Public Expectations of Pension Provision

Final Report to the Actuarial Profession

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This study is based on analysis of data on trust in pensions from the 2002 British Social Attitudes survey, specially-commissioned focus group interviews and literature review. It shows:

- Current government policies in the field of pensions lead to a dilemma between the goals of an expanded private sector (which means more private and less state provision) and guaranteed adequate benefits underwritten by a means-tested government scheme (which may lead to more state provision). It is difficult to resolve this without an increase in the resources applied to at least one of the sectors.

- Trust in both private and state pensions is low; this makes a solution to the dilemma more difficult, because it weakens individual propensity to invest and voter willingness to pay higher taxes.

- Trust is socially divided: better educated, more middle class groups tend to have higher levels of mistrust in both private and state sectors. More working class groups on lower incomes tend to have higher trust overall, and to report a kind of grudging trust in the state sector because they believe that they cannot afford an alternative: ‘They won’t let you starve, will they?’

- Middle class people prefer investments which offer a high degree of user control and are transparently advantageous. More flexible pension contracts are likely to be more attractive. Returns which investors believe are superior to and more secure than those from alternatives (such as buy-to-let or small business), increase the attractiveness of pensions. These depend on fiscal and regulation regime and the extent to which contributions from employers are compulsory.

- Those on lower incomes will continue to require state support.
Current pension policy has two main elements (DSS, 1998):

- Reversing the 40/60 per cent ratio of private to public pension provision by 2050 (also a policy objective of the previous government). This is to be achieved by maintaining or expanding current non-state provision (mainly through occupational and personal pensions), and introducing a new private stakeholder pension (SHP) and an improved regulatory regime for the private sector. As a result, public pension spending is projected to stay roughly constant at about five per cent GDP between 2000 and 2050, in contrast to other large EU countries such as France, Italy, Germany and Spain, where it will continue to increase to at least three times that level (Treasury, 2002).

- Developing new state schemes (the State Second Pension – SSP - and the means-tested Pension Credit - PC) which will ensure that those with lower incomes or uncertain contribution records receive adequate support.

These policies have encountered problems. It is proving difficult to secure the expansion of private pensions because personal pensions are limited in scope, the new SHP is less attractive to individuals and to the industry than anticipated, employers are reducing their involvement in occupational schemes and individuals are reluctant to invest in this area.

**Take-up of Non-state Pensions**

After an initial period of rapid expansion (aided by direct state subsidies) support for personal pensions dwindled. Only 22 per cent of employees contribute to individual pensions and younger workers are starting to contribute later in life (PPI, 2003, pp. 38-40). For those who pursue these schemes, contributions have remained relatively low and are sometimes intermittent (Hansard, 29.10.02, WA, col.689). An important reason for this is the mis-selling scandals which surrounded personal pensions from the early 1990s and were only finally addressed when a voluntary industry review was strengthened through government intervention in the late 1990s, resulting in 1.7 million consumers receiving compensation totalling nearly £11.5 billion (FSA, 2002, p.19). The new SHP, aimed at middle earners and regulated through an enhanced and transparent regime with low management charges, strong transfer rights and mandatory indexation up to a set rate, was partly intended to fill this gap. The problem here is one of attracting the industry to provide pensions within a framework which imposes extra costs and constrains charges, and of selling the product in a highly competitive personal
investment market. Only 840 thousand SHPs were sold in the first year (2001-2), in comparison with the 10 million members of occupational pension and over three million personal pension contracts in existence (FSA 2002, p.56).

Regulation
The previous government had introduced new regulatory powers for occupational pensions in the 1995 Act. The pressures of meeting the new regulation regime, the falling stock market value of funds and concerns about future demographic pressures have led the majority of companies to close or cut back occupational schemes, and crucially to reduce the employers’ contributions to them, from an average of 11.1 per cent of salary to 5.1 per cent (GAD 2002; NAPF, 2002). Recent legislation to introduce a mutual insurance scheme between funds to guarantee some payment in the case of failure imposes additional costs and introduces a further element of moral hazard, since well-run schemes may subsidise those that fail.

In addition, individuals choose not to invest in pensions at an adequate level. A much-quoted but controversial study by Oliver, Wyman and company estimated a ‘savings gap’ of £27 billion (continuing to grow) between what is saved by working households and what is necessary ‘to ensure a comfortable retirement’ (Oliver, Wyman and Co, 2001, p.24). Recent research by the Economist Intelligence Unit (2004) and the ESRC (2004, pp. 10-11) draws similar conclusions. While the size of the gap is much contested, the view that the level of private pension saving is inadequate is not: it is implicit in the projection of future demands on means-tested support by the government and by independent analysts.
State Sector Benefits to Pensioners

