

Personal Accounts: charging structure research

November 2008

1. Summary

- AEGON is concerned that there has been a presumption that a dual charge structure will deter people from remaining in personal accounts because it is complex. AEGON undertook this research to investigate the validity of this presumption by testing how consumers react to both a single and a dual charging structure.
- AEGON believes that a dual charging structure, consisting of a contribution charge and a fund-related charge, is fairer in the long run for different groups of customers and is a significantly more sustainable method of charging for personal accounts, requiring far less upfront capital.
- The research aimed to establish the effects of different charging structures on the decision to opt out or remain automatically enrolled.
- 703 respondents were given information about personal accounts as if they were about to be auto-enrolled into the scheme. All respondents were shown a one page information leaflet explaining the details of the scheme. The leaflets shown were identical except for the charging structures. Half the respondents were shown a leaflet in which the charging structure was in the form of a single annual management charge. The other half were shown a leaflet showing a dual charging structure with a monthly contribution charge and a (lower) annual management charge.
- Respondents were asked if, given the information supplied, they would be likely to remain enrolled in the scheme, or if they would opt out.

The main points

- Overall, 37% of respondents believed they would be quite or very likely to remain in the scheme, with 26% quite or very likely to opt out. Looking at the target market of those who are not already in a pension scheme, there was no difference in the number likely to opt out between those shown the single charging structure and those shown the dual structure.
- Only 6% of those who opted out did so because they didn't like the charging structure (as opposed to the level of charges). Slightly more people who were shown the single charging structure chose to opt out for this reason, although we do not believe the difference is statistically significant.
- These findings support AEGON's belief that a dual charging structure is not a disincentive to participating in personal accounts.



2. Why did we do this research?

- AEGON strongly supports the underlying objectives and principles of pension reform to ensure more people in the UK save more money to support their income in retirement.
- We have actively engaged in the debate around the development of personal accounts, of which the charging structure is a key issue. We have formally responded¹ to the Personal Accounts Delivery Authority's consultation on charging structures.
- We believe the selection of the 'right' charging structure is of huge significance, not just to the development and ongoing success of personal accounts, but also to the rest of the pensions (and savings) landscape, as together with the level(s) of charge, it will inevitably become a comparator for other product charging structures.
- Although some research exists into the likelihood of people remaining in personal accounts, we wanted to focus specifically on the effect of the charging structures, and in particular whether either a dual or single charging structure is intrinsically offputting.

3. The research

Timing and methodology

- The research was carried out by research agency BMRB between 9th and 15th October 2008, in the form of computed-aided personal interviews (CAPI)², supported by the use of printed information material.

Sample

- The sample was 703 adults aged 20-65.
- Those who were already retired were excluded from the research, resulting in a base of 634 respondents.
- To ensure that the views of all those who might encounter personal accounts were considered, all others, including the unemployed, self-employed and those voluntarily out of the workforce, were included.
- The target market for personal accounts includes those who are likely to move in and out of work, and in and out of the reach of workplace schemes, and therefore we believed it was particularly important to include those who are not currently in the workforce but might be in future.

¹ <http://www.padeliveryauthority.org.uk/files/responses/AEGONResponse.pdf>

² CAPI is used when administering a questionnaire face-to-face; the interviewer reads questions from the screen (which the respondent cannot see) and responses are typed in to designated fields.



Information

- Respondents were shown a single page showcard explaining the basics of personal accounts. Half the respondents were shown a document with a single annual charge of 0.5%. The other half were shown a contribution charge of 5% of contributions and an annual charge of 0.3%. The documents were otherwise identical.
- We deliberately avoided asking individuals to make comparisons between structures because, in practice, this is not what will happen on joining personal accounts.
- The objective of the research was to investigate reaction to the different charge shapes. The levels of charges used are those considered in the PPI's research 'Charging structures for Personal Accounts'³. AEGON is not suggesting what an appropriate level might be. We believe the level can only be set once PADA has advanced its tender process for contracts.
- The design was deliberately aimed to mimic the type of literature AEGON believes could be used to communicate effectively with personal accounts customers in future. It drew on elements of the customer-facing literature used for PADA's research⁴ into charging structures, and was designed to be accessible and provide the key information in an easy to understand format, using graphics as well as text.

Response

- Respondents were asked, on a four point scale, how likely they would be to remain in the scheme.
- Those who said they were unlikely or very unlikely to remain in the scheme were asked why they would opt out. They were given a list of reasons to choose from, as well as the option of supplying their own.

