



# Do pensions matter? Income security and a good retirement



THE STRATEGIC  
SOCIETY CENTRE  
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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

James Lloyd, Strategic Society Centre

# What are we doing today?

- Launching two reports
- Research report: “Income Security and a Good Retirement”
- 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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