In relation to government provision, the policies to ensure adequate provision for all may result in increasing rather than limited state involvement. A new contributory State Second Pension (SSP) may provide mid to lower income earners with secure but limited returns, but the net effect may only be to raise their retirement incomes to the level of means-tested assistance, which they would be entitled to in any case, (Hills, 2004, p.359). Concerns to provide adequate incomes for the most vulnerable have led to a new assistance Pension Credit, introduced in 2003. This effectively tapers assistance entitlement at 40 per cent against pension income (from SSPs, SHPs and small occupational or personal pensions) rather than removing it directly the means-tested threshold is reached. It is projected to have a substantial effect in reducing pensioner poverty from 11 to 6 per cent at the 60 per cent of household income standard (Clark, 2002, p.16). The numbers receiving the minimum will tend to rise over time, if the government’s commitment is to uprate it at least in line with average earnings, while first-tier pensions are uprated with prices, so the gap between the two grows wider, further damaging the attractiveness of private or SSPs (Clark 2002, table 1, pp.16-17). Official projections indicate an expansion of entitlement to assistance pensions from about half of today’s pensioners to about two-thirds by 2040, while IFS modelling indicates growth to four-fifths (DWP, 2002b; Clark and Emerson, 2002).
This brief review indicates a dilemma between the policy goals of an expanded role for the private sector and the guarantee of adequate pensions for all, within the existing framework of provision: insufficient resources are being invested in non-state pensions by employers or individuals to ensure that the pressures on the new, more generous, state scheme do not continue to rise substantially, leading to an increase rather than a reduction in the proportion of pension support coming from government.

The official response has been to establish a series of reviews (Sandler, 2002; Pickering, 2002 and now Turner, due to report in 2005) and to issue a Green Paper (DWP, 2003) which simply seeks to promote best practice. The future of pensions has been extensively discussed by a large number of agencies – DWP, 2002a; House of Commons Social Security Committee (2002) and in various documents by NAPF; ABI and the TUC. It should be pointed out that the current government is constrained in its choice of policy options by its commitment to a particular political philosophy that links a high degree of market freedom to centre-left social objectives (Blair, 1998). Thus it finds difficulties in pursuing the solutions adopted in other major EU partners, that make contributions at specified levels by individuals and employers to state, non-governmental non-profit or private for-profit schemes in some combination compulsory. Such solutions also involve relatively higher levels of contribution, likely to be construed by voters as taxes or quasi-taxes and to prove electorally unpopular in the UK context (Hedges, 2003, p.4, Hedges and Bromley, 2000, p.47; Taylor-Gooby, 2003, pp.83-5). At the same time, adequate pensions for all are a clear policy commitment.

One outcome is that any resolution of the problem of providing adequate pensions must rely to some extent on public trust at two levels:

- Trust in the viability of non-state schemes, so that individuals will be willing to invest in them at a level that will provide the majority of pension finance;

- Trust in state sector provision, so that individuals will be willing to support taxes that sustain such schemes at an adequate level, even when most people expect to rely on non-state schemes.

In this study we explored public expectations of pension provision in the state and non-state sectors, focusing particularly on issues of trust.

Trust is understood in a number of ways. Our interest is in trust in social institutions as a cluster of positive attitudes and beliefs that encourages reliance on them and support for
Ideas about Trust

them, in short the view that they work and serve individuals’ interests. For reliance on a social institution, such as a pension scheme, to have a point, there must also be an element of risk or vulnerability. If misplaced trust is costless, there is no work for trust in the institution to do – one might just as well use it as not, and there is no need for any specific encouragement through trust (see Poortinga and Pidgeon, 2004, p.3). The idea of support for risk-taking enters into most discussions of institutional trust and is particularly relevant to contracts and to long-term investment.

There is an extensive, expanding and diverse literature on trust. Two general points emerge:

- First commentators from a range of disciplines appear to be in broad agreement that trust in a whole range of social institutions is in decline (for reviews by academic psychologists, see Slovic (2000, pp.xxxiv-v), Pidgeon et al 2003, p.32, and Eiser et al (2002); by political scientists, see Putnam, (2000), Norris (1999); by sociologists, see; Gambetta (1998), Coleman (1986); for inter-disciplinary reviews, see O’Neill (2002), Fukuyama (1996); for social policy experts, see Le Grand (2003, p. 29). Further reviews have been commissioned by the Health and Safety Executive (Weyman and Kelly, 1999, pp. 30-5, and by the Royal Society (Pidgeon et al, 1992).

