

Micro-employers' attitudes towards pensions for themselves and their employees

By James Noble

This report presents the findings of a small-scale qualitative study looking at attitudes towards retirement saving amongst very small, micro-employers (employers with fewer than five members of staff). The aims of the research were exploratory: to draw a picture of the views of micro-employers towards pensions, both for themselves and for their members of staff; and to assess the likely impact of measures aimed at raising awareness and understanding of pension issues.

Key findings

The research found that the micro-employers who participated were concerned about saving for retirement but had a poor regard for many of the options available to them for doing so. The principal reasons were an impression that pension saving does not deliver sufficient returns or guarantees, a lack of trust in the pensions industry and a dislike for the lack of control over investment that is associated with pensions.

Participants felt little, if any, responsibility for their staff's pensions and did not believe that their business might benefit from providing pensions (particularly for short-term staff) or guidance to staff on pensions. There was also little evidence reported by micro-employers that their staff were looking for help with pensions. Indeed, participants usually believed that their staff would prefer higher wages to pension contributions.

There was limited belief that workplace pensions information would make much of a difference to

their employees' savings, other than perhaps raising general awareness. The research does, however, suggest that employers might be willing to offer limited help in communicating to employees by passively circulating information. Although it was also clear that such assistance would be limited to what the employer could do without inconveniencing themselves and that, even then, a lot of communication would not reach employees as many micro-employers would regard it as irrelevant or not useful for their staff.

There appeared to be more appetite for fundamental reforms than for measures to improve levels of understanding. In particular, many participants were looking to see changes to the system or a new investment vehicle that offered a **guarantee** of return that could be trusted and where there is a clear financial incentive to save.

Background

The research consisted of eight group discussions in three different business sectors (manufacturing/agriculture, retail/wholesale, and services) and across four locations in the UK. Recruitment of participants was conducted by an independent recruitment agency (MORI Field and Tab) using details of businesses provided by the Experian Business database. The research itself was conducted by James Noble (the author of this report).

The reason for focusing the research on micro-employers was that they and the people who

work for them may be at risk of under-saving for their retirement. This is due to a number of factors such as the potential for low levels of pay and the fact that few businesses of this size currently run pension schemes of any sort. Legislation does not require micro-employers to provide their employees with a Stakeholder Pension.

Micro-employers' views on saving for their own retirement

The micro-employers who participated in this research were generally committed to the idea of saving for their retirement but had negative attitudes towards most of their options for doing so. The level of current saving amongst micro-employers themselves varied quite considerably but despite differences there was throughout a degree of anxiety about retirement income and a general view that there are issues about saving in pensions in the UK. The main issues that the research participants highlighted when discussing their general attitudes towards pensions were as follows:

- they do not see pensions as a good investment vehicle when compared to other options, in particular property;
- they do not think pensions are a safe place to put your money;
- they do not generally trust pensions companies to; a) provide realistic projections of investment return; b) manage money competently; and c) not levy high charges;
- they consider the pensions system to be unfair and to favour public sector employees and larger employers;
- they believe that many people – youngsters in particular – are driven by consumption and show no willingness to plan for the future (though it was rare for participants to attribute these tendencies to themselves); and
- they do not feel they had enough control over the money they have invested in pensions.

Micro-employers' attitudes towards pension provision for their staff

The research found very little evidence of workplace pension provision, information or guidance being given to staff of micro-employers. Across all groups in all sectors, few employers had discussed pensions with their staff, fewer had ever considered setting up pensions arrangements and fewer still had any sort of current arrangement in place for their employees.

In terms of their **short-term staff**, participants tended to see little benefit to offering pension provision or guidance to their staff. The main reasons for this were:

- as staff are only short-term, any pension payments would quickly become redundant and have to be returned;
- that pensions were associated with staff loyalty and a long-term outlook, and it seemed illogical to provide any such benefits to short-term staff;
- their short-term employees were overwhelmingly younger people, who were seen as uninterested in saving;
- that it was outside the remit of the micro-employer to offer guidance or advice to employees; and
- the view that even if a member of staff was interested in saving, their preference would be to take the money in wages and invest it themselves.

When considering **longer-term members of staff**, the idea of offering pensions or pensions guidance began to make more sense for participants. However, there were further barriers that participants felt prevented them from offering pension provision or pensions guidance, even to long-term staff:

- Principally, that pensions were not seen to be the employer's responsibility. Rather, the view of the majority of micro-employers in this study was that as long as they paid their staff enough, savings choices should remain

squarely with the employees themselves (which they felt was their employees' preference).

- Participants generally failed to see any business benefits in providing pensions or pensions advice. Although the possibility of using pensions to improve recruitment and retention was acknowledged, it was not thought to be applicable to micro-employers.
- The micro-employers in this research also tended to assume that their employees shared their own views about the value of putting money into a pension schemes.
- Finally, the idea of private pensions for people who work for less lucrative businesses seemed particularly irrelevant given the low level of wages paid.

Views on what improvements to pensions engagement might be achieved through workplace information

Participants in this research doubted that much could be done with workplace information to improve the pensions situation of their employees. Whilst some employers saw some potential merit in raising general awareness, common views were that barriers to pensions saving (principally the perceived lack of credibility of pensions as an investment and employees' lack of money to put aside) were far more important obstacles than a lack of information.

Despite this, some participants said they would be willing to act as a conduit for Government-produced information about pensions that was targeted at people who work for micro-employers. Those who would pass on information such as leaflets and packs report that they would only do so if they were sure that it would not have any negative impact on the business. As such, they would not usually be interested in anything that took up more of their time than briefly reading the information and passing it on. They thought that any communications efforts that were more participatory, such as seminars and road shows, would receive a low take-up.

Views on other options for improving pensions saving

Participants discussed more general ideas for tackling the problem of under-saving. The moderator encouraged this by suggesting some general themes, but many of the ideas and the support for them arose naturally out of the preceding discussion.

The things participants felt were needed for improving pensions saving included:

- the need for pensions products that offer a genuine **guarantee** of minimum return and, ideally, a minimum rate of increase in return;
- stronger reassurances from both the Government and pension companies that pensions are a good investment;
- bolder, more radical solutions rather than 'piecemeal' changes to the system;
- measures to make it pay to save by providing genuine and clear financial incentives;
- pensions products that make it easier for people to save through improved transparency and efficiency;
- more control and ownership participants stated that they needed to know what was happening to their money and have greater control over it; and
- efforts to improve financial education and the financial capability of young people.

Opinions on compulsion were divided among these micro-employers. Those in favour saw the ability of compulsion to overcome some of the barriers and resistance to saving. Those against focused on the end cost to business either from direct contributions or increased wages to cover these contributions. It should be noted that those in favour referred to compelling employees to save.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 854 6. Research Report 266. September 2005).

It is available from Paul Noakes at the address below.

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