REBUILDING TRUST IN LONG-TERM SAVINGS

Part 1: Qualitative consumer research with the over 50s

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THE LONG-TERM SAVINGS INDUSTRY EXISTS TO HELP PEOPLE PREPARE FINANCIALLY FOR RETIREMENT AND THROUGH THAT HELP THEM TO ACHIEVE PEACE OF MIND IN THEIR LATER LIFE. YET, THERE IS A GAP IN OUR CUSTOMERS' MINDS BETWEEN WHAT THE PENSIONS AND LONG-TERM SAVINGS SYSTEM DELIVERS IN COMPARISON TO THEIR EXPECTATIONS. A TRUST GAP.

FOREWORD

A warm welcome to Just Group's Retirement Leaders Annual Summit 2018. This year we are exploring the theme of 'rebuilding trust in long-term savings'.

In July 2017 the Financial Conduct Authority published the interim findings of its *Retirement Outcomes Review*, which showed that each month thousands of customers were withdrawing their entire pension savings and depositing them into bank accounts. A lack of trust in pensions was one of the primary reasons identified for this activity.

The report didn't explore what lay at the root of this lack of trust or what people were referring to when they used the word pension – that's why we commissioned a new consumer research study to dig into this issue and uncover what it is that drives people to express these views. This report shares the insight gleaned from that research. It is being launched at this year's summit and sets the scene for the day.

The long-term savings industry exists to help people prepare financially for retirement and through that help them to achieve peace of mind in their later life. Yet, there is a gap in our customers' minds between what the pensions and long-term savings system delivers in comparison to their expectations. A trust gap.

Without the trust and confidence of our customers we cannot successfully fulfil our purpose. If our industry is to achieve the strategic imperative to rebuild trust, all of us (leaders, policymakers, regulators, parliamentarians, consumer organisations and others) must work together to find solutions to close the gap that has emerged between our customers and the system that provides pensions and long-term savings.

The 2018 Retirement Leaders Annual Summit provides an opportunity for a diverse group of C-suite delegates to collaborate and craft a shared vision; so together we can create a plan to bridge the trust gap.

I would like to thank Janette Weir and Ed Ripley from Ignition House who led the research study. Their experience and enthusiasm for the assignment brought so much value to the study beyond the insightful research they have gathered.

To all the delegates, presenters and facilitators – thank you for joining us at this year's summit and exploring how we can work together to rebuild trust in long-term savings.

Stephen Lowe
Conference Chair
Just Group plc

1. EXECUTIVE SUMMARY

A mistrust of pensions is one of the primary reasons for early encashment under the new freedoms, but little work has been done to fully understand the reasons for this

Although the new pension flexibilities have been broadly welcomed, the Financial Conduct Authority's Retirement Outcome Review[1] highlighted that a significant number of people are accessing their pension pots not to spend their money, but to transfer it into other savings and investments. The Financial Conduct Authority (FCA) concluded that mistrust of pensions, although by no means the only driver of this behaviour, is certainly playing a part, highlighting that mistrust is an issue in itself, but can also give rise to direct harm if consumers pay too much tax, or miss out on investment growth or other benefits.

If we want to shape future behaviours and guide policy interventions to mitigate this behaviour, we need to understand what lies behind these negative perceptions. However, we have found that there is very limited evidence on which to base policy interventions. This exploratory qualitative research project has been specifically designed to plug this information gap by digging beneath the headline figures to try to discern the nature of trust in pensions, its foundations and its susceptibility to change amongst the over 50s with a DC pension; a group who will shortly be making important decisions about what to do with their pension money.

We held in-depth discussions with 45 people in total, of which 35 said they mistrusted pensions. We included a small group of 10 respondents who said that they were neutral towards or trusted pensions to compare and contrast views.

Propensity to mistrust is quite pervasive – and gets worse as people get older

Academic studies have shown that a person's propensity to trust is an important determinant of their attitudes. When we asked our respondents to answer generalised questions around trust, we found that the majority of our participants actually have a low propensity to trust. Furthermore, this inherent propensity to mistrust was very much reflected in the level of trust they have in organisations in general, with even institutions such as the NHS and the Police receiving some negative scores.

Many of our mistrustful respondents felt that they were much more trusting in their youth, and that as they have got older they have become much more suspicious and sceptical.

Beyond their personal experiences, there was also a feeling that somehow modern society is more aligned to mistrust than to trust these days, with some suggesting that social media in particular is driving a culture of negativity and that today's general commercial climate is not conducive to trust, where the consumer is just another number in the system whom the company knows nothing - and cares even less – about.

MISTRUST IS AN ISSUE IN ITSELF, BUT CAN ALSO GIVE RISE TO DIRECT HARM IF CONSUMERS PAY TOO MUCH TAX, OR MISS OUT ON INVESTMENT GROWTH OR OTHER BENEFITS.

1. Retirement Outcomes Review: Interim Report, FCA, July 2017

www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

Some basic conditions are necessary for trust to exist

We asked respondents what characteristics are important or necessary for trust. Their response aligns well with many of the factors identified as drivers of trust in the academic literature. In particular, to be trusted the organisation must show:

- **Integrity:** being honest, fair and impartial in the way it treats the respondents
- **Benevolence:** putting respondents' needs at least on an equal footing to its own interests
- **Competence:** credible, experienced, delivering on its promises, with a proven track record
- **Transparency:** being open, clear, straight talking
- **Stability:** being financially sound, large, well known, well respected
- **Social responsibility:** valuing its staff, caring for society and the well-being of others

There is a behavioural tendency to trust at an organisational level, but to mistrust at a sectoral level

Our respondents gave very specific examples of organisations they trusted. These tended to be organisations which had a high level of 'thick trust', built through a history of positive experiences and interactions. The most popular example of a commercial entity that has managed to build 'thick trust' with its customers was John Lewis, believed to strongly demonstrate competence, benevolence and integrity.

On the flip side, when asked to give an example of an organisation they do not trust, unless they could actually recall a recent bad experience, they were much more likely to mention a sector or theme - such as banks, estate agents, politicians, or the Government.

Trust in pensions is not a black and white issue, so it is important to be specific when measuring and tracking trust over time

Respondents were asked to rate separately how they felt about the State Pension, Defined Benefit (DB) pensions and Defined Contribution (DC) pensions. Despite reporting an overall mistrust of pensions, we found that levels of trust reported in this particular exercise varied considerably across the three pension pillars, with just a handful reporting that they did not trust all three.

Mistrustful respondents gave more positive views of pensions when they were engaged

When asked to complete a word association exercise our mistrustful respondents were more likely to select negative words than our trusting respondents, but we were surprised to see how few of them actually chose words such as 'scandalous' 'untrustworthy', 'rip-off', or 'dishonest' given the views offered in their screener interview.

On probing, we found that people often feel quite differently about pensions in general compared to their own pension; a recurring theme throughout this research.

We also believe that trust is a function of engagement - the more we can get people to think about their pensions, the more likely they are to take a more neutral, or even positive, stance.

TO BE TRUSTED AN ORGANISATION MUST SHOW INTEGRITY, BENEVOLENCE, COMPETENCE, TRANSPARENCY, STABILITY AND SOCIAL RESPONSIBILITY.

Many of the reported drivers of mistrust are historical system issues as mistrust in DC pensions is more often than not due to lack of knowledge and confidence

When asked for the reasons behind their mistrust of pensions, our respondents usually recalled a litany of historical industry issues and broken promises that have shaken their faith in pensions. They feel that their particular generation has borne the brunt of these scandals and every new headline that emerges simply serves to reinforce their already negative views.

For the vast majority of our respondents the State Pension is the bedrock of their retirement provision, so it is perhaps not surprising that changes to the State Pension age were raised as a strong driver for mistrust by practically everyone we spoke to. This issue was felt particularly strongly by our female respondents who felt cheated that their plans to retire at 60 had been thwarted.

Respondents generally agreed that the State Pension, and pension rules in general, are at the whim of the government of the day and that the Government can change it with little notice. Our respondents tended not to trust politicians and, for many, these feeling have been exacerbated by Brexit. Broken 'promises' about the State Pension make planning for the future very difficult and shake their faith in all pensions.

By far the most cited 'broken promise' of all was the Maxwell scandal, even though this happened more than twenty years ago. Some identified this as fraud and were aware that the 'rules had changed' as a result to stop this happening again – but were then confused about the BHS story and how this could still happen.

There may be several reasons why such 'system issues' are such a strong driver of their perceptions. Firstly, people have very low or no engagement with their own pension. Without any experience, all they can base their view on is what they have heard about pensions more generically. Secondly, people do not understand the different types of pension and therefore any bad news story is simply mentally assigned to pensions generally. Finally, as people are more forgiving of lapses in capability than they are of evidence of bad character, it is perhaps not surprising that these are the industry problems that stick in their mind.

In contrast, not one of our respondents reported any specific issues with their own DC pension provider. Listening to many of our respondents talk in depth about what is driving their negative perceptions of pensions, it was striking to hear how much they contradicted themselves as they got deeper into conversation. Digging underneath their initial impressions we found that much of their lack of trust, in DC pensions in particular, is really about their lack of confidence in their own knowledge about pensions and how they work, rather than really being genuinely mistrustful of DC pensions as a product.

Specific trust issues with DC pensions are predominately driven by a perception that 'the house always wins' - highlighting a huge 'benevolence gap'

Trust issues with DC pensions are predominately related to perceptions of investments and the investment management industry. Our discussions certainly demonstrated that there is a huge 'benevolence gap' with regard to consumers' perceptions of the investment management community, citing a misalignment of interests in terms of both risk and reward. Much of the language used was very adversarial, reflecting the depth of these negative perceptions.

Our respondents were keen to see the balance of interests tilted more in their favour but were very sceptical that this could ever happen in a financial services firm, let alone a pension provider.

Rebuilding trust will take many years, and any efforts may be too late for some people

Behavioural science has shown that people have both an inherent 'negativity bias' (a predilection to hear and remember bad news) and confirmation bias (a tendency to focus on information which supports the views they already hold).

Our respondents struggled to think of another sector where there they had heard so many bad news stories over such a long period of time. The industry is therefore going to have a battle on its hands to change hearts and minds, especially as there seems to be no end to the media's appetite for pension bad news stories.

Given this amount of regular, ongoing negative reinforcement, it is perhaps not surprising that some of our respondents are not yet in a position to forgive and forget, and questioned whether the damage done could ever be repaired in their eyes. They are the most likely to want to take their DC pensions out as soon as they can.