- The second point concerns explanation of the decline in institutional trust. Commentators may be divided into two broad groups. One sees general social processes, affecting all individuals, as responsible. For example, a common argument draws on Durkheim’s classic discussion of the social division of labour, and suggests that, in general, growing complexity in society places increasingly pressure on social co-ordination mechanisms, and trust is one of these (Cook, 2001). A variant stresses the problems of political co-ordination in a more inter-connected world, in which the authority of nation states is declining (Scharpf, 1994). The second group of commentators identifies processes which impact on some groups more powerfully or in different ways to others. Of importance here is the claim that more rapid communication, higher levels of education and more awareness of opportunities in life lead better educated, more middle-class groups to develop much greater confidence in their own ability to make successful choices at the same time as they gain access to a greater range of information, much of it critical of existing institutions (for example, Giddens, 1994). This leads to a social division in trust in social institutions, the more confident tending to have lower trust.
The relevance of these arguments to trust in state and non-state pensions is twofold:

- On the one hand trust in such provision may be in decline, but this may be part of a secular trend to reducing trust, so that restoration to the levels of earlier periods may be difficult. However, declining trust may be something that other institutions, from the monarchy to the media, and including forms of investment alternative to pensions, may also face;

- It is unclear whether declining trust is something which affects all social groups equally or is particularly concentrated among better educated and more middle class people. This is relevant to a pensions system which aims to provide different kinds of pension for different social groups.
The study uses two main sources of information: a series of questions on trust in state and private provision in the 2002 British Social Attitudes (BSA) survey commissioned by the writer as part of an Economic and Social Research Council-financed study (Public Policy: Knowledge, Expectations and Attitudes, ref R000239199, Taylor-Gooby, 2003), and a specially commissioned 2004 focus group study on attitudes, expectations and ideas about pensions in the context of how people plan for the future.

The BSA material provides data from a representative national sample in a high-quality survey carried out by a reputable company (see Park et al, 2003, Appendix 1, for further details). The disadvantage is the restricted number of questions and the formal structuring of the questionnaire, which limits investigation of the role played by pensions in an individual's framework of ideas. Focus groups are an efficient method of exploring the variety of attitudes, beliefs and feelings about a topic and the arguments used to justify them. They are particularly useful in charting the extent of agreement or diversity and in understanding the structure of participants’ ideas about a topic, but typically make no claim to statistical representativeness (Gibbs, 1997). The focus group discussions carried out as part of this study provide contrasts between middle and working class groups and men and women in two locations in southern England.
The 2002 British Social Attitudes Survey included a series of questions designed to explore the extent of trust in major public and private services and provide a baseline for future time-series analysis. These questions implicitly define trust in terms of the ability to ‘spend taxpayers' money’ (or service consumers' in the case of non-state services) wisely in the interests of service users. In other words, trust in the effective performance of the system from the user’s point of view.

The answers (Table 1) show that relatively few people trust state services and private alternatives in hospitals, schools and pensions ‘a great deal’, although substantially more trust them ‘quite a bit’. Government and local councils, followed by the police, score even lower. In the three individual provision areas of public service, it is clear that pensions score lowest, followed by hospitals and schools. Pensions are a relatively low-trust area, and state pensions are slightly more mistrusted than are private ones.

Table 1:
Do you trust government [and the specified services] to spend taxpayers'/service consumers' money wisely in the interests of service users?

<table>
<thead>
<tr>
<th>Service</th>
<th>A great deal %</th>
<th>Quite a bit %</th>
<th>Sample size</th>
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<tr>
<td>Government</td>
<td>9</td>
<td>26</td>
<td>2663</td>
</tr>
<tr>
<td>Local council</td>
<td>9</td>
<td>32</td>
<td>2698</td>
</tr>
<tr>
<td>Police</td>
<td>10</td>
<td>46</td>
<td>2600</td>
</tr>
<tr>
<td>State pension</td>
<td>11</td>
<td>39</td>
<td>2572</td>
</tr>
<tr>
<td>Private pension</td>
<td>12</td>
<td>44</td>
<td>2550</td>
</tr>
<tr>
<td>NHS hospital</td>
<td>12</td>
<td>47</td>
<td>2688</td>
</tr>
<tr>
<td>Private hospital</td>
<td>16</td>
<td>49</td>
<td>2466</td>
</tr>
<tr>
<td>State school</td>
<td>16</td>
<td>54</td>
<td>2611</td>
</tr>
<tr>
<td>Fee-paying school</td>
<td>22</td>
<td>57</td>
<td>2384</td>
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Further analysis concentrated on those who expressed ‘a great deal’ of trust in state or non-state pensions, for three reasons: answers expressed with this degree of
The BSA Findings:
Trust in State and Non-state Services

confidence are unlikely to be contaminated by ‘affirmation bias’ – the general tendency of interviewees who do not hold strong views to express mild agreement with the general direction of the question out of politeness; secondly, the group who feel high levels of trust are most likely to act in on it; and thirdly, focus on strong views is likely to bring out differences between social groups.

Table 2 shows that trust is relatively higher among working class people, those with low levels of education, older people and Labour voters (roughly by a factor of three compared with the converse groups), and that these groups are also slightly more likely to trust state rather than non-state provision. However differences in trust between the two modes are not significant for any of the groups examined.

