look after house/family	5	
F	In full-time education	6	
G	Retired	7	
H	Don’t know	8	

Q6. Are you self-employed?

A	Yes	1	CLOSE
B	No	2	CONTINUE
C	Don’t know	3	CLOSE

Q7. SHOWCARD Looking at this showcard, would you mind telling me how much you earn each year, before tax. There’s no need to tell me how much exactly – just read out the letter that applies. NOTE TO INTERVIEWER: If someone has more than one job, we are interested in the amount they earn from their highest-paying job.

A	Under £5,000 per annum	1	CLOSE
B	£5,000 - £14,999 per annum	2	RECRUIT TO QUOTA
C	£15,000 - £24,999 per annum	3	
D	£25,000 - £34,999 per annum	4	
E	£35,000 - £49,999 per annum	5	
F	£50,000 or more	6	CLOSE
G	Don’t know/Refused	7	CLOSE

Q8. Are you a member of a pension scheme run by your current employer (if applicable) (such as a company, occupational or stakeholder pension scheme provided for employees)?

A	Yes	1	CLOSE
B	No	2	CONTINUE
C	Don’t know	3	CLOSE

Q9. Are you currently paying in to a pension that you set up yourself? This is a pension that WAS NOT set up through or by your employer, and that your employer DOES NOT contribute to?

A	Yes	1	RECRUIT TO QUOTA
B	No	2	RECRUIT TO QUOTA
C	Don’t know	3	CLOSE

Q10. SHOWCARD And do you have any of the following investment products?

A	Personal Equity Plan (PEP)	1	
B	Equity ISA (stocks and shares)	2	
C	Stocks and shares	3	IF ANY INVESTMENTS, AND A PENSION AT Q9 RECRUIT TO QUOTA
D	Endowment policy not linked to mortgage	4	
E	Unit Trust	5	
F	Investment trust	6	
G	Insurance/investment bond (e.g. with-profits bond)	7	IF ANY INVESTMENTS AND NO PENSION AT Q9, CLOSE
H	OEIC (open-ended investment company)	8	
I	National savings investment products	9	
J	None of these	10	RECRUIT TO QUOTA

Q11. SHOWCARD How would you describe the composition of your household? Please just read out the letter that applies (single code only)

A	Single, no children	1	
B	Couple, no children	2	
C	One-parent family, at least one child under 16	4	RECRUIT TO QUOTA
D	Two-parent family, at least one child under 16	5	

Q12. CODE SEX (DO NOT ASK)

A	Male	1	RECRUIT TO QUOTA
B	Female	2	RECRUIT TO QUOTA

Q13. What is the occupation of the Chief Income Earner in your household? WRITE IN AND CODE BELOW (FOR INFORMATION ONLY)

CLASS			
A	1	C2	4
B	2	D	5
C1	3	E	6

Q14. SHOWCARD Which one of the groups on this card do you consider you belong to?

A	WHITE	British	1	ENSURE SPREAD IF POSSIBLE AND APPROPRIATE
B		Irish	2	
C		Any other white background	3	
D	MIXED	White and Black Caribbean	4	
E		White and Asian	5	
F		Any other mixed background	6	
G	ASIAN OR ASIAN BRITISH	Indian	7	
H		Pakistani	8	
I		Bangladeshi	9	
J		Any other Asian background	0	
K	BLACK OR BLACK BRITISH	Caribbean	X	
L		African	Y	
M		Any other Black background	1	
N	CHINESE OR OTHER ETHNIC GROUP	Chinese	2	
O		Any other background	3	
		Refused	4	

Contact Details

Name	
Address	
Postcode	
Email address	
Telephone No	
Mobile No	
Best time of day to ring	

INTERVIEWER DECLARATION

I have recruited this person to the criteria specified by this questionnaire and other briefing provided. Please explain that respondents may be called by telephone, to check that recruitment & booking procedure meet quality standards. Thank you.

NAME ____

SIGNED____

DATE ____