When asked about rebuilding trust by the Financial Times, a leading academic in the field, Onora O'Neill, said:

> **"We need to think much less about trust, let alone about attitudes to trust detected in opinion polls... The focus should be on being much more trustworthy, and how you give people adequate and useful and simple evidence that you are trustworthy."**

Source: FT Magazine 16/17 December 2017

Thinking back to the set of factors which our respondents said were important to them to demonstrate trustworthiness, gives us a good indication of areas where the industry could focus its attention. This exercise confirmed that measures to improve its integrity, benevolence and transparency are likely to have the most chance of making an impact.

People desperately wanted more stability and predictability to plan for the future with certainty

When describing the current pension environment, we repeatedly heard people telling us how frustrating they found it when the goalposts were constantly moving, and that further changes would damage trust even more.

Perhaps given these frustrations, it is not surprising that, when tested by the moderator, there was practically unanimous support for something akin to the Dutch system. Under the Dutch system, pension decisions are made with a 5 to 10 year time horizon. In this system a body of representatives from Government, employers and the people are the decision-makers.

Strong support for a formal 'nudge' to kick start the education process at around 50

Unless we can engage and educate, we believe that people will continue to base their perceptions on the historical system issues identified; ones that often have nothing to do with their DC pension today. However, there are no immediate triggers or a 'reward' for finding out more, and some are simply afraid of having to do it as it feels "overwhelming".

Whilst a small number had tried to find out more and genuinely found the process too difficult, the vast majority of our respondents had not engaged with their pension for many years, beyond reviewing the annual statement. They seemed to be using this commonly accepted perception of complexity as an excuse for not finding out more. This all too common behaviour is very understandable; people never asked to be given this responsibility and, not surprisingly, now feel very ill-equipped to take on the task.

To get the most out of their pension they need to give it a high degree of consideration – while this may be bread and butter for those who work in the industry, it is entirely unrealistic to expect Joe and Joanne Public to have the same degree of interest in their pensions. Left to their own devices, our respondents freely admitted they are unlikely to take any action to improve their understanding of pensions until they have to.

Unprompted, some suggested that they would need a specific nudge at around age 50 to kick start this education process. When prompted with this idea, there was strong support across all respondents – even the most mistrustful - for such an intervention.

WE REPEATEDLY HEARD PEOPLE TELLING US HOW FRUSTRATING THEY FOUND IT WHEN THE GOALPOSTS WERE CONSTANTLY MOVING, AND THAT FURTHER CHANGES WOULD DAMAGE TRUST EVEN MORE.

2. INTRODUCTION

Why conduct this research?

Pension freedoms have fundamentally changed the way people can access their DC pension money and consumers have certainly embraced these changes. Since their introduction, over one million DC pots have been accessed.

Although the new flexibilities have been broadly welcomed, the FCA's Retirement Outcome Review highlighted that a significant number of people are accessing their pension pots not to spend their money but to transfer it into other savings and investments, which can give rise to harm if the consumer pays too much tax or misses out on investment growth or other benefits. The FCA concluded that mistrust of pensions, although by no means the only driver of this behaviour, is certainly playing a part.

"

OVER £10.8 BILLION HAS BEEN WITHDRAWN BY CONSUMERS SINCE THE PENSION FREEDOMS... OVER HALF (52%) OF THE FULLY WITHDRAWN POTS WERE NOT SPENT BUT WERE TRANSFERRED INTO OTHER SAVINGS OR INVESTMENTS. SOME OF THIS IS DUE TO MISTRUST OF PENSIONS. MISTRUST IS AN ISSUE IN ITSELF, BUT CAN ALSO GIVE RISE TO DIRECT HARM IF CONSUMERS PAY TOO MUCH TAX, OR MISS OUT ON INVESTMENT GROWTH OR OTHER BENEFITS.

A breakdown in trust encourages individuals to avoid further risk, and so it is perhaps not surprising we see those who feel this way taking their money and putting it elsewhere as soon as they can. If we want to shape future behaviours and guide policy interventions to mitigate this behaviour, we need to understand what lies behind these negative perceptions.

So, why do some people mistrust pensions? There have been many tacit claims about drivers of trust and their assumed importance by the industry and industry commentators, but these are often based on very little hard evidence. Although the concept of trust has been extensively studied by academic psychologists and behavioural economists interested in understanding both how trust is built and lost. A comprehensive review of historic academic work conducted for DWP in 2012[2] said: "Specifically, in the field of pensions there is perhaps a surprising lack of literature... and little on the impact that different features of pension design, for example, defined benefit or defined contribution, voluntary versus mandatory enrolment, have on people's trust in a pension."

SPECIFICALLY, IN THE FIELD OF PENSIONS THERE IS PERHAPS A SURPRISING LACK OF LITERATURE... AND LITTLE ON THE IMPACT THAT DIFFERENT FEATURES OF PENSION DESIGN, FOR EXAMPLE, DEFINED BENEFIT OR DEFINED CONTRIBUTION, VOLUNTARY VERSUS MANDATORY ENROLMENT, HAVE ON PEOPLE'S TRUST IN A PENSION.

2. Trust and confidence in pensions: A literature review, DWP Working Paper 108, 2012

This review also demonstrated that much of the current body of evidence comes from quantitative surveys and is therefore almost entirely focused on **what** people think at a specific point in time. There is very little qualitative research providing insights on **why** people think like that and what has driven them to form this opinion. Moreover, previous studies of trust in pensions tend to be about the general saving population, rather than focused on people in their 50s who will shortly be making important decisions about what to do with their pension money.

This exploratory qualitative research project has been specifically designed to plug this information gap by digging beneath the headline figures to try to discern the nature of trust in pensions, its foundations and its susceptibility to change amongst the over 50s. Its key objectives are to:

- Explore what the concept of trust means to the over 50s
- Understand whether mistrust is limited to pensions, or whether those who mistrust pensions have a generally negative perception of financial services in general
- Gauge any differences in trust between the different types of pensions and at-retirement products
- Understand whether there are any lessons to be learned from how the over 50s feel about their other financial products
- Understand the drivers behind their perceptions of trust in pensions, taking care to separate (where possible) trust issues with the system; the industry; the provider; the product, and the individuals within the organisation who the customer deals with
- Understand what could be done to rebuild trust amongst this cohort

Research methodology

We used a mixed qualitative research approach, with focus groups allowing for more exploratory research and face-to-face interviews to understand in depth respondents' trust in pensions. In total, 45 people aged between 50 and 60 took part in the research. Fieldwork took place in November 2017 in locations across the UK to ensure a geographic spread.

All participants had a DC pension in accumulation or had recently accessed a DC pension. Around one in four (11) also had a DB pension. All had a DC pension pot of between £10,000 and £250,000, either currently or at the time that they accessed their pot.

As we are focussed on exploring mistrust in pensions, we skewed our sample towards people who have self-reported low levels of trust in pensions and who are inclined to take out all of their DC pension pot. This was ascertained during the recruitment phase by asking respondents to say the extent to which they agreed or disagreed with the following statements, and by holding a short (10-15 minute) telephone discussion to confirm their thinking:

- I don't trust pensions
- I would like to access the cash in my pension as soon as I can as I think I can do better myself
- Pension providers are acting in my best interests
- I feel that my pension provider is honest in the way they treat me

Overall, 35 of our 45 respondents said they mistrusted pensions. We included a small group of 10 respondents who said that they were neutral or trusted pensions to compare and contrast views.

This, of course, means that the findings in this report are not necessarily representative of the DC population as a whole. That said, anecdotal evidence would suggest that, in terms of trust levels, our sample is broadly consistent with the over 50s DC pension holder population. For example, in its recent Financial Lives Survey[3], the FCA reports that 37% of 45-54 year olds with a DC pension in accumulation have a low level of trust in *their* pension provider, and a further 31% know too little about their pension provider to say. Just one in seven (14%) have a high level of trust in their provider.

We recruited respondents using a detailed screener, with quotas set to ensure a good mix of respondents by gender and age. Of the 45 participants:

- 23 were male and 22 were female
- 12 participants were aged between 50 and 52
- 10 were aged 53-54
- 7 were aged 55-56
- 16 were aged 57-60

Overall therefore, half (22 of the 45 participants) are under the required age to access their pension under the Pension Freedoms.

The depth interviews lasted 60-75 minutes, while the groups lasted 120 minutes. All sessions were undertaken by Ignition House directors Janette Weir and Edward Ripley.

3. Financial Lives Survey 2017, FCA, October 2017: P45. How much trust do you have in this provider? Please answer on a scale of 0 to 10, where 0 is 'do not trust at all' and 10 is 'trust completely'.

3. EXPLORING TRUST

Our respondents had clear ideas about what ‘trust’ means to them

To understand what ‘trust’ means to our respondents, we asked them to describe in their own words what characteristics are important or necessary for trust. We were pleasantly surprised to find that there was a common set of characteristics, which aligned well with many of the factors identified as drivers of trust in the academic literature. In particular, to be trusted the organisation must show:

Integrity: being honest, fair and impartial in the way it treats the respondents.

Benevolence: putting respondents’ needs at least on an equal footing to its own interests.