Table 2: Social and demographic characteristics of those expressing high levels of trust in state and non-state pensions

<table>
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<th></th>
<th>Private pensions %</th>
<th>State pensions %</th>
<th>Sample size</th>
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<tr>
<td>Professional/Managerial</td>
<td>7.5</td>
<td>5.5</td>
<td>894</td>
</tr>
<tr>
<td>Working class</td>
<td>16.5</td>
<td>17.2</td>
<td>771</td>
</tr>
<tr>
<td>Degree-level education</td>
<td>6.8</td>
<td>4.4</td>
<td>428</td>
</tr>
<tr>
<td>No education qualifications</td>
<td>19.8</td>
<td>22.3</td>
<td>570</td>
</tr>
<tr>
<td>55 or over</td>
<td>15.1</td>
<td>16.7</td>
<td>819</td>
</tr>
<tr>
<td>35 or younger</td>
<td>9.9</td>
<td>6.3</td>
<td>665</td>
</tr>
<tr>
<td>Woman</td>
<td>11.2</td>
<td>10.6</td>
<td>1360</td>
</tr>
<tr>
<td>Man</td>
<td>11.8</td>
<td>11.3</td>
<td>1191</td>
</tr>
<tr>
<td>Conservative</td>
<td>9.9</td>
<td>7.7</td>
<td>624</td>
</tr>
<tr>
<td>Labour</td>
<td>12.5</td>
<td>14.0</td>
<td>1134</td>
</tr>
</tbody>
</table>

The survey data is inconclusive, but points towards the view that strong trust in all institutional and official provision is relatively low, and that lower trust is most marked among better educated, younger, more middle-class people, who may well be more
confident in their own capacity to make judgements. These data are consonant with the argument reviewed above, that trust in institutional provision of all kinds is in decline (although support is limited by the fact that there is no earlier bench-mark with which to compare current attitudes). They also fit the view that those who are most likely to feel confident in their own judgements and to have better access to information and comment are most likely to mistrust what is offered to them. The social divisions extend to views on state and private provision, with the groups who have higher levels of trust slightly more likely to support the state sector.

The focus groups provided more detailed data on the nature of uncertainty and the factors underlying trust and mistrust among various groups. We now turn to them, to examine pension misgivings in more detail.
In the focus groups we raised a range of topics concerned with knowledge, expectations and attitudes to pensions and to future risks more generally. The facilitator remarked the readiness of the groups to talk about pensions as an indication of their concern about and interest in the issue, something that had not been anticipated in planning the research. The important issues in the discussions may be summarised in terms of three themes which emerged repeatedly: uncertainty about the future, mistrust of pensions (both state and non-state) and social divisions in attitudes and plans.

Uncertainty and the Future of Pensions

Across the groups, many of those participating in the discussions expressed vague future expectations, both positive and negative, relatively limited knowledge and uncertainty about where reliable sources of advice could be found for financial planning. Divisions in the responses to future uncertainty between middle class and working class groups were evident. The former tended to think in terms of approaches which would enable them to expect some control over savings. The working class discussants were much less likely to envisage the possibility of establishing such control. Many participants felt unable to plan confidently for their income in retirement in the context of the unpredicted shifts they experienced or witnessed during the course of their lives:

‘My whole situation changed, my mum and dad they saved all their life for retirement and then they retire and a year into retirement…..her husband died, she’s left with all this money, her house deteriorated, she’s never going to spend it before she dies.’

(BC1, Women)

‘And, who knows, in twenty years time that some terrible fatal disease might not overtake more of us than AIDS did. Life is so frigging utterly unpredictable so what is the point in worrying about whether you’re going to have you know, like £500 in your account.’

(BC1, Women)

‘Also I think, well for me anyway in the last few years, everything’s changed so many times that to ask somebody to say what’s going to happen in twenty-five years time which is probably you know where I am, sixty-five, my son and my daughter will be forty, how on earth will they predict changes that are going to happen in their lives you
know, whether property’s going to crash or rise you know two or three times, stock markets, war you know, we might run out of oil, who knows, so it’s a very difficult thing to sit down and go: “Right, in twenty-five years time…”.’

(BC1, Men)

‘Life changes your plans, plans you make, financial, by nature you can’t keep to those plans, loads of different things.’

(C2D, Men)

‘Also a lot of times you think of how many people take out pensions when they are single and all of a sudden their circumstances change along the way, jobs change, pay changes, family, everything, other things take priority financially and you can’t maybe afford to pay the particular policy that you were paying for in the first place.’

(C2D, Men)

These concerns were expressed in the context of generalised assumptions about flexibility and uncertainty in the course of working life. Fear of redundancy was mentioned a number of times by the working class participants, who typically had little in the way of financial reserves:

‘And all it needs is for the economy to go to, to change again and then you end up with people losing their jobs you know and all the rest of it, everything all crashes, the housing crashes and everything else, it’s all right when you’re earning money and you haven’t got nothing to pay for, but you suddenly find you’re trying to live the life you were living and still got the same amount of debts and expenses to pay out and you know just because of the economic climate you end up doing a totally different job and things happen, so you don’t know what’s round the corner.’