4. Results

- Of the 634 respondents, 37% said they would be quite or very likely to remain in personal accounts. 26% said they would be quite or very likely to opt out.⁵
- Some of those who have chosen to opt out have done so because they are already in a scheme. These people are not in the target market for personal accounts.
- Removing them from the headline opt-out figures (in table 2) shows that amongst the target market there is no difference in the percentage who choose to opt out between those shown the dual charging structure and those shown the single structure.

³ ['Charging structures for Personal Accounts'](#), PPI, March 2007

⁴ [Personal accounts: Attitudes and reactions to possible charging structures](#): A qualitative research study carried out by BMRB and Henley Centre Headlight Vision on behalf of PADA, 2007

⁵ The remaining percentage either did not know, or did not believe the scheme would be applicable to them (eg would be a member of a company pension, would be retired by then, etc).

Table 1 - How likely or unlikely would you be to remain in the scheme?

	Total Single Charge	%	Total Dual Charge	%	Total	%
	Base: 323		Base: 311		Base: 634	
Very likely	53	16%	51	16%	104	16%
Quite likely	73	23%	58	19%	131	21%
Total likely to stay in	126	39%	109	35%	235	37%
Quite unlikely	29	9%	23	7%	52	8%
Very unlikely	53	17%	63	20%	116	18%
Total unlikely to stay in	82	25%	86	28%	168	26%
Not applicable	92	28%	91	30%	183	29%
Don't Know	23	7%	25	8%	48	8%

Table 2 - How likely or unlikely would you be to remain in the scheme (target market)?

	Total Single Charge	%	Total Dual Charge	%	Total	%
	Base		Base		Base	%
	318		297		615	
Total likely to stay in	126	40%	109	37%	235	40%
Total unlikely to stay in from target market	77	24%	72	24%	149	24%

Reasons given for opting out of personal account scheme:

- The top reason for opting out, for both charging structures, and in both cases by a large margin, was that the respondents preferred to make their own arrangements for retirement saving.
- The second most popular reason was that pensions are too risky (it should be noted here that the research was carried out during the most extreme period of recent market turbulence, and that this may have influenced answers to this question).
- Disliking the way charges are taken was the seventh most common reason for opting out, with a total of 6% of respondents choosing this reason. Although there was a slightly higher number of people choosing to opt out from those

shown the single charging structure, we would not consider this difference to be statistically significant.⁶

Table 3 – Top 10 reasons for opting out

Scenario	Total No: Single Charge		Total No: Dual Charge		Total	
	[Base 82]	%	[Base 86]	%	[Base 168]	%
I prefer to make my own arrangements for retirement saving	29	35%	33	38%	62	37%
Pensions are too risky	10	12%	7	8%	17	10%
I don't trust a scheme that's set up by the government	9	12%	7	8%	16	10%
I can't afford to save in a pension	7	9%	9	10%	16	10%
I am already in a scheme / have a pension already (no mention of good / better)	3	4%	9	10%	12	7%
Pensions aren't for people like me	8	10%	3	4%	11	7%
I don't like the charges being taken from me like that	8	10%	2	3%	10	6%
I don't really understand pensions	5	6%	2	3%	7	4%
I don't think it's worth saving in a pension	3	4%	4	5%	7	4%
I am in a better scheme / I have a good pension (already / now)	2	3%	5	6%	7	4%

5. Conclusions

- This research indicates that around 26% of people are likely to opt out of personal accounts. Ignoring those who are in a scheme and hence outside the target audience, the proportion falls to 24%. There is no difference in the levels of opt out between those shown single and dual charging structures.
- There is a range of reasons why they would choose to opt out. Clearly the most significant is that many will choose to make their own arrangements for retirement funding.

⁶ The difference is only significant at the 90% level. To be confident that the difference you see is not due to chance you would normally use a 95% level or higher.



- The shape of the charges is a relatively minor disincentive to remain in personal accounts. Amongst the few who would opt out because of the charging structure there is no clear preference for a one charging shape over the other.

AEGON
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Appendix 1 – Showcards

Quick intro to personal accounts [SINGLE CHARGE]



What's a personal account?

- The Government has made some changes to the way pension savings work. From 6th April 2012, if you're over 22 years old and earn more than £5,000 a year you'll automatically be enrolled into a pension scheme. That's unless you're already enrolled in one.