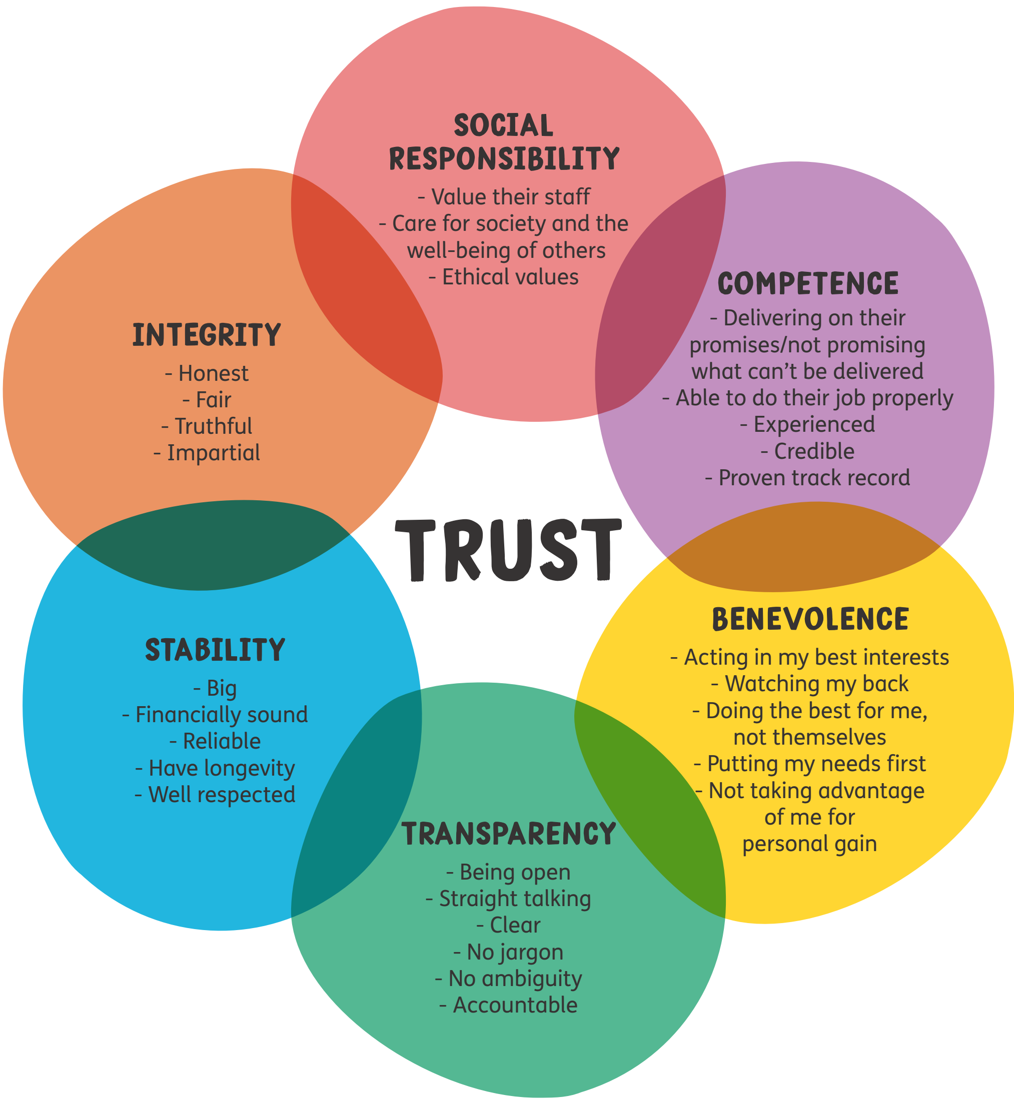
Competence: credible, experienced, delivering on its promises, with a proven track record.

Transparency: being open, clear, straight talking.

Stability: being financially sound, large, well known, well respected.

Social responsibility: valuing its staff, caring for society and the well-being of others.

Figure 1: Characteristics that are important for trust



Trust and confidence are highly interdependent

In today's society, it is impossible for an individual to be in total control of all aspects of their lives and we need to delegate to others. Trust is important to allow us to have the confidence to do this.

The concepts of trust and confidence are often used interchangeably in the academic literature, especially when referring to institutional trust (trust in governments or organisations) rather than personal trust (trust in friends or family), and we certainly found this when talking in detail about this issue with the respondents who took part in this research.

> "I PICKED JOHN LEWIS. THEIR ETHOS APPEARS TO BE INTEGRITY AND THEY APPEAR TO CARE ABOUT THEIR CUSTOMERS. THEY HAVE NEVER LET ME DOWN AND ON THE FACE OF IT WHEN SOMETHING HAS GONE WRONG THEY HAVE GONE OVER AND ABOVE THE CALL OF DUTY TO CORRECT THE MISTAKE.

> TRUST MEANS HAVING THE CONFIDENCE TO RELY AND DEPEND UPON SOMETHING OR SOMEONE. I DON'T NEED TO STAY ON TOP OF THEM, BUT I KNOW THAT THEY HAVE MY INTERESTS AT HEART.

> YOU ARE CONFIDENT THAT THEY WILL DELIVER WHAT THEY SAY THEY WILL... SOMEONE YOU KNOW WELL OR HAVE HAD A GOOD EXPERIENCE WORKING WITH OR BUYING FROM BEFORE. THEY GIVE ADVICE AS IT IS THE BEST THING FOR YOU, NOT SO THAT THEY CAN MAKE MONEY FROM YOU.

Trust in organisations is based on familiarity and/or proven competence

Trust is a complex concept, and perspectives on trust and confidence are explored from many different angles in various disciplines such as sociology, psychology, economics and management. Trust takes many forms. Figure 2 provides a summary of the types of trust that have been identified in such studies.

We asked our respondents to talk to us about organisations outside of pensions that they trust and do not trust and to explain the reasons for this in their own words so we can to try to understand what forms these opinions.

Our respondents said they found it quite difficult to think of an organisation they actually trusted, and practically all of the examples given were ones where the person had regular, personal experiences, building 'thick trust'. The most popular example of a commercial entity that has managed to build 'thick trust' with its customers was John Lewis, mentioned by nine of our respondents. For them, its core values seem to match well with their own description of trust, and is believed to demonstrate competence, benevolence and integrity. Other notable mentions were the BBC and M&S.

Figure 2: Types of trust

TRUST					DISTRUST	
Primary trust	**Thick or personal trust**	**Reflective or thin trust**	**Generalised or ambient trust**	**Absence of trust and distrust**	**Generalised or ambient distrust**	**Thick or personal distrust**
Instinctive trust found in very close relationships	Trust based on familiarity and proven competence and moral standards	Trust based on investigation or analysis of particular individuals or institutions	Trust based on general knowledge or proxies but not on personal experience or relationships	Neither trust nor distrust exists	Distrust based on general knowledge or proxies but not on personal experience or relationships	Distrust based on personal experience of an individual or institution

Source: Professional Standards and Consumer Trust A summary of existing research, FSA, 2009

Tendency to trust at an organisational level, but to mistrust at a sectoral level

When asked to give examples of organisations they do not trust, we had a variety of responses, ranging from the Government, HMRC, and the Police to Amazon, Virgin Media, Sky, specific charities, estate agents, and social media sites such as Twitter and Facebook.

While respondents gave very specific examples of organisations they trusted, when asked about organisations they did not trust (unless they could actually recall a recent bad experience), they were much more likely to mention a sector - such as energy providers, social media, financial advisers or estate agents.

The strongest emotional response came from respondents who had personally had a bad experience (citing examples of 'thick distrust'), closely followed by those who felt the organisation or industry was acting unethically in some way, or where there was a suspicion that they were not acting in their customer's interest ('ambient distrust').

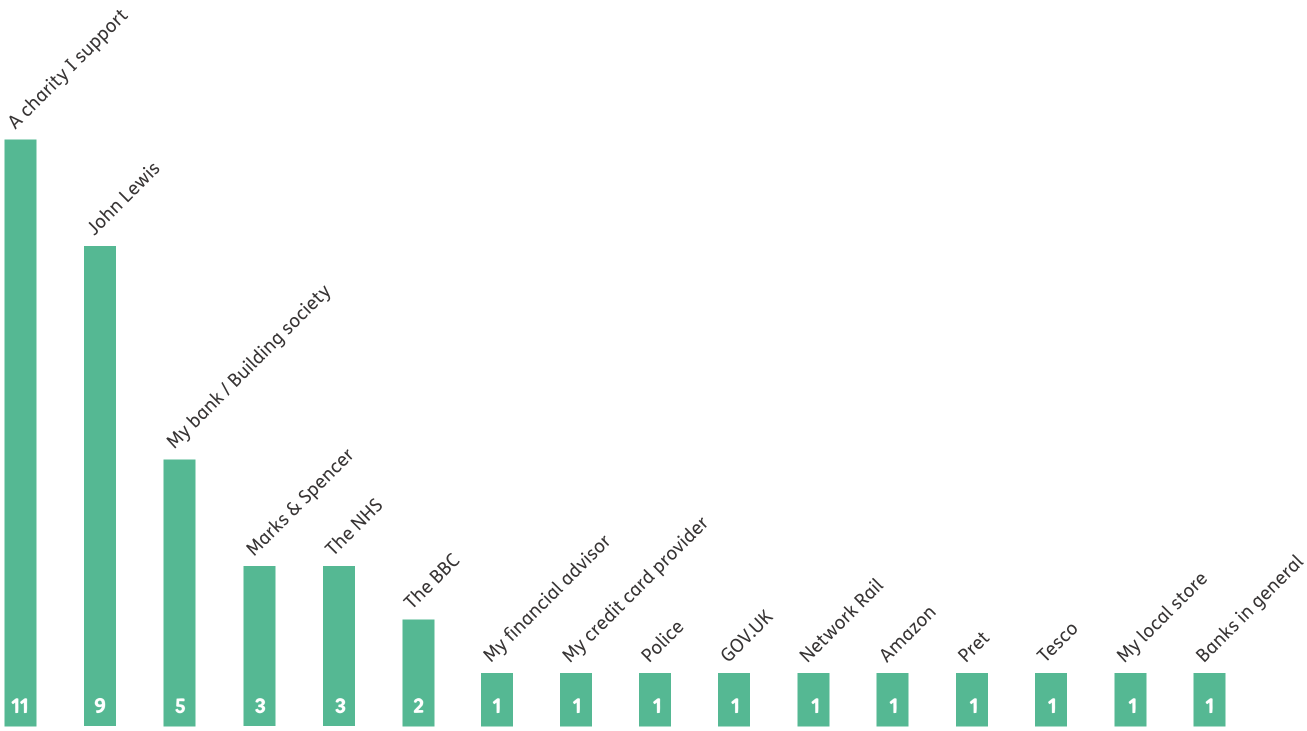
"AMAZON - TAX AVOIDANCE IS A SCANDAL AND THEY ARE PAYING A LOW LEVEL OF CORPORATION TAX. HAVING SAID THAT I HAVE USED AMAZON IN THE PAST, BUT I WON'T DO SO AGAIN

"PAYPAL, AS I HAVE HAD A BAD EXPERIENCE WITH THEM, AND THEY DO NOT LIVE UP TO THEIR PROMISES.