(C2D, Men)

‘I mean the jobs like now, you don’t know what’s round the corner now do you, I mean jobs you’re working, you don’t know if you’re getting made redundant or you know.’

(C2D, Men)
The generalised uncertainty was reflected in views on pensions. For some working class participants, occupational pensions were seen as fitting an outdated industrial work-pattern:

‘I mean years ago when you got a job, I mean my parents, he was at Vauxhall you know and you know, you would guarantee that you would get your job for life but you know you were guaranteed that job for life, you’d pay into your pension. The thing is nowadays there is no job for life.’

(C2D, Women)

Some middle class participants expressed confidence that they would be in a position to reduce uncertainties by enforcing what they saw as their pension rights. For such group-members, control of savings was seen as important, whereas the working class group tended to have very little in the way of savings and limited expectations of control:

‘I’m happy that the company’s large enough and it’s got enough, well investment, it’s got enough so I can sue the arms off of it if they don’t pay me so because it’s mandatory and it’s in my contract that you will get this amount of money, then I know I can sue them for it if they don’t pay me.

(BC1, Men)

‘It’s control really, I mean personally if I’m not in control then it’s very difficult to trust, I got a phone call from the American guys and the Spanish people telling me to invest in the Euro and they were getting so much and opened a Swiss Bank account. I said, “OK how do I?”’, they said, “You come through us”, and I said, “Then it’s not my account then, is it?”.’

(BC1, Men)

‘It’s really track record isn’t it, I mean if the track record of all these companies had been good and sound then we would be investing in it, we’d be taking our pensions out but because of all the hiccups along the way through our lifetime we’re saying hey, that’s not such a good idea basically, I go on track record and I suppose I have to feel confident and my confidence is not there.’

(BC1, Men)
Some of the working class participants were conscious that they had very little knowledge or understanding about pensions, and had clearly given such matters little, if any, thought.

‘I don’t know anything about this to be honest, I don’t know how much, you see I don’t know how much you get, I don’t know how much you have to pay out.’

(C2D, Women)

Few participants felt that there was any outside person or organisation on whom they would rely for advice concerning pensions and investment. Middle class members of the groups tended to feel that they were able to manage the problem of gaining adequate information and could rely on such sources as the financial press:

‘I trust my instincts, that’s what I trust.’

(BC1, Women)

‘Yes if you read a lot of papers and you read a lot and you just pick something, you can get a thread can’t you.’

(BC1, Women)

‘I’m at that stage where I want to learn more, I want to do something and I don’t know where to go, I don’t know who to trust.’

(C2D, Women)

‘I did tend to read the cash pages in the Sunday papers just to keep my eye on what’s going on so yes but I probably couldn’t lecture anybody else about it, but I know basically.’

(C2D, Women)
A few had used a financial adviser they trusted because a friend or family member had provided a personal recommendation, but in general most people had no idea how to find a reliable adviser. There was strong awareness that advice might be vitiated by a conflict of interest:

‘Well again probably somebody, somebody personal because like you were just saying if you look to a financial advisor or somebody who works for a company you are concerned that they’re trying to sell you something and it might not actually be really what’s best for you, it’s just that they have a particular commission they need to make and they need to push you in that direction.’

(BC1, Women)

Thus, future prospects were generally seen as uncertain, with middle class participants particularly concerned to find ways to establish control over their savings.

State and Private Pensions: Trust, Adequacy and Security

There was little confidence that state pensions would provide adequate standards of living in the future. None of the middle class participants felt that the state pension would provide them with sufficient to live on at an acceptable level, and that they therefore needed to make alternative investments:

‘Well I always regard the state pension as I’d use for the future but I’ve always thought of it as not effective in sustaining a level of living, just as sort of extra money, you couldn’t possibly deem to live on it.’

(BC1, Men)

‘Well I think in my case I was living abroad for so many years and I’m finding it quite a struggle in England and also I have to rely on the state pension and I’m worrying because the state pension’s not going to be much.’

(BC1, Women)
While the view that state pensions would be inadequate was widespread, most respondents believed that the government would provide very basic support. This view was stressed most strongly by working class discussants and was an important element in the assumptions about planning for the future:

‘I can’t see that they can all of a sudden just remove income support and that safety, they can’t because there are so many, I mean when people are old and vulnerable they can’t all of a sudden say right, we’re not going to pay income support any more, you’re not going to get it, because they’d all be dying wouldn’t they you know, people would be dying of starvation and hypothermia so there’s no way they can just go right, that’s it, there’s no more state.’

(BC1, Women)

‘At the end of the day they’re now saying the government, the state pension is only supposed to be a safety net for those that are most in need. That wasn’t what it was supposed to be was it.’

