Do pensions matter?
Income security and a good retirement

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#goodretirement
Speakers

- Chair: Otto Thoresen, Nest
- James Lloyd, Strategic Society Centre
- Baroness Jeannie Drake, House of Lords
- Stephen Lowe, Just Retirement
- Claire Turner, JRF
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What are we doing today?

- Launching two reports
- Accompanying policy discussion paper: “Income, Security and Wellbeing: Helping retirees choose a good retirement”
Background to the project

- Budget 2014 marked historic change in UK private pension policy
  - HM Treasury: not the job of the state to tell people how to use pension savings
- ‘Freedom and Choice’ changes implemented in April 2015
Background to the project

- Since Budget 2014, lots of policy debate on:
  - ‘Guidance guarantee’
  - Charges
  - Whether people can be trusted with money (Lamborghini issue)
- But one topic completely absent:
  - Will the April 2015 changes lead older people to have better or worse retirements?
Background to the project

- April 2015 moved UK from compulsory annuitisation to voluntary annuitisation
- Retirees now have choice of annuity, drawdown or cash (or mix)
- Overseas experience of voluntary annuitisation systems = very low rates of annuity purchase
  - Lots of international research on ‘annuity puzzle’
Background to the project

- So, in medium-to-long term, we can expect:
  - Fewer DC savers to obtain guaranteed incomes at retirement
  - DC savers to have higher levels of savings/investments during retirement funded from DC savings pots
  - Average private pension incomes to decline
- Q: What will this mean for people’s experience of retirement?
Previous research

- Longstanding research literature links absolute level of income to subjective wellbeing
- Handful of studies also link private pension income to wellbeing during retirement
- Otherwise, very little evidence to go on
Income Security and a Good Retirement

- So, we undertook new research into the role of guaranteed income in people’s experience of retirement
- Too early for data on those who have gone through April 2015 reforms
- So, we used complex regression analysis models and existing social survey data
Data

- Study analysed data from Wave 6 (2012-13) of the English Longitudinal Study of Ageing (ELSA)
- A longitudinal, multidisciplinary social survey undertaken every two years, of a representative sample of the English population aged 50 and older
Our sample

- Individuals or couples aged 90 and under, in receipt of a private pension income (DB/DC)
- Any individuals or couples earning through (self-)employment were excluded
- Top and bottom income and wealth deciles excluded:
  - Provides reassurance respondents with unusual income or wealth profiles will not skew results
- This left us with a sample of around 2,000 people
Explanatory variables

- In very simple terms, the April 2015 changes give savers a choice: cash or income
- So we used two explanatory variables:
  - **Income** – in the form of guaranteed, annuitised income streams, including state and private pension income, benefit income and income from savings and investments
  - **Wealth** – in the form of non-housing wealth, including current/savings accounts, TESSAs, Cash and other ISAs, Premium Bonds, National Savings accounts, etc.
- We explored whether statistically significant associations existed between these explanatory variables and multiple dependent variables
  - Analysis teases out independent effect of these explanatory variables on different outcomes
Regression analysis

- To be confident of identifying real effects, as well as explanatory variables, we controlled for the effect of multiple other factors:
  - Age
  - Gender
  - Housing tenure
  - (Limiting) long standing illness
  - Marital status
  - Level of education
  - Size of social circle
Results

- In total, we had 99 original dependent variables, which were grouped thematically
- 53 variables = no associations found
- 21 variables = statistically significant relationship with guaranteed income, but not non-housing wealth
- 18 variables = statistically significant relationships for both guaranteed income and non-housing wealth
  - Of which 11 showed a more powerful effect for guaranteed income than non-housing wealth
- 14 variables = statistically significant relationship to level of non-housing wealth, but not level of guaranteed income
Results

- Broad research themes were:
  - Health and mental well-being
  - Giving money to family and charity
  - Financial security
  - Participation in leisure activities
  - Civic participation
  - Life satisfaction and quality
Health and mental wellbeing

- Few significant associations were identified
- However, there were three significant associations for level of guaranteed income, but not wealth:
  - “I feel what happens in life is often determined by factors beyond my control”,
  - “In general, I have different demands that I think are hard to combine”
  - And a ‘total score’ variable for feelings of autonomy and control
Giving money to family and charity

- Significant associations for both guaranteed income and non-housing wealth were identified for:
  - Giving money at all; and
  - If had given money, the amount of money given

- However, only income was associated with:
  - Giving money to the respondents’ children
  - Giving money to charity

- Security provided by income increased the chances of respondents feeling able to give money?
Financial security

- ELSA questions measure:
  - Whether respondent feels that having too little money stops them from doing/buying particular things
  - Self-perceived chances the respondent will not have enough money in the future to meet their needs
Financial security

- Multiple significant associations were found between income/wealth and the financial security outcomes
- However, some items were only associated with wealth, e.g. whether people feel don’t have enough to:
  - “Have family and friends round for a drink or a meal”
Financial security