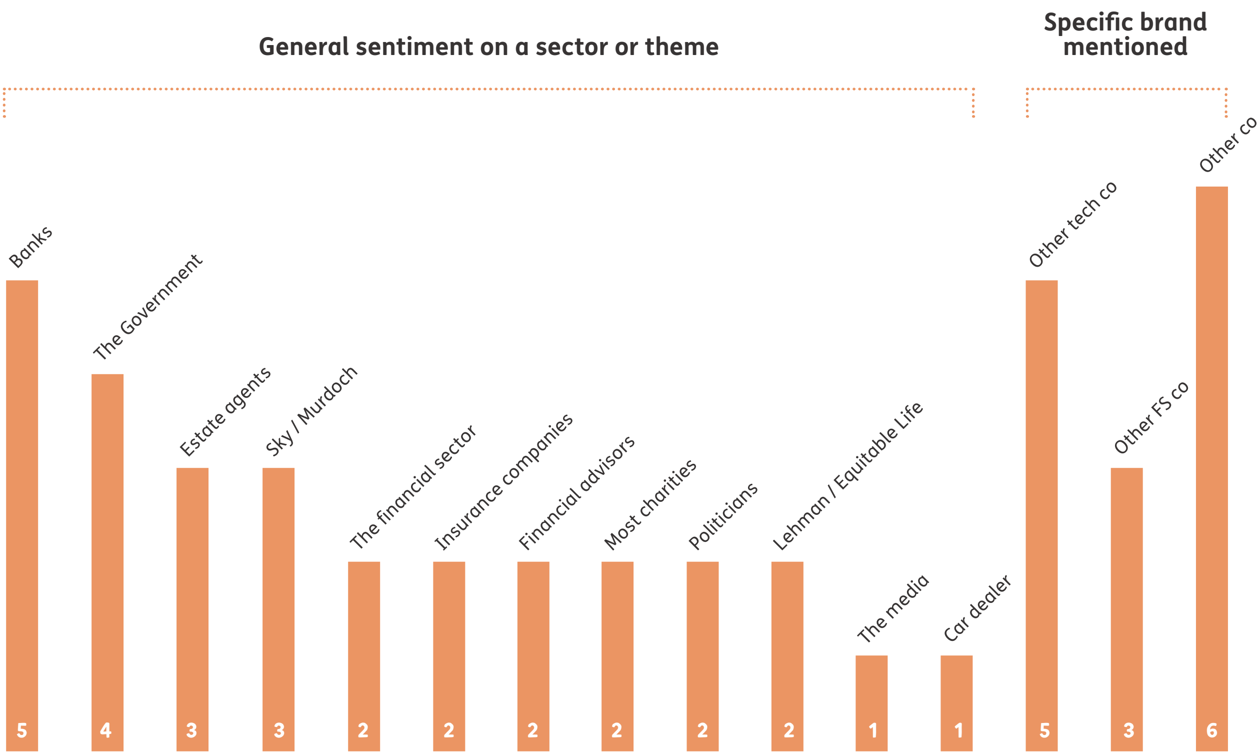
ESTATE AGENTS – IT'S THE FACT THAT THEY ARE DRIVEN BY HOW MUCH COMMISSION THEY CAN GAIN RATHER THAN LOOKING AFTER THEIR CUSTOMER.

Figure 3: Organisations our respondents trust and do not trust, by number of mentions

Name one organisation you TRUST and explain why?



Name one organisation you DO NOT TRUST and explain why?



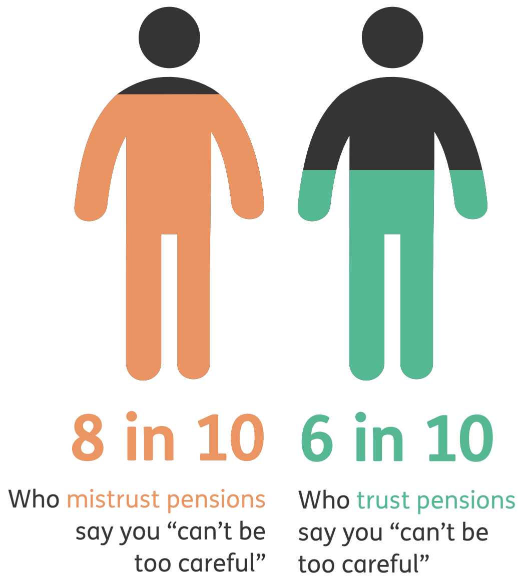
Note: The above charts based on all respondents who were asked the questions (n = 43). Figure shows number of mentions given by organisation. To avoid listing multiple organisations, some results have been amalgamated (e.g. 'A charity I support' or 'My bank'). Numbers should be treated with caution given the qualitative nature of the research.

Propensity to mistrust extends beyond pensions

Academic studies have shown that a person's propensity to trust is as important a determinant of their attitudes as the characteristics of the organisation to be trusted. We asked our respondents to complete a general question on trust using the World Values Survey question: "Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?". This revealed that the majority of mistrustful people in our study have a low propensity to trust.

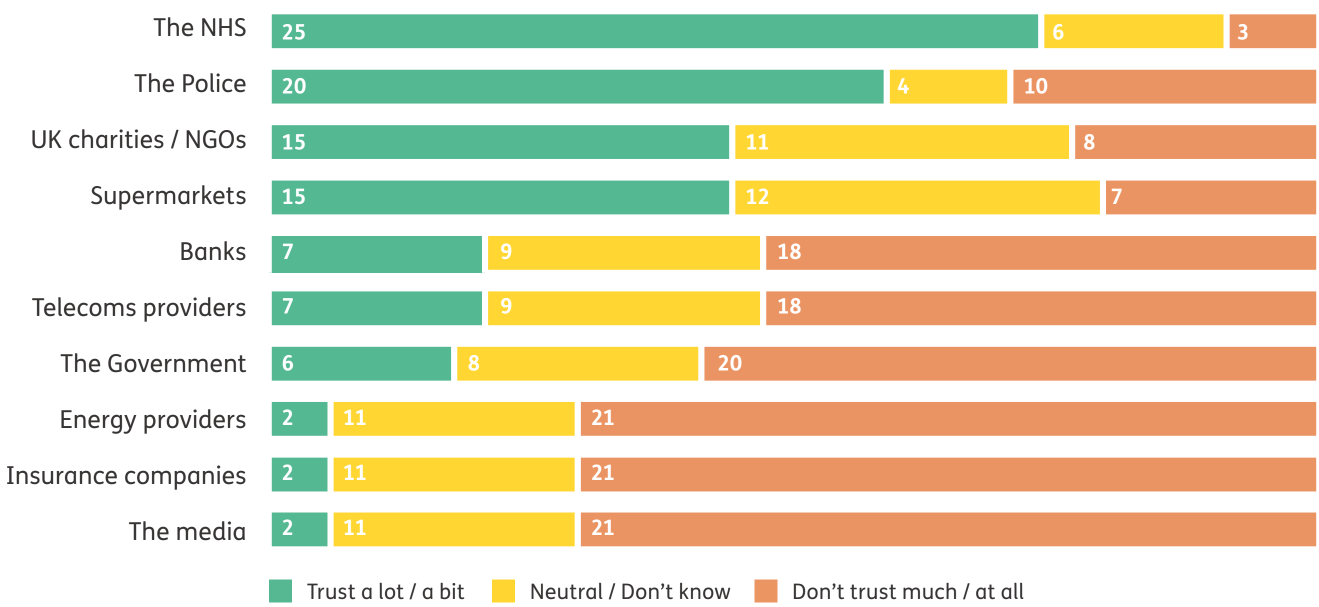
Furthermore, this inherent propensity to mistrust was very much reflected in the level of trust they have in organisations in general, with even institutions such as the NHS and the Police receiving some negative scores.

Figure 4: Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?



Note: Based on all respondents (n = 45). Figures should be treated with caution given the qualitative nature of the research

Figure 5: Mistrustful respondents' level of trust in other sectors



Note: Only includes respondents who mistrust pensions (n = 34). Figure shows number of mentions given, but should be treated with caution given the qualitative nature of the research

Propensity to trust has diminished with age

Many of our respondents felt that they were much more trusting in their youth, and that as they have aged they have become much more suspicious and sceptical. They partly attribute this to the fact that they have simply had more life experience, and therefore had more opportunities to be let down.

"As time has gone on, and the older I get, the less I believe you can trust anyone or anybody. I have sadly become more cynical."

"Well, it is only in the last 10 years trust has all gone, because it is everything that has happened to people, it trickles down. People hear things and news and they tell you things and trust is going, you can't trust TV, the news government, the Police. They are all up to it."

"I used to be too trusting and then, when I was let down badly and all manner of things went wrong for me, now all of a sudden I am all defensive and untrusting, sadly."

PEOPLE ARE NOT NAIVE ANYMORE. PEOPLE ARE WAKING UP. THEY KNOW THEY ARE BEING USED AND ABUSED BY COMPANIES AND CORPORATIONS AND GOVERNMENT.

On probing, there was a recognition that perhaps in the past 'ignorance was bliss' in that the number of scams and scandals have probably not really increased, it is just that they now get much more publicity.

Beyond their personal experiences, there was a feeling that somehow modern society is more aligned to mistrust than to trust with some suggesting that social media, in particular, is driving a culture of negativity. Probability theory indicates that they may well be right. As our social networks expand, we are much more likely to come across, and share, negative stories which reinforce existing views.

"It is very different today. It is so fast and furious, and you have to make decisions quicker and assess the situation quicker. I think there are a lot more people out there to get you, and it is the internet which has bought all this horror into our lives, which was always there - there was always that sort of thing there - but people are nowadays in your face and at the touch of a button you can find out about people. So, it has had a huge impact.

"Everyone is into social media and the news, so very quickly people put things like Green and these other stories in your face."

There was also a sense that today's general commercial climate is not conducive to trust, citing situations where existing customers who show trust and loyalty are not treated as well as new customers, and where the closure of bank branches and direct sales forces - plus the move to online and telephone customer service - has removed the personal touch, relegating the consumer to just another number in the system whom the company knows little, and cares even less, about.

I AM VERY CYNICAL. I WAS BEING OVER-CHARGED BY MY PROVIDER, SO I CALLED THEM. SO, IT JUST SHOWS IN TERMS OF TRUST, IF I HADN'T PICKED UP THAT PHONE AND HAD A HALF HOUR CONVERSATION AND THREATENED THEM WITH LEAVING AND GOING ELSEWHERE, THEY WOULD HAVE CARRIED ON CHARGING ME TOO MUCH... SO THEY WILL DO IT WITH ANYONE. YOU ARE JUST A NUMBER TO THEM.

4. EXPLORING TRUST IN PENSIONS

People feel very differently about pensions compared to other financial products

We wanted to understand whether people who have low levels of trust in pensions generally feel the same way about other financial products and, if not, what is it about some products that makes them more trustworthy than others.