(C2D, Women)

This led to an ambivalence in trust. A number of the working class discussants, particularly women, felt that they would have trust in the state to provide for them in the future, if only because they could see no other form of provision and believed they would not be allowed to starve. Trust in this sense is linked to lack of alternatives, and is analogous to Hirschman’s conception of ‘loyalty’ (1970);

Facilitator: You do have confidence in the government to carry on providing?

Participant: I don’t think they’ll have any choice.

F: Right.

P: I don’t think they’ll want to, but I don’t think they’ll have any choice, there will always be an old age pension of some form in this country.

F: And do you think it will be adequate to live on?

P: Mind you the cost of living rises far quicker than any pension increases.

P: I don’t think it will be.
This conception existed alongside widespread mistrust of the state. A number of those in the working class groups felt that they would need to keep working indefinitely, as they did not believe the state pension would allow them a tolerable standard of living:

‘Government pensions are rubbish.’

(C2D, Women)

‘My dad is seventy-two and he has worked all his life, I mean he has worked all his life, he’s still working now because he can’t live on his pension. I think now, now it’s becoming more of a problem I mean you know ten years ago the pension system wasn’t as bad, people are living longer I mean you know when the pension was first sort of designed, people didn’t live that long but now people are living longer so it is, it has hit the problems that we’ve got now.’

(C2D, Women)

‘For our generation I don’t think we can rely on, I think by the time we get there it will be mean-tested’

(C2D, Women)

There was a widespread feeling across all the groups that the government’s record on keeping its pension promises was such that they would not trust anything the government said about pension provision in the future. The present Labour government was particularly poorly valued, especially by the middle class participants, but it seemed likely that similar comments would apply to any party of government:

‘I don’t think you can rely on the government, the government track record is: “Let’s take money from you”, and, “Oh sorry, you’re high and dry”, certainly that’s the way my parents feel being pensioners at the moment, there is no reason to assume that past performance isn’t going to continue and the only person I can think of to rely on about my future is me.’

(BC1, Men)
'But I think there’s been so much happen with the government in the last couple of years you can’t trust them as far as you can throw them.’

(C2D, Women)

‘But the government are so corrupt they tell you what they want you to know.’

(BC1, Women)

Despite the lack of trust in the government as a pension provider, there was even less trust on the whole in private pension providers, especially among the working class groups. Insurance companies were viewed as the obvious private pension providers, but there was little faith in them.

‘All the insurance companies, they’re corrupt.’

(BC1, Women)

‘I mean the government ain’t in it for the money as much as the private pension is.’

(C2D, Women)

‘They’re all commission based and they’re all attached to products, they’re going to promise you anything to sign that piece of paper.’

(C2D, Women)

‘I think it depends who it is, if you’re talking about a private pension you’re buying from an insurance company then it probably wouldn’t be great, I wouldn’t have much faith in it but I think if it was through a big employer that you’re working for, I would, I would have faith in them.’

(C2D, Women)

‘At the end of the day they’re just insurance companies and any insurance company that insures your car and insures your house and insures your life and insures your pension and insures you know, virtually everything you can think of, buy a bit of jewellery and you’ve got to, they want you to have insurance on that, I mean insurance companies make money out of people big time.’

(C2D, Men)
‘I suppose the Maxwell thing kind of got me thinking you know, you get some tycoon who could quite easy run off with all your pension savings or what have you, it’s a possibility, it’s at the back of my mind sometimes but whether that will happen to me I don’t know.’

(C2D, Men)

Some middle-class group members pointed out that private pension providers also faced the same problems of financial instability that made planning difficult for individuals and corporate bodies:

‘They don’t have control of the markets, do they, and I think that’s what everybody realises, it’s not so much their glossy product turns up on your desk and it’s nicely laid out and you can really trust, the man on the front’s smiling and holding his hand out to shake your hand, it doesn’t matter you know, the American economy goes tits up because the Arabs put up the price of oil per barrel, that’s it, bang goes any pension and I think people are very, very aware of that, they’re far more educated about this sort of thing than they were say in the ‘80s when I first came across things like endowments and pensions’

(BC1, Men)

Even those with occupational pensions did not entirely trust the providers. The strongest confidence was in large public companies which were seen to have an interest in maintaining their reputation, or in public sector employers:

‘I have a company pension, I don’t have an awful lot of faith in it, I don’t know why I’ve still got it really but I just thought it was a good idea when I thought I should be doing something.’

(BC1, Women)

‘I mean big companies like Marks and Spencer I’m sure they you know, they’ve got people that know what they’re talking about but I worked for a private firm, a company, it was only a small one and they didn’t even offer a pension.’

(BC1, Women)
The Focus Groups: Uncertainty, Mistrust and Social Divisions

‘I worked for the NHS and the NHS have a really good pension fund so when I left the NHS that’s all frozen so I’ve got a little lump sum, don’t know what I’m going to do with it.’

(C2D, Women)

‘But my parents are both teachers as well and they’ve done quite well by all accounts but I was always told that the teacher pension was good and I never really questioned that too much and then sitting here listening it seems, well as I say I’ve been told it’s a good one.’