- Results suggest both income and wealth have moderate but important effects on reducing financial insecurity, but that wealth may provide a slightly stronger psychological reassurance?
Participation in leisure activities

- How often the respondent...
  - Went to the cinema
  - Ate out of the house
  - Went to an art gallery or museum, and
  - Went to the theatre, a concert or the opera
- Which of these activities the respondent would like to do more, and
- Whether the respondent...
  - Reads a daily newspaper
  - Has a hobby or pastime
  - Has taken a holiday in the UK in the last 12 months
  - Has taken a holiday abroad in the last 12 months
  - Has gone on a daytrip or outing in the last 12 months
  - Owns a mobile phone
  - Or, none of these statements apply to the respondent
Participation in leisure activities

- Participation in going to the cinema, eating out, etc. consistently associated with income, but not wealth.
- Income – but not wealth - was also associated with most of the final set of questions, relating to reading a newspaper, taking a holiday, owning a mobile phone, etc.
- The regularity of a guaranteed income provides an impetus for expenditure on leisure activities, which is not provided by wealth?
Civic participation

- Political party, trade union or environmental groups
- Tenants groups, resident groups, neighbourhood watch
- Church or other religious groups
- Charitable associations
- Education, arts or music groups or evening classes
- Social Clubs
- Sports clubs, gyms, exercise classes
- Any other organisations, clubs or societies
- Or, the respondent is not a member of any organisations, clubs or societies
Civic participation

- Income associated with being a member of a
  - “political party, trade union or environmental groups”
  - “tenants groups, resident groups, neighbourhood watch”
  - “education, arts or music groups or evening classes”
  - “sports clubs, gyms, exercise classes”
  - “any other organisations, clubs or societies” and
  - Not being a member of “any organisations, clubs or societies”

- Wealth associated with being a member of a:
  - “church or other religious groups”
  - “charitable associations”
  - “sports clubs, gyms, exercise classes”
Civic participation

- Associations tended to be larger for income than for wealth, for the respective organisations
- As with participation in leisure activities, it seems that income is able to provide better support for regular participation in various classes, organisations and civic and social groups?
Life satisfaction and quality

- Income was associated with agreement to two of the questions from the ‘Satisfaction with Life Scale’:
  - “The conditions of my life are excellent”
  - “So far I have got the important things I want in life”.
- Both income and wealth were associated with how often the respondents:
  - “Feel free to plan for the future”
  - Think that “shortage of money stops me from doing things I want to do”, and
  - “Feel satisfied with the way my life has turned out”
Overview

- Even when controlling for level of wealth, level of guaranteed income was associated with multiple and varied domains in people’s lives, such as
  - Spending habits
  - Sense of autonomy and control
  - Life satisfaction
  - Participation in community and civic society

- Both income and wealth are important for retirement outcomes and wellbeing
  - However, we found more variables were associated with income, and effects tended to be stronger
Income, Security and Wellbeing: Helping retirees choose a good retirement
Policy implications (1)

- Budget 2014 saw the government adopt neutral position re: how people use DC pension savings
- International evidence suggests we are likely to see lower retirement incomes and higher levels of savings/investments
- Our research shows this may be accompanied by lower levels of wellbeing in older population
- So, on the basis of available evidence, Freedom and Choice will likely lead people to have worse retirements
Policy implications (2)

- Effects of wealth are important to retirement, but in this study, found to be weaker overall
- However, if a worker cashes in DC savings and spends down this wealth, the wellbeing effect will decline commensurately
- In contrast, the positive influence on retirement resulting from higher levels of guaranteed income is constant and lasts for the entirety of someone’s retirement
- So, average pension saver would be likely to have a better retirement if they seek to maximise their level of guaranteed income
Policy implications (3)

- Existing research highlights two challenges for policymakers:
  - Annuity puzzle – low voluntary annuitisation
  - Savings bias – retirees build up savings during retirement
- Our research suggests this could reflect attachment to the positive wellbeing effects of holding wealth/DC savings
  - People experience positive effects of holding wealth that they are reluctant to give up through spending it
  - In contrast, new retirees have no experience of a guaranteed income on which to base decisions around use of DC pot
Policy recommendations

1. Actively promote receipt of a guaranteed income in pension policy to improve the wellbeing of retirees
2. Educate savers before retirement about the role of guaranteed income for a good retirement
3. Include information about the importance of guaranteed income to wellbeing in retirement in Pension Wise guidance and information
4. Ensure receipt of a decent, guaranteed retirement income is the default option for DC pension savers
5. Undertake regular research into the effect of the April 2015 changes on older people’s wellbeing
And finally...

- To put the findings of the research in context:
  - We also did analysis for all retirees living in income poverty
    - Defined as £217 per week
  - Interestingly, there were virtually no associations for level of income, but there were multiple significant associations with wealth
  - For those experiencing income poverty, security of wealth cushion matters more than small additional income?
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