This simple exercise clearly demonstrated that there are some important nuances in the way that people think about the financial services sector, and that those who have little faith in pensions can be more trusting of other types of savings products. On the basis of this evidence, it is perhaps not surprising to see that, without effective interventions, this group will have a tendency to want to take pension money out and put it into alternatives they feel they can better trust when the opportunity arises.

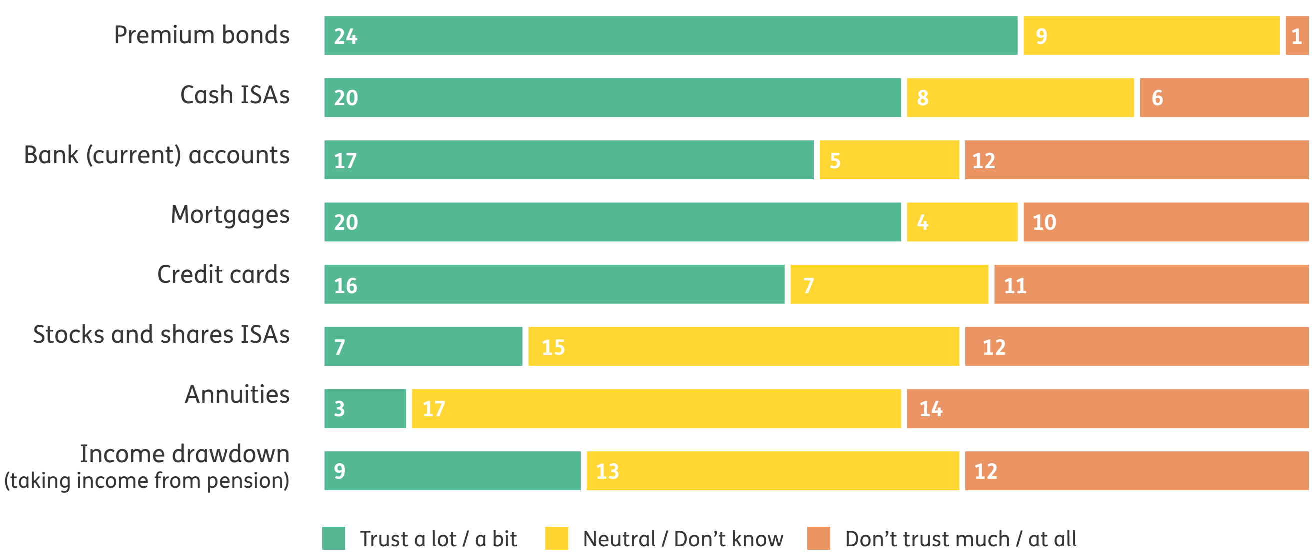
Savings products with a money-back guarantee are highly trusted financial products

Premium bonds had very high levels of 'thick trust' and many of the characteristics of the premium bond resonated with our risk averse respondents – they had held them for many years and were very familiar with how they worked (they had often been bought a premium bond by a trusted family member as a child); the scheme is government backed; it is guaranteed so that you can get your money back when you want; and the promise is clear - you are unlikely to win big, but you may well occasionally win £50.

Cash ISAs also scored highly, and any sense of mistrust was simply due to low interest rates (a system issue) rather than any particular product or provider issues. There are high levels of familiarity, and the language used to describe the product (cash, interest rate, savings and so on) is well understood. Again, the promise is clear and although there is not much reward at present, the money is 'safe' (due to the FSCS) and you are guaranteed to get back what you put in. Respondents also felt that cash ISAs are generally reported in a positive light in the media, who seem to favour this product due to the tax break.

"Well a pension is a gamble isn't it? You put your money in a savings account or ISA with a guaranteed return, but with pensions you can double your money or you can lose some or all of it."

Figure 6: Mistrustful respondents' level of trust in other financial products



Note: Only includes respondents who mistrust pensions (n = 34). Figure shows number of mentions given, but should be treated with caution given the qualitative nature of the research

Mistrust of banks is not related to the performance of their retail bank, where there was often 'thick trust'

When conducting our work for the FCA's Retirement Outcome Review, we heard many early encashment cases tell us that they had taken their money out of pensions and simply put it into their bank account, in part, because they did not trust pensions. This seemed to be somewhat of a contradiction, given the perceived lack of trust in the banking sector.

However, this exercise clearly showed that our respondents had a lot of trust in their bank accounts, attributed to their familiarity and regular use. None of our respondents reported any issues with trust in their own bank, and most had been with the same provider for many years. Indeed, a couple actually said their bank when asked (unprompted) to name any organisation that they trust.

I TRUST MY BANK 100%. THEY GIVE ME GOOD ADVICE.

"I trust Lloyds who I have banked with for over 20 years. I have found them reliable and to frequently review my accounts and advise on any new products that might be of benefit to me. I don't believe it is in their interest to be disingenuous to their customers."

All retail banks were perceived to be offering pretty much the same level of service to their customers and our respondents saw no reason to shop around or switch unless their trust is fundamentally broken by a very serious issue that the bank fails to resolve satisfactorily.

We were surprised that banks and banking products had such a high level of trust, given the role they played in the financial crash and the PPI mis-selling scandal. However, again this seems to be a function of the difference between their opinion about the sector in general, compared to their own provider.

WHEN YOU SAY 'BANKS', THERE ARE DIFFERENT LEVELS OF BANKS. HIGH STREET BANKS, YES FINE, I TRUST BANKS AS THE MONEY IS IN THERE AND IF I AM GOING TO PULL IT OUT I CAN TAKE IT OUT AND I TRUST THEM. THE CORPORATE BANKS ARE A DIFFERENT THING ALTOGETHER, IT IS A DIFFERENT SCENARIO.

On probing, we found that respondents were clearly able to separate out the trust in the people that they dealt with at their bank - especially those they had built personal relationships within the branch where trust is very 'thick' - but were much more disparaging about the people that caused the 2008 financial crash, who were seen as the 'greedy City', or those in head office.

"You have that Square Mile and they are all in the same place. For me there is a huge conspiracy... they all go to the same parties and drink the same champagne out of the same bottle - we get to serve the champagne to them! We are never equal amongst the providers and never will be because they have it all set up. They all drink in the City in the same pubs and the same bars."

Although both are long-term products, pensions and mortgages were seen in very different ways

Respondents could see that the long-term nature of a mortgage meant that there could be some similarities with their DC pension. Those that had an endowment mortgage in the past also recognised that they were also exposed to the same equity risk in both products.

But beyond this, pensions and mortgages were seen in fundamentally different ways. Firstly, most respondents gave high trust scores for mortgages as they had actively engaged with and personally chosen the product – they had shopped around for the best deal, the rates were clear to them, and they understood the promise well (the bank lends you this amount of money, you pay this amount back based on this interest rate). Particularly for those with workplace pensions, this level of active engagement never happens.

Furthermore, our respondents were also clear that if the mortgage promise changed (i.e. the interest rates changed) they would either be protected by a guarantee (through fixed rate deals) or the bank would automatically adjust the payment and let them know about it so they are not left with a nasty shock at the end. Again, no such mechanisms were in place with their pension.

"Mortgages, I do trust them as they are very transparent. You can see what you have bought and you can monitor it yourself can't you? You know every month you get a statement from them and it does what it says on the paper, at the end it is not going to be a big balloon payment or sorry we didn't get that right you are going to have to pay another £20k, so you get what's on the paper."

They also described a strong reward mechanism when they got their mortgage statement which was completely missing from the way they spoke about their pension statement. With mortgages, they could clearly see how they were doing against the 'goal' of finally paying off their debt, which made them feel good. With pensions, they did not understand what the numbers in their statement were saying to them, nor what this would mean for their future.

Of course, as they had borrowed money from (rather than given money to) the provider, the fundamental dynamic at the heart of the relationship with their mortgage felt very different and more weighted in favour of the individual rather than the organisation. They described how in this situation the provider has to trust them, rather than the other way around.

In cases where equity ISAs are more trusted than pensions, it is usually because they have heard nothing bad about them in the press

Many of our respondents were unsure what equity ISAs were and very few actually had this product themselves. In contrast to pensions, most were happy to rate this as 'Don't Know', rather than 'Don't Trust' despite the similarities with pensions – both are longer term savings, both are invested so there are no guarantees and an unclear promise.

When probed on why there is this apparent contradiction in their thinking, the usual response was that ISAs generally have good press, whereas they tend to read and hear negative things about pensions from the media or their colleagues.

"Well I know that stocks and shares fluctuate... yeah, well I suppose pensions fluctuate as well - they tell me that when I phone them up... I think it is a perception thing about pensions. Wasn't there this company called Equitable Life? I know this lady who had her pension in that and the company went bust or something terrible and people with a pension in that didn't get anything from it. It just disappeared."

Very low awareness of at-retirement products, but drawdown is more trusted than annuities

Our respondents, especially among those in their early 50s, had very limited awareness of annuities and how they work. Occasionally, they had heard that annuities were 'bad value' in the press, but they could not say why this was the case. In contrast, those going through the decision-making process at 55 or older often have very strong negative views about annuities.[4]

This suggests that it might be easier for the industry to educate this younger cohort while they have no firm views either way, or while they are experiencing low levels of 'ambient distrust', rather than to try to change negative ingrained perceptions at a later stage.

That said, even amongst those with a little knowledge there was a suspicion that the 'gamble' with annuities is weighted in favour of the provider as they are the experts, and that if you die before you get your money back, it's a 'win' for them.

> I'VE BEEN HEARING ABOUT ANNUITIES IN THE PRESS, FROM PHONE-INS AND SPECIALISTS TAKING CALLS GIVING ADVICE - I LISTEN A LOT TO RADIO 5 LIVE AND LBC. I DO PICK UP ON THE ODD BIT HERE AND THERE, BUT I DON'T KNOW OF ANY ANNUITY WHERE YOU PUT £50K IN AND THEY SAY WELL AS LONG AS YOU LIVE 5 YEARS YOU GET £25K BACK.

Our respondents had no idea that there are different types of annuities including an optional money back guarantee in return for slightly less income - once revealed by the moderator, they liked the sound of this option a lot. This begs the question of whether price comparison sites and best buy tables in the media need to be re-framed to quote these types of annuities as the standard, rather than the flat rate, single life.

