

Combined Pension Forecasts – a survey of their impact on recipients

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The Department for Work and Pensions (DWP) works with employers and pension providers, on a voluntary basis, to supply forecasts of an individual's State Pension alongside their annual personal/occupational statements to create a Combined Pension Forecast (CPF). To measure the effectiveness of this initiative, DWP commissioned research by BMRB to establish levels of CPF recall amongst recipients and understand the extent to which it has impacted their retirement planning activities. The research is based on a telephone survey of 5092 people known to have received a CPF within 18 months prior to interview. The survey was carried out between March and May 2005.

Respondent Profile

The target audience for the research study was known CPF recipients. The source of contacts for participation in the study was DWP's ATOS database. This contained details of all individuals having a CPF processed between November 2003 and June 2004.

The profile of individuals in the ATOS database did not reflect that of the general population, or the wider population of pension scheme members, since it only contained information on scheme members of pension providers and employers voluntarily participating in the CPF initiative. Recipients were biased towards Defined Contribution (DC) scheme membership, since the ATOS database was largely made up of scheme members from one large personal pension

provider. In total, DC scheme membership accounts for 66 per cent of individuals, of these 98 per cent of CPFs sent were issued by one personal pension provider. Employer led Defined Benefit (DB) pension scheme membership accounts for 34 per cent of individuals. Ninety one per cent of employers provided a DB scheme. This split is mirrored in the profile of survey respondents.

The profile of CPF recipients can be expected to change with time as new employers and pension providers join the initiative.

At the time of interview, nine in ten respondents were in employment, the vast majority of whom were employed full-time. Half had an individual income of under £20,000 per annum with 18 per cent earning £30,000 or above. Eighty two per cent were currently contributing to a pension scheme.

Main findings

Recall of the Combined Pension Forecast

Almost 4 in 10 respondents remembered having received a Combined Pension Forecast (38 per cent). Levels of recall may have been affected by potentially long periods of time between receiving CPF and interview. Had interviews been carried out soon after CPFs were issued we could expect recall to be higher, although this would have allowed less time for respondents to take retirement planning actions. Amongst CPF recallers, 74 per

cent of those reporting having received a CPF in the last three months could recall the CPF without prompting, falling to 58 per cent among those who reported receiving a CPF a year ago or longer.

Awareness of the CPF was higher among those known to have been issued more than one CPF by their employer or pension provider (45 per cent of those who have been issued two or more CPFs remember receiving it compared to 36 per cent of those who have been issued only one). Similarly, those who have been issued a CPF by more than one employer or personal pension provider were more likely to remember the CPF (60 per cent recall) compared to those who have been issued a CPF by one employer/provider (38 per cent recall). This increase in recall is indicative of a positive cumulative effect.

Attitudes towards the CPF

Amongst recallers, 73 per cent stated they found the CPF to be at least fairly useful (20 per cent finding the CPF to be very useful). Only 18 per cent of CPF recallers stated the CPF was not very useful. Of these the most common reason was they found it difficult to understand (33 per cent of those who did not find it useful). We cannot tell which section of the CPF they found difficult to understand i.e. the state pension forecast section or their employer/provider's information.

Attitudes toward the CPF were particularly positive with regard to CPFs encouraging retirement planning. Seventy four per cent agreed they would *'encourage me to review my retirement plans'* and 73 per cent agreed *'sending out CPFs will encourage people to save more for retirement'*. Furthermore, 90 per cent of recallers agreed that the government should provide state pension forecasts to be issued alongside private pension statements.

Even among those who did not remember receiving a CPF, 81 per cent agreed a forecast of state and private retirement income *'would encourage me to review my retirement plans'* and 85 per cent agreed with the concept that the government should provide state pension forecasts to be issued along with people's private pension statements.

Retirement planning

CPF recallers were significantly more likely to have undertaken some form of retirement planning activity within the last 18 months than those who did not recall receiving the CPF (78 per cent of recallers compared to 59 per cent of non-recallers).

The types of planning activity undertaken are distinguishable between 'soft events', such as discussing arrangements with others or requesting pensions information, and more tangible 'hard events' such as increasing pension contributions or non-pension investments. Again, CPF recallers were significantly more likely to have engaged in either type of activity than non-recallers. Forty two per cent of recallers at least discussed retirement arrangements with others, compared to 27 per cent of non-recallers. Forty two per cent of recallers had either started or increased retirement savings, compared to 28 per cent of non-recallers.

However it is difficult to determine causality here. It is uncertain to what extent the CPF caused retirement planning actions taken or whether those people who had undertaken action are more likely to remember CPFs. Among both CPF recallers and non-recallers, those that increased any type of saving were more likely to be among higher income earners and those with private sector employer and DC pension scheme types, suggesting other characteristics such as income and existing savings provisions also influence retirement planning.

Impact of the CPF

CPF recallers who had undertaken retirement planning actions were asked whether the CPF had motivated them to take this action. Of all CPF recallers who undertook retirement planning of any type, 51 per cent said they were prompted to do so by the CPF. This accounts for 40 per cent of recallers overall and 15 per cent of all respondents.

As a further measure of the impact of CPFs on retirement planning, those that were prompted by the CPF into taking action were asked whether or not they would have done so by now if they had not

received a CPF. Among those who were prompted by the CPF to either start or increase pension contributions, or start or increase non-pensions investments, 43 per cent said they would not have undertaken any of these actions by now without the CPF. This equates to six per cent of all recallers.

Multivariate analysis shows CPF recall has the strongest correlation with both soft actions and the likelihood of taking more than one retirement planning action. When controlling for other variables, it also accounts for a limited amount of variation in increased saving specifically, although increased saving is more likely to be associated with other variables such as respondent's income and existing savings provision.

Overall, respondents who recalled a CPF were consistently more likely than those who did not to have undertaken any positive actions. While only 25 per cent of respondents spontaneously recalled the CPF, this group made up 55 per cent of those taking 5 actions or more.

Intended future retirement planning activity

The vast majority of both CPF recallers and non-recallers said they intend to undertake some form of retirement planning activity in future (91 per cent and 88 per cent respectively). Amongst CPF recallers who were considering retirement planning action, 55 per cent said their intention was prompted by the CPF.

Reviewed situation and took no further action

Thirteen per cent of all respondents said they had actively reviewed their situation and decided to take no further action. The most popular reason given (49%) for not increasing savings afterwards was they could not afford to.

Conclusions

As part of DWP's Informed Choice strategy, the CPF initiative was designed to make people more aware of their likely financial situation in retirement and to help plan accordingly. The

purpose of this research study was to measure the effectiveness of the initiative, particularly with regard to the extent the CPF has prompted retirement planning activity.

With the absence of a control group in this research we cannot measure the impact of the CPF precisely but survey results are encouraging. While personal circumstances inevitably play a role in an individual's propensity to engage in retirement planning, there are clear indicators that CPF recall is linked to those who took recent retirement planning action and those who plan to take action in the future. Even if personal circumstances mean that an individual is better disposed to engage in retirement planning, either as a result of financial astuteness or through having the financial means, some respondents do suggest the CPF acted as a prompt for them to take action.

There is certainly a positive reaction among individuals to the concept of CPFs, even among recipients who do not remember having received one in the past. Planning activity is associated with CPF recall and increases in both levels of recall and planning activity are associated with increased numbers of CPFs received.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 904 6. Research Report 293. October 2005).

It is available from Paul Noakes at the address below.

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