(BC1, Men)

Many participants, particularly working class participants, simply did not know who they could trust for pension provision. So many things had happened in recent years that even their faith in large organisations had been eroded.

‘I suppose the larger the organisation, you would hope that you would get the backup at the end of the day of whatever they say, because it’s a large organisation they could financially support themselves but as you’ve seen over the years with banks and other bits and pieces, things happen and the big ones do fall, so…’

(C2D, Men)

In general, trust in most forms of pension provision was low.

Social Divisions in Managing Mistrust

The evidence of the focus groups and the analysis of the BSA data agree in indicating widespread mistrust of state and private pension providers and concern about the future. The focus group discussions also indicated some divisions in the way different social groups responded to a common lack of confidence in pension institutions. Working class people tended to arrive at a position of trust in the state, simply because they lacked a viable alternative. For middle-class people, the issue was more of how to plan and manage savings in such a way as to provide an adequate retirement income, given that current forms of pension provision were seen as unsatisfactory. Here, the
question of how far they felt able to control investments was important. A shared perception of limited confidence led to rather different responses in different social groups, and to concentration on rather different time horizons.

Many of the working class participants, and particularly women, felt that the everyday demands, particularly from children, consumed all disposable income. Given what they saw as low incomes, their concern was with feeding and clothing their families and they simply had no available money to invest in a pension or anything else for the longer term:

‘As long as there’s enough money in my purse to go shopping with, that’s all I worry about, I don’t worry about tomorrow, if it’s going to go, spend it first.’

(C2D, Women)

‘No, when I was married obviously we had pensions but obviously he went and so did the pensions and you bring up kids on your own and they’re growing, you just don’t worry about things like that.’

(C2D, Women)

‘I’m not going to write myself off, I wouldn’t do that but it’s the fact is that, you know, I know I’ve got ten years more with children you know, supporting children. You know, quite honestly that’s more important, I’d rather support my children than me old age.’

(C2D, Women)

‘It’ll be all right if I earned like forty grand so I’ve got to re-educate, I’m going to be going down the same lines as you, re-educate myself eventually when my kids are a bit older, and then I’ll start thinking about pensions’

(C2D, Women)

‘My situation is I have a big family and I have to, it’s pension or food on the table.’

(C2D, Men)
This was particularly evident among women. The working class women pointed out that women tended to have a number of changes in jobs and careers because they tend to stop work or work part-time when they have families (see Daly, 2001, for European data on the impact of child-care on women’s patterns of paid working, and the particularly high rate of part-time employment among mothers in the UK). This means that it is more difficult for them to accrue any satisfactory sort of pension.

‘And also we swap our jobs, I think as women we tend to swap jobs. I had a good pension back at the airport when I was working there but that was before I had the kids and then it all gets put on hold and then and I remember opting out of SERPS, but to be honest I can’t even remember the ins and outs of that.’

(C2D, Women)

These perceptions led to what might be seen as ‘Hobson’s choice’ loyalty or ‘hopeful trust’ in the state. This came out most strongly in the discussion of the group of working-class women, where there was a clear ambivalence between an assumption that government would ultimately provide, and concern about the adequacy of provision:

**Facilitator:** What I really wanted to ask about was going back to trust, I mean do you trust government in terms of pensions?

**Participant:** Yes.

**P:** I do.

**P:** Yes.

**P:** I don’t trust the government at all.

**P:** I’m at that stage where I want to learn more, I want to do something and I don’t know where to go, I don’t know who to trust.

**Facilitator:** Right.

**P:** I would trust the government more than anybody else.

**P:** Hmm mmm, yeah but it’s also like you can go to an independent financial advisor, it’s everything, I just think well I suppose it’s me, I feel I’ve been wronged anyway and I want to make sure I do the right thing and I’m, but I’m just like, oh I can’t be bothered thinking about it now.
**The Focus Groups: Uncertainty, Mistrust and Social Divisions**

**Facilitator**: So who doesn’t trust the government because a lot of you said yes.

**P**: It’s hope, we hope and rely on the government, it’s not a case we actually trust the government.

**P**: But at the end of the day there’ll always be a government won’t there.

**P**: There will always be a government so you’ll always have someone

Among middle class groups the state pension was seen as relatively unimportant and confidence in private pensions was relatively low. This led to a diversified approach to investment for old age, in which property played an important role, together with the establishing of small businesses:

‘I think it’s very difficult to plan at all because everybody thought endowments were safe (hurrah I’ve got one of those as well), then property was fine and then that crashed and it’s so difficult to know what you’re going to do… my plans have spread to so many things and so many different pies, investment’s going to go down, and property’s going to do something soon, it’s got to especially down here, it’s ridiculous actually.’