Many had a better impression of drawdown, which was typically based on what they had read in passing in the media and from conversations with friends/ colleagues but, again, they are not really sure what this product is. The 'ambient trust' they have for drawdown has been largely built through reading positive press about its flexibility, but beyond this they have no idea who the providers are, or how drawdown works in practice. They have not made the link that drawdown providers are often the same as the pension providers, nor have they connected with the fact that drawdown is invested and that there are no guarantees.

There was general agreement that these positive perceptions of drawdown could change quickly if a next generation of 'scandals' emerges in the next few years as people start to run out of pension money.

"Well [with drawdown] I think you will have more control over your money, but I think people are using it for the wrong reasons like going on holiday or cruises and when it comes to retirement we will be subsidising them... I have no idea who the providers are. I assumed it would be government controlled, is that wrong? I had thought it was government controlled and no commissions going anywhere... I haven't looked into it enough."

4. See New Choices, Big Decisions: Exploring consumer decision making and behaviours under Pension Freedom and Choice, Ignition House, 2016

When asked to think slightly more deeply, very few actually describe pensions as 'untrustworthy'

At the very start of our discussion, respondents were asked to select a set of words which they felt best described how they felt about pensions and to describe why they felt this way.

By far the most popular terms selected by all respondents in this exercise were 'complex', 'confusing' and 'risky'. Beyond this, our mistrustful respondents were more likely to select negative words than our trusting respondents, but we were surprised to see how few of them actually chose words such as 'scandalous' 'untrustworthy', 'rip-off', or 'dishonest'.

The norm is for pensions to be seen as complex and confusing

By far the most prevalent brand associations with pensions were the words 'complex' and 'confusing'. Whilst a small number had tried to find out more and genuinely found the process too difficult, the vast majority of our respondents had not engaged with their pension for many years, beyond reviewing the annual statement. They seemed to be using this commonly accepted perception of complexity as an excuse for not finding out more. This all too common behaviour is very understandable; people never asked to be given this responsibility and, not surprisingly, now feel very ill-equipped to take on the task.

To get the most out of their pension they need to give it a high degree of consideration – while this may be bread and butter for those who work in the industry, it is entirely unrealistic to expect Joe and Joanne Public to have the same degree of interest in their pensions.

When probed about this in a little detail, the basic concept of a pension (i.e. putting money away now to live off in the future) was not difficult for our respondents to understand. Their perceptions of complexity were driven by:

- The plethora of different pensions available (for example, DB, DC, stakeholder, money purchase, SERPS) and a poor understanding of which pension they had
- A very poor understanding of investments and how they work
- A worrying lack of awareness of what happens when they want to take their money – for example, one respondent was convinced that the exact amount of money she was paying in would be paid out to her when she retired until she died
- A sense that pensions are being kept deliberately opaque by the industry to befuddle the public for their own ends

Figure 7: Pension word association

Note: Only includes respondents who mistrust pensions (n = 35). A larger font denotes a more popular answer.

That said, whilst recognising that they had not taken personal responsibility and made the time to find out much about their pension, our respondents nevertheless felt that the communications they were currently receiving (usually just the annual statement) were filled with jargon, not written with them and what they needed to know in mind, and had not inspired them to take further action.

"The booklet that comes is reams and reams. Every year when I get the statement - pages of things - all I do is look at the figure. They don't want me to understand!"

STOP BAMBOOZLING US AS YOU HAVE BEEN BAMBOOZLING US FOR YEARS. USE SIMPLER LANGUAGE IN THE WAY YOU MARKET PENSIONS AND TALK ABOUT PENSIONS.

Many of the negative words were associated with investment management

Respondents choosing words such as 'suspicious', 'opaque', 'unreliable', 'erratic', 'incompetent' and 'inept' were usually referring to how they felt about investments and investment management. Throughout this research, we found that this was the area of pensions where our respondents had the least amount of trust.

"THEY SEEM TO MAKE IT MORE AND MORE DIFFICULT FOR US, BUT THEY WANT TO KEEP IT LIKE THAT FOR THE BOYS IN THE CITY.

Our respondents self-reported high levels of risk aversion and low levels of knowledge about how their pension works. They freely admitted that they knew very little about investments and how they work in practice.

"Because you just don't know what you are going to get at the end of the day, do you? It is invested and I don't know whether or not it has been invested well or not. What I do know is that investments seem to go down quite a lot, stock market seems to be crashing quite a lot, there are no guarantees, you really don't know what you are going to get."

The few who circled 'expensive' were not referring to product charges

They typically knew very little about the mechanics of their pension and had very little interest in finding out more.

Here, they were talking about paying for the advice they thought they would need to make some sense of what kind of pension they had got, and what they could do with it in the future.

Despite reporting an overall mistrust of 'pensions', we found that levels of trust varied considerably across the three pension pillars

To address some of the concerns raised by the 2012 DWP report about the lack of information about different types of pensions, we specifically wanted to gauge whether there were any differences in how our respondents felt about the three pillars. We asked our respondents to rate their level of trust in State, DB and DC pensions on a five-point scale. Figure 8 shows the results of this exercise for our mistrustful respondents only, and highlights that within this group, mistrust is not a black and white issue. Just a handful reported that they did not trust all three.

This suggests to us that a considerable degree of care must be given when tracking and interpreting generic measures of trust.

By far the most trusted pension is the State Pension, but even here there are some with doubts. State Pension age is expected to go up further, especially by those in their early 50s. Most trust that they will get something - albeit not at the same level as today - although there are some nuances:

- Those nearer to the State Pension age are more trusting/hopeful than those in their early 50s
- Men are more trusting than women, who feel very let down about having to work longer, even though they understand the reasons why
- Perception that once the State Pension is in payment the Government can't change it – but when challenged on this view they became very unsure and lost a bit of trust as a result
- Some concerns raised by low income respondents about whether saving into a pension will reduce State Pension entitlement, or impact on care benefits and allowances. This has put them off saving more than the minimum under Automatic Enrolment.

"The Government has decided that we are all going to pay into a pension while we are working so they can save some money and cancel the State Pension."

Most of our respondents had no DB provision and, as a result, said that they were unable to give a firm view one way or the other for this question. And yet, when asked to say why they did not trust pensions in general, they would more often than not recount stories specifically related to broken DB promises (Maxwell, BHS, closing schemes, etc.).

Mistrustful respondents gave more positive views when they were engaged

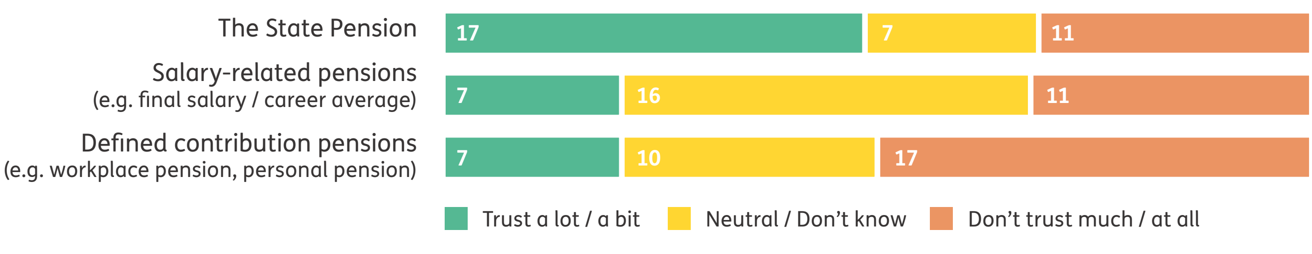
These simple exercises gave us a strong indication that people can feel quite differently about pensions in general compared to their own pension; a recurring theme throughout this research.

We believe the apparent contradictions highlighted by our two exercises can, in part, be explained by Daniel Kehneman's System 1 and System 2 thinking[5]. When asked to give a view on whether or not they trust pensions in our initial screener questions, or indeed in quantitative surveys, people are giving top-of-mind responses based on System 1 thinking, the brain's fast, automatic, intuitive approach. When completing our word association exercise people are using System 2 thinking, the mind's slower, analytical mode, where reason dominates.

When probed, in the screener (as with the question about organisation they don't trust) they were largely basing their opinions on the pension sector (which is a mix of their thoughts on the State Pension, DB and DC), whereas the vast majority said that they were specifically thinking about their DC pension when answering this question.

This also suggests to us that trust is a function of engagement - the more we can get people to think about their pensions the more likely they are to take a more neutral, or even positive, stance.

Figure 8: Mistrustful respondents' level of trust in different types of pensions



Note: Only includes respondents who mistrust pensions (n = 34). Figure shows number of mentions given, but should be treated with caution given the qualitative nature of the research

5. Kahneman, D (2011). Thinking, fast and slow. New York: Farrar, Straus and Giroux.

5. WHAT IS DRIVING MISTRUST OF PENSIONS?

People have a very long memory – 'broken promises' from more than 10 years ago drive mistrust in pensions today

Unprompted, our respondents usually recalled a litany of historical industry issues and broken promises that have shaken their faith in pensions and have not yet been forgotten. Given this apparent body of evidence they can readily call on, it is not surprising that they find pensions generally untrustworthy.

They feel that their particular generation has borne the brunt of these scandals, and every new headline that emerges simply serves to reinforce their already negative views.

"I think this generation has been taken as mugs really - the endowment policies, the retirement age, the crashes of the stock market, PPI, everything seems to be against us… I don't remember my parents ever talking about anything like this, and they were in a much worse state financially than I was."

The vast majority of the issues mentioned are system issues; no one mentioned any issues with their own DC pension provider

Five of our respondents had personal experiences of issues with DB schemes, which had somewhat clouded their views of all pensions, including DC, even though they were savvy enough to understand the differences. In contrast, not one of our respondents reported any specific issues with their DC pension provider.

There may be several reasons why system issues are such a strong driver of their perceptions. Firstly, people have very low or no engagement with their own pension. Without any experience all they can base their view on is what they have heard about pensions more generically. Secondly, people do not understand the different types of pension and therefore any bad news story is simply mentally assigned to pensions. Finally, as people are more forgiving of lapses in capability than they are of evidence of bad character, it is perhaps not surprising that these are the industry problems that stick in their mind.

Common to hear people talk about the Government constantly 'moving the goalposts'

For the vast majority of our respondents the State Pension is the bedrock of their retirement provision. They have seen how vital the State Pension has been to the financial well-being of their parents, yet they have little faith that it will perform the same role for them. It is very much seen as a political football. There was general agreement that the State Pension, and pension rules in general, are at the whim of the Government of the day and that the Government can change it with little notice. Our respondents tended not to trust government, and for most these feeling have been exacerbated by Brexit.