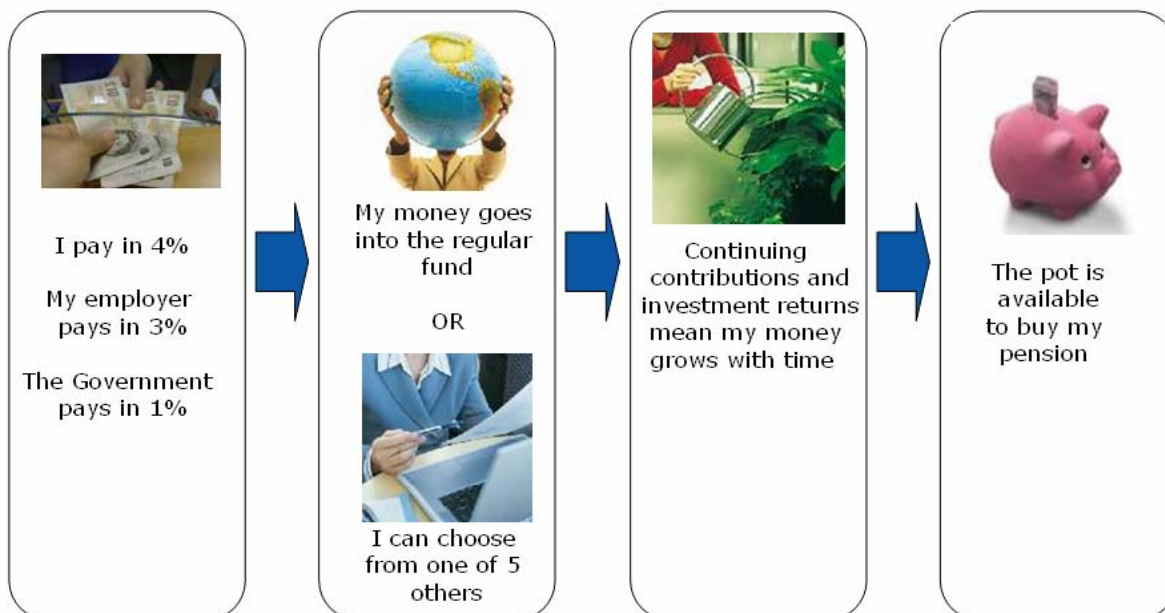
Personal accounts

- People whose employers don't provide a pension scheme are being automatically enrolled into a new national system for pension saving called personal accounts. Personal accounts will be in addition to the state pension.
- If you don't want to join the scheme you must take action to opt out.

Personal account contributions

- If you're enrolled into a personal account you'll contribute 4% of your earnings between £5,000 and £33,500. This will automatically come out of your pay.
- In addition, there's a minimum 3% contribution from your employer and the Government adds 1% in tax relief.
- The money saved in your personal account is invested to provide you with an income in retirement.

How personal accounts work



Running the scheme

- The personal account scheme is run by the Personal Accounts Board, an independent organisation operating on a not-for-profit basis and in the best interests of members.
- The cost of running the scheme is covered by charges paid by the members. You'll have 0.5% of the value of your pot automatically deducted every year to cover costs such as collecting contributions, sending out statements and managing the investments in your pension pot.

Quick intro to personal accounts [DUAL CHARGE]



What's a personal account?

- The Government has made some changes to the way pension savings work. From 6th April 2012, if you're over 22 years old and earn more than £5,000 a year you'll automatically be enrolled into a pension scheme. That's unless you're already enrolled in one.

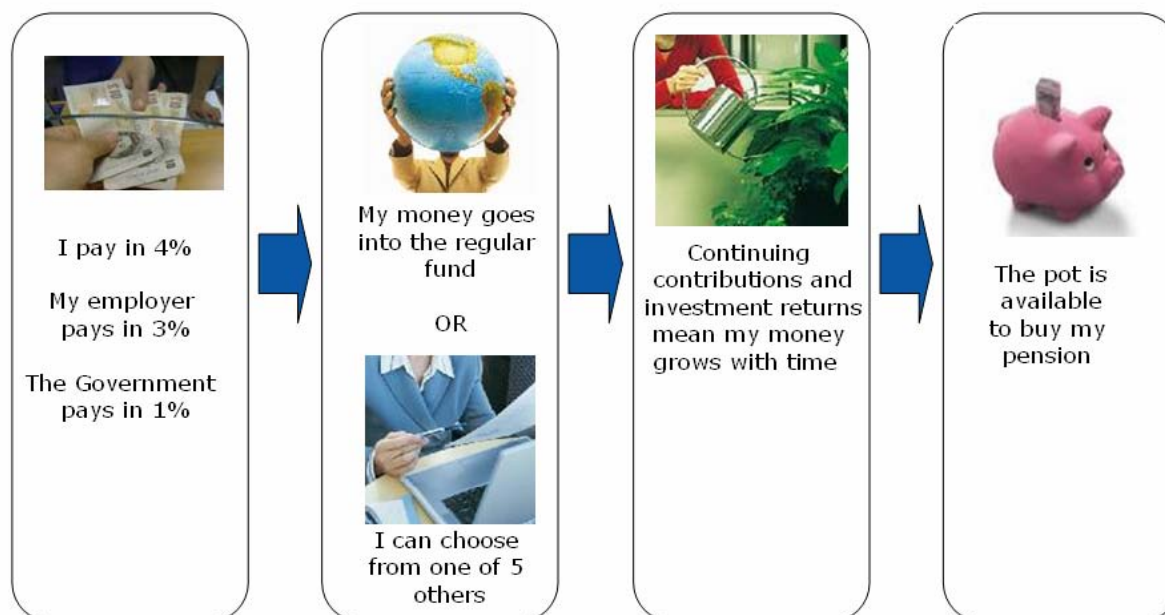
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- The money saved in your personal account is invested to provide you with an income in retirement.