(BC1, Men)

A few middle class participants had invested in ISAs, but these were clearly not an important part of their investment portfolio. Again, control was important as indicated earlier in the section on uncertainty:

‘I think I’d be happy investing in companies rather than the stock market as a whole so then at least you’re in control, you can go “Right, I’m pretty sure that that company’s going to do well”, and it’s not going with a stock broker, not going with them because then you’ve got your control back and if it goes wrong it’s your fault, but I think at the moment there is very little gain compared to the risk of putting in.’

(BC1, Men)
Home-ownership was regarded as an important source of security, particularly among the middle class participants:

‘But surely today I mean the majority of people own their own houses now, that’s sort of happened more as I say we have more finances around us, more comfort compared perhaps to our grandparents day you know or whatever, … If things go wrong we can sell the house and do whatever, we can rent for the rest of our lives if we have a lump sum behind us you know so there is that comfort, we do have something behind.’

(BC1, Men)

‘Maybe I’m a bit frivolous I mean I’m tending to enjoy myself now and think about my retirement when it happens, which may be foolish or whatever but I’m still relying very heavily on my property, you know, so it’s that scenario.’

(BC1, Men)

Property ownership was also important in relation to a minority of the working class participants:

‘I own half a house and I hope that when I retire, if I’ve got nothing else, at least I’ve got the benefit of knowing that I’ve got income in the house which is called equity in the house.’

(C2D, Men)

Confidence in property as a suitable area of investment to help deal with an uncertain future was also strong among the middle class group:

‘Well I mean I, there’s been so much bad press about pensions and I personally am thinking I’m going to buy another property instead and rent it out. At the moment I’m seeing a financial advisor about that, I’m going to probably buy another property, rent it out and keep it and then when I’m older sell it.’

(BC1, Women)
‘So I bought it [a flat] five years ago, I’ve been renting it so I’ve been renting it out, already it’s doubled, well over doubled in value.’

(BC1, Women)

‘I don’t have a pension because I’ve gone in for the more investment property thing, we’re thinking about buying more property abroad because it seems the way forward, pensions never really appeal to me, especially after the collapses now.’

(BC1, Men)

In general, the clearest division to emerge lies between those (mainly middle-class people) who feel able to manage their savings in ways that would give them a measure of control, those, mainly from the working class, and especially women, who were only able to manage their uncertainty through a kind of hopeful but limited trust that government would provide for their basic needs.
Both quantitative and qualitative studies indicate widespread mistrust of state and private pensions, based on perceptions of broken promises by government and scandals in the private sector. Trust in pensions, as investments specifically designed for the longer term, is particularly vulnerable to an increase in generalised uncertainty about the future. However, the response of different groups differs. Essentially, working class groups are more likely to end up feeling a sort of dull, compulsory trust for state provision, because they see no alternative, while middle class groups are more likely to pursue alternative savings and investments in order to meet their needs. Issues of control are important here, and one aspect is the extent to which those who can afford to do so feel confident that they have greater control over investments like buy-to-rent flats, compared with pension funds. Whether the middle class people interviewed will in practice secure adequate provision in old age through such means is unclear.

This review of attitudes and responses to pensions leads to a number of points. At the theoretical level, the interpretations of declining trust reviewed earlier that suggested differences between social groups are supported. Social group differences seem to extend beyond the experience of trust to ways of managing the uncertainties that result from declining trust. To put it crudely, middle class, better-educated, more confident people tend to pursue alternative investment strategies, while working class people pursue a reluctant loyalty to the state, because they believe that no alternative is available to them. Women are particularly affected by the impact of family responsibilities on the continuity of their working lives. Pension expectations are socially divided. This points to continuing and different roles for government policy in relation to pension provision for different social groups.

At the practical policy level, the study supports three points:

- Trust in social institutions has declined and trust in pensions is particularly low. The BSA findings show that trust in both state and private pensions is lower than in other areas where there are substantial state and non-state alternatives, such as medical care and education. The focus group interviews show how trust has been damaged by the poor public image of some companies, the widespread coverage of incidents such as the Maxwell scandal and ‘mis-selling’ in the early 1990s, and perceptions of weak regulation. Trust in pensions also suffers as a result of the high levels of uncertainty about the medium and long-term future and the current buoyancy of alternatives such as buy-to-let.
Current developments in regulation for non-state pensions and the introduction of new SSPs and PCs in the state sector to improve trust in pensions have not yet improved the level of trust and are likely to take some time to do so.

In the context of declining trust, different approaches are relevant to the expectations of different groups. Middle class people in general wish to feel a high degree of control over investments, and to be confident that they understand why and how the investment is secure and offers good returns. This suggests that more flexible and transparent pension contracts may be more attractive. Tax regime, the availability of employer’s contributions and evidence that regulation is effective are also relevant.

Trust in pensions is low. A higher degree of flexibility and individual control over the investment may improve the confidence of middle class people in private pensions; state pensions are likely to play a continuing significant role for those on lower incomes, unless this group can be convinced that pension investment is affordable and worthwhile for people under their circumstances.
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