"State Pension, I don't trust that very much these days as they keep moving the goalposts. It will get to the point where people will be dying before they can get their State Pension, because it is changing so much. How long have you got to live before you get the State Pension? Think about poor people who have got manual jobs, how are they going to continue working?"

"WHEN YOU STARTED WORK YOU HAD A CONTRACT WITH THE GOVERNMENT AND YOU SHOULDN'T 30 YEARS LATER THEN BE TOLD YOU HAVE TO WORK UNTIL 65 NOW. THIS IS WHERE THE TRUST JUST GOES DOWN, THERE IS NO TRUST IN GOVERNMENT, IN ANY FINANCIAL COMPANIES, AND IT IS ALL DOWN TO WHAT THEY KEEP DOING, MESSING ABOUT WITH THINGS.

"They say that life expectancy has levelled off and might get worse, what with obesity and diabetes and the rest, but the Government won't bring retirement age down again will they?"

A significant number of our respondents had a small DC pension from opting out of SERPS. They were 'told' at the time that this was the best thing to do. Subsequently, they have heard that it was not and they should opt back in again. They usually do not understand what SERPS is (nor the consequences of opting in or out), but this whole experience has led them to question whether you can ever really trust pensions if the so-called 'experts' keep getting it wrong.

There is a constant concern that their pension money might disappear

By far the most cited 'broken promise' of all was the Maxwell scandal, even though this happened more than twenty years ago. Some identified this as fraud and were aware that the 'rules had changed' as a result to stop this happening again – but were then confused about the BHS story and how this could still happen.

The more financially savvy were able to ringfence this to DB schemes, but most respondents could not say whether this could happen to their DC pension – and many were worried that it might.

WELL, WHO WAS THAT PERSON WHO RAN OFF WITH EVERYONE'S MONEY? THEY PAID IN ALL THAT TIME AND NOW IT IS GONE. I HAVE NO IDEA IF THAT COULD HAPPEN TO ME. I DON'T KNOW WHO NEST ARE, I DON'T KNOW WHERE THEY ARE PUTTING OUR MONEY, SO THEY COULD WELL BE GOING BANKRUPT. I COULD JUST BE AS WELL PUTTING IT UNDERNEATH THE MATTRESS.

A handful also referred to Equitable Life, which is usually the only example people can give of a pension provider that failed to keep its promises. As a result of this high profile 'scandal' there is a lasting suspicion that the company went bust and people lost their pensions. They do not understand the specifics of the case, and simply believe that if it can happen to one pension provider, it can happen to any of them.

More recently, the BHS case has caught their attention and reinforced their views that pension funds can be 'raided'. When probed for the specifics, few could say what really happened and why. They are not aware what has ultimately happened to the scheme members and assume they have lost all their pension money. Similarly, the few that mentioned Tata/British Steel scheme could not say what had really happened and why, nor were they aware of what has happened to the scheme members. Again, they assume that members have lost all their pension money.

Many felt that there had been a history of broken promises about how much pensions will deliver

Changes to the State Pension age were raised as a driver for mistrust by practically all of those we spoke to, and this issue was felt particularly strongly by our female respondents who felt 'cheated' that their plans to retire at 60 had been thwarted. Broken promises about the State Pension make planning for the future very difficult, and shake their faith in all pensions.

"I think the State Pension is a rip off. I have worked all my life since I was 17 they told us last year I can't retire at 60. Yeah, I understand people are living longer, but equally there are some people that don't."

With State Pension age expected to increase further, they wonder whether they will ever get to retire, and question the point of saving in to a DC pension.

"The Government keep changing the goalposts all of the time don't they, for when people can retire. I'm not going to get my State Pension - first it was 60, then 65, 66, and then 67! I just think, well I am going to be working until I drop, so why pay all this money into a pension really when you don't know what you are going to get out of it. Really you could be paying into it for nothing."

There was a general awareness that most DB schemes have closed, and that the generous promises made as part of employment contracts in the 80s and 90s have been broken. For those respondents with no experience of DB schemes, closure is often taken to mean that the people in the scheme will no longer get all of their money.

"You hear so many bad things about pensions as well, it started off with Maxwell, then you hear other companies where they have closed and people have lost their pensions and they are not getting their pension or not all of it, and you feel like, it is a bit of a gamble these days."

Unlike banks, where the message about the Financial Services Compensation Scheme (FSCS) has very much been rammed home, the vast majority of our respondents were completely unaware of any protections that are in place in the pension market, which again makes savings accounts feel safer and more trustworthy then pensions.

That said, a couple of respondents had personal experience with DB schemes entering the Pension Protection Fund (PPF) (Kodak and Reader's Digest), and whilst they were grateful for the protection it offered, they were still not convinced that they would receive their money, nor that it would be paid for the rest of their life.

"I don't trust my pension much at all, the fact they are in the PPF. I don't know enough about the PPF to know if they are getting commission? I know the income we should have got has been reduced, but who knows where it will be in the next 5 years and if the PPF will be around? I was just so hugely relieved that there was something, but I really don't know what will be there when I draw my pension."

Many in this particular age cohort were buying their first homes in the 80s and some had been persuaded to take out endowment mortgages which had not performed as expected, resulting in red warning letters and compensation. Our respondents blamed this experience on the unrealistic promises made at the time about the investment returns they would receive by 'pushy' salesmen.

They felt very strongly that the sales culture in place at the time they took out their endowment mortgages was also very prevalent in the pension market, and that they heard similar promises from the financial advisers who 'sold' them their pensions with the same high projected returns (often cited at ~15%).

I THINK YEARS AGO YOU THOUGHT DOWN THE ROAD, WELL THAT IS ALRIGHT IN SO MANY YEARS' TIME I WILL GET X AMOUNT. THEN, OVER THE YEARS THE NEWS FROM THE GOVERNMENT, AND THE PENSION POLICIES AREN'T WHAT THEY MADE OUT TO BE. IT'S LIKE THE BANK OF KEN DODD, UNDER YOUR MATTRESS IS THE BEST PLACE TO KEEP IT!

When pushed, respondents often admitted that they suspected in the back of their minds that the amounts they were paying in and the lower than projected returns over the years would lead to a shortfall in both their endowment and pension. However, endowments gave strong warning messages about this, whereas they could not recall any such messages in their DC pensions statements. A combination of behavioural biases – most notably the ostrich effect - meant that they simply stuck their head in the sand and hoped for the best. As a result, many are now very disappointed with the value of their fund and feel that it has been 'doing nothing', especially in recent years.

A couple of respondents recalled the removal of tax credits, but they could not really say what impact this had had on pensions in general, and on their pension in particular.

Specific trust issues with DC pensions are predominately driven by a perception that 'the house always wins'

A key objective for this study was to get under the skin of some of these generalisations and 'knee jerk' reactions and to get a deeper understanding of how our respondents really felt about their own DC pension.

What we found was that trust issues with DC pensions are predominately related to perceptions of investments, where our respondents felt there was a huge misalignment of interest between them and the investment managers who are supposed to be looking after their money.

There is a strong perception that DC providers are simply 'gambling' with their money to take big risks to get big bonuses, that asset managers get paid big money regardless of their performance, and that they are all in it for themselves – 'the house always wins'.

"I think all financial institutions are greedy anyway, they will take their fees off of you no matter what, and the risk is down to you… I think the whole financial sector lives off greed. Basically, the way I see it is that the people who are not in the financial sector do all the work and the people who are in the financial sector take the money off them and make a living out of it and live fantastic lifestyles."

"They are gambling or investing with someone else's money. I know it is their job, but it is not their money. Are they that bothered if it does get lost? I'm sure they are to a certain extent, but I don't know. You are just more careful with your own money."

"In all fairness, if people, like the investment managers are doing well and getting a good return for the members then they should be rewarded, but it also should work the other way round - that if they aren't doing well, they shouldn't get big bonuses."

"They are taking the mickey. Every year the financial sector pays themselves billions of pounds in bonuses, not based on 25 years of investment performance, but based on how much money they have taken off you now. So, they are always in credit and all you hear every year is how much money or how many millions of pounds they have got in bonuses and so on. That is based on what they are taking off us and knowing they are having a laugh at our expense."

For most, there was general sense that the financial sector is somewhat corrupt, and that the odds are stacked against them; a view which has been strengthened by the financial crisis in 2008 and the industry response since then.

DC pensions are not 'safe' like cash-based savings, which does not sit well with their stated risk preferences

There is also a strong perception that DC pension investments are not aligned with how they would want to invest their money.

The vast majority of our respondents self-reported as highly risk averse and, for many, their only other experience of equity investments were endowments which didn't work out well for them. They are wary that pensions are too risky.

WELL A PENSION IS A GAMBLE ISN'T IT? IF YOU PUT YOUR MONEY IN A SAVINGS ACCOUNT OR ISA WITH A GUARANTEED RETURN, BUT WITH PENSIONS YOU CAN DOUBLE YOUR MONEY OR YOU CAN LOSE SOME OR ALL.

At this late stage in life, the vast majority had strong feelings of loss aversion. They are not interested in making more money if this means there is any chance they might have less in their pot in the future than today, and in any case the evidence from their pension statements indicates their pensions are 'not doing much' anyway.

"Even though I have taken my pension money I think I would have just left it in the same place if someone would have had said you could get 2% here. What is the point of risking it?"

Rather, their focus is on being able to plan for the future with certainty. Our respondents had little or no awareness of lifestyling nor what this means for them. Lifestyling was explained in broad terms as an option that may be offered by a pension provider, which involves moving the saver out of more risky investments (such as stocks and shares) and into less risky investments (such as cash and bonds), as they near their retirement date.

"I am just worried, are they investing correctly? It will be my luck that when I retire the markets will crash - as that did happen when the markets crashed and people's pensions were worth nothing. And I just think, well am I just better off in investing in something else?

And so, in their minds, the answer to this misalignment of interest is to take their DC money under their control as soon as they can by placing the money in a deposit account or cash ISA. At this point, the gamble is over, the money is quite literally 'banked', and they can relax.

"I feel like I have control, I know what I am doing and it is mine. It is in my bank account, it is not away from me in a pension"

There are no experts any more

Some respondents felt that there is no such thing as an expert in pensions anymore, giving specific examples that no 'expert' saw the 2008 crash coming, that if markets go down all of the 'so-called experts' lose money too, that Mark Carney at the Bank of England is constantly getting his forecasts wrong, and that Government experts cannot forecast Brexit outcomes.