How personal accounts work



Running the scheme

- The personal account scheme is run by the Personal Accounts Board, an independent organisation operating on a not-for-profit basis and in the best interests of members.
- The cost of running the scheme is covered by charges paid by the members. 5% of the total contributions each month will be deducted to cover admin (such as collecting payments and sending out statements), and 0.3% of your pot each year will pay for managing your investments.



Appendix 2 – Questionnaire

Personal Accounts Survey (9th - 15th October 2008)

1. Thinking about pensions which of the following applies to you....

I am/ my employer is paying into a Company Scheme	1	(108)
I am paying into a Personal Pension Plan	2	
None of these - I am paying National Insurance contributions towards a state pension only	3	
None of these - I am not working	4	
None of these - I am already retired	5	
Don't Know	Y	

**IF NOT 1 = None of these - I am already retired
THEN ASK: d900r**

QUANCEPT ITEM:

As part of its programme of pension reform, the government will be introducing personal accounts in 2012.

**IF d900r = first half
THEN ASK: 2**

INTERVIEWER: PLEASE HAND RESPONDENT SHOW CARD SINGLE CHARGES AND READ THE SHOWCARD TO THE RESPONDENT.

2. In 2012, your employer may automatically enrol you into this new scheme, but you will have the right to opt out. Based on what you have just read if you were to be enrolled into the scheme, how likely or unlikely would you be to remain in the scheme?

Very likely	1	(110)
Quite likely	2	
Quite unlikely	3	
Very unlikely	4	
Not applicable - I expect to be retired in 2012	5	
Not applicable- I will/ expect to have a company/ personal pension by 2012	6	
Not applicable - I do not expect to be working in 2012	7	
Don't Know	Y	

**IF (2 = Quite unlikely OR 2 = Very unlikely)
THEN ASK: 3**

3. You said that you would be &Q900a2& to remain in the scheme. Why is that?

INTERVIEWER NB: PLEASE PUT "_" AROUND OTHER ANSWERS

I can't afford to save in a pension	1	(111)
I don't think it's worth saving in a pension	2	
I don't trust a scheme that's set up by the government	3	
The charges are too high	4	
I don't really understand pensions	5	
I prefer to make my own arrangements for retirement saving	6	
I don't like the charges being taken from me like that	7	
Pensions aren't for people like me	8	
Pensions are too risky	9	
Don't Know	Y	
Other	0	

Other specify...

(112 - 115)



End of Filter i900a2

End of Filter i900r1

IF d900r = second half
THEN ASK: 4

INTERVIEWER: PLEASE HAND RESPONDENT SHOW CARD DUAL CHARGES AND READ THE SHOWCARD TO THE RESPONDENT.

4. In 2012, your employer may automatically enrol you into this new scheme, but you will have the right to opt out. Based on what you have just read if you were to be enrolled into the scheme, how likely or unlikely would you be to remain in the scheme?
- | | | |
|--|---|-------|
| Very likely | 1 | (116) |
| Quite likely | 2 | |
| Quite unlikely | 3 | |
| Very unlikely | 4 | |
| Not applicable - I expect to be retired in 2012 | 5 | |
| Not applicable- I will/ expect to have a company/ personal pension by 2012 | 6 | |
| Not applicable - I do not expect to be working in 2012 | 7 | |
| Don't Know | Y | |
-

IF (4 = Quite unlikely OR 4 = Very unlikely)
THEN ASK: 5

5. You said that you would be &Q900a4& to remain in the scheme. Why is that?

INTERVIEWER NB: PLEASE PUT "_" AROUND OTHER ANSWERS

I can't afford to save in a pension	1	(117)
I don't think it's worth saving in a pension	2	
I don't trust a scheme that's set up by the government	3	
The charges are too high	4	
I don't really understand pensions	5	
I prefer to make my own arrangements for retirement saving	6	
I don't like the charges being taken from me like that	7	
Pensions aren't for people like me	8	
Pensions are too risky	9	
Don't Know	Y	
Other	0	

Other specify...	(118 - 121)
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