THE GOVERNOR OF THE BANK OF ENGLAND, HE IS THE NUMBER 1 GUY AND HE HAS NEVER GOT A SINGLE PREDICTION RIGHT. IT IS JUST FINGER IN THE AIR – NO ONE KNOWS WHAT WILL HAPPEN.

Given this outlook, it is perhaps not surprising that they have formed a view that they no longer trust what 'so-called experts' are saying and prefer to go with their own judgement, explaining why some are happy to cash in their DC pots to take the money under their own control.

"I wouldn't say I am an investment expert, no, but they don't get it right either do they? When the markets go down, their money goes down too. If I am looking after my money then at least I know I'm in it for me, and they are my mistakes."

Lack of engagement means that all DC providers are tarred with the same brush

Setting aside their feelings on investment practices, they completely trusted their DC pension provider to do the basics such as taking the correct amount of money from them and their employer and paying it into the right account. They trusted that their statements contained the correct information. These basic competencies are very much seen as hygiene factors and do not build trust, but if they were to experience or hear about an issue then this would certainly change their views.

They were slightly less sure that the money would be there when they needed it and that if they phoned up their provider they would always receive unbiased information.

"I am with Scottish Life and they do seem to not be too bad. There are no scandals with Scottish Life, and they seem to be better pension company than Scottish Widows, Equitable Life, all these others."

However, despite these generally positive perceptions, their own DC provider is more often than not described as 'the best of a bad lot', rather than seen in a particularly positive way. This view was based on very limited knowledge about their own provider, and even less about the rest. They had no idea how to assess whether one provider is more trustworthy than another, and most had never thought about switching provider and were unclear that they could do this.

"You might have a Standard Life or Legal and General, but who do you trust? No one can predict what is going to go on. I had my pension since 1987 and thought it was fair enough. I never thought about switching around, as if it was there, it was safe, so what is the point of moving it?

Many of those with workplace pensions had very low awareness of who their provider is and felt that they have little or no connection with their pension. Unlike other financial products where they have personally made an active decision on which provider to go with, here they have had no input whatsoever. For some, this is seen as the better option as they believe that the employer knows more than them. But, for many others, especially those in smaller firms with Automatic Enrolment, they believe the employer is just as clueless as they are, or that their employer is 'cheap' so likely selected the cheapest provider possible (not the best).

With takeovers and mergers over the years, many of the providers they had originally 'trusted' with their money are not the providers they are with today. As a result, they have lost track – and interest - in who their pension is with.

6. HOW CAN THE INDUSTRY REBUILD TRUST?

How can the industry rebuild trust?

Behavioural science has shown that people have both an inherent 'negativity bias' (a predilection to hear and remember bad news[6]) and confirmation bias (a tendency to focus on information which supports the views they already hold). Our respondents struggled to think of another sector where there they had heard so many bad news stories over such a long period of time. The industry is therefore going to have a battle on its hands to change hearts and minds, especially as there seems to be no end to the media's appetite for pension bad news stories. Given this amount of regular, ongoing negative reinforcement, it is perhaps not surprising that some of our respondents are not yet in a position to forgive and forget, and questioned whether the damage done could ever be repaired in their eyes. They are the most likely to want to take their DC pensions out as soon as they can.

"It is very difficult to rebuild trust. It will take a long time."

"The younger generation haven't had those issues - they have not been stung or have all those bad news stories."

Figure 9: Examples of pension stories in the mainstream press in the last year

6. www.bbc.com/future/story/20140728-why-is-all-the-news-bad

That said, in the middle of our fieldwork news broke about the mistreatment of British Steel workers in Port Talbot taking advice on pension transfers. Despite the high-profile media coverage, including the News at Ten, only one of the five respondents we interviewed the next day could recall this story despite reading the news and watching the programmes. This suggests to us that:

- Scare stories resonate, but not as much as we might think
- Bad news stories are a slow burn, reinforcing views over a long period of time rather than any single event
- Consumers are more alert to 'people like us' stories - the British Steel did not particularly resonate as they did not really understand what was going on and did not themselves have a DB scheme in trouble that they were thinking of transferring from. Whereas BHS did resonate as there was a distinct 'bad guy' to blame and it was a well-known high street brand going bust, and if it can happen to BHS it could happen to anyone.

People desperately wanted more stability and predictability to plan for the future with certainty

When describing the current pension environment, we constantly heard people telling us how frustrated they are with goalposts that are constantly moving.

This tendency to change the rules does not sit particularly well with planning for a very long-term horizon, nor to making firm commitments today when things could be fundamentally different tomorrow. Our respondents were expecting more changes in the light of economic pressures such as the costs of long-term care and Brexit, and when explicitly prompted, confirmed that such change would only serve to deepen their sense of mistrust.

Perhaps given these frustrations, it is not surprising that, when tested by the moderator, there was practically unanimous support for something akin to the Dutch system (where pension decisions are made for a five to ten-year horizon, and where a body of representatives from Government, employers and the people are the decision-makers)

"That sounds really good actually. It sounds similar to where you would have employee trustees on the board of your own pension scheme, they are still working for your best interests. So, employer groups and unions then could be represented? And it is independent? And the Government wouldn't be able to change say State Pension age without their agreement for instance? Well in that case, even better! Absolutely that is a great idea, yes."

For those open to receiving messages, a focus on 'integrity', 'benevolence' and 'transparency' could make a difference

When asked about trust by the Financial Times, a leading academic in the field, Onora O'Neill, said:

WE NEED TO THINK MUCH LESS ABOUT TRUST, LET ALONE ABOUT ATTITUDES TO TRUST DETECTED IN OPINION POLLS... THE FOCUS SHOULD BE ON BEING MUCH MORE TRUSTWORTHY, AND HOW YOU GIVE PEOPLE ADEQUATE AND USEFUL AND SIMPLE EVIDENCE THAT YOU ARE TRUSTWORTHY.

Source: FT Magazine 16/17 December 2017

Figure 10: Ranking of factors that are important for establishing trust in pensions

Thinking back to the set of factors which our respondents said were important to them to demonstrate trustworthiness gives us a good indication of areas where the industry could focus its attention. To test this in more detail, we asked our respondents to rank these factors specifically with pensions in mind. This exercise confirmed that messages to build better perceptions of integrity, benevolence and transparency are likely to have the most chance of making a positive impact.

Integrity needs to be addressed at an industry level

Thinking first about changing perceptions of integrity, the industry does not have an easy task at hand. Where trust is broken through a breach of integrity, people give more emphasis to negative evidence than positive evidence. Positive evidence therefore has to work that much harder to be heard.

We have seen in this research that issues with integrity are largely historical 'system issues'; few concerns were raised about their specific provider. This suggests to us that work to restore integrity will be most impactful if it is delivered through a co-ordinated industry response, rather than each provider following their own path.

Better communication of actual investment risk will help to reduce the current 'benevolence gap'

Our discussions certainly demonstrated that there is a huge 'benevolence gap' with regard to consumers' perceptions of the investment management community, citing a misalignment of interests in terms of both risk and reward. Much of the language used was very adversarial, reflecting the depth of these negative perceptions.

Our respondents were keen to see the balance of interests tilted more in their favour but were very sceptical that this could ever happen in a financial services firm, let alone a pension provider.

There was very little awareness that, in fact, the primary objective of pension schemes with trustees is to act in members' interests. Our respondents felt that more should be done to make people aware of this, and its practical implications.

It was also clear that a lack of understanding, particularly about lifestyling, means that DC pensions are perceived by the over 50s to be much riskier than they actually are. Raising awareness of the protections from the vagaries of the stock market already in place would be a first step in any re-alignment process, but simply giving people more information is likely to have a minimal impact, given their innate tendency to avoid engaging with anything they perceive to be too 'complex'.

This is certainly an area where the industry perhaps needs some more innovative thinking at the product design level.

The radio is playing, but no one is listening

Our respondents were very keen to have more transparency, but for them this does not mean more detailed information. In particular, when probed, they were not keen to receive more information on costs and charges unless it is very easy to benchmark their provider against others.

To them transparency simply means addressing some of the very basic questions they have on what kind of pension they have and how a pension works. Our respondents were very keen that providers communicate this information in a way which is understandable to them; at present they feel the provider does not understand them at all.

"I have been in contact with the three pensions that I have, and you are in touch with someone from the call centre, who is just reading from a card. It is so frustrating. I don't want you to tell me what you have told 30 other people who you have spoken to this morning, I want you to talk to me about what I have."

Whilst undoubtedly there is more that can be done to make pension information more accessible, one of the most frustrating aspects of this research was the inertia shown towards taking the responsibility to find out more themselves. Our respondents were often unaware that their own provider had a plethora of materials to help them address some of the simple questions that they had. Their lack of engagement means they are oblivious to the strides that many providers have actually made in improving communications.

"You know what would help is something that tells me what my options are at retirement. You pay into it but you get no information about what you can do with it when you retire, you get an illustration but nothing more than that really."

[Moderator: Did you known that your provider has a website? It has lots of good information on it, such as videos and tools?]

"Yes, I did (know they had a website), I just don't bother looking..."

"

PARTICULARLY SOME OF THE STUFF YOU GET THROUGH, THE WORDING, WELL I AM NOT STUPID, I WOULD LIKE TO THINK, BUT BY PAGE TWO AND A HALF I AM ASLEEP. THEY ARE TALKING AT ME, THEY ARE NOT TALKING TO ME.

Strong support for a formal ‘nudge’ to kick start their education process at around 50

Our respondents were starting to get interested in pensions from around 50, but with a very low baseline of knowledge. They usually apologise about their lack of knowledge and understanding, commonly using the phrase “I’m sorry, I should know more about my pension at my age, but...”

They recognise that with DC pensions all of the risk has been transferred to them, and the onus is on them to find out about what they can do. However, there are no immediate triggers or reward for finding out more, and some are simply afraid of having to do it as it feels “overwhelming”.

Left to their own devices, our respondents freely admitted they are unlikely to take any action until they have to. This suggests to us that unless we can engage and educate, people will continue to base their perceptions of pensions on the historical system issues identified; ones that often have nothing to do with their DC pension today.

Unprompted, some suggested that they would need a specific nudge from around age 50 to kick start this education process. When prompted with this idea, there was strong support across all respondents - even the most mistrustful - for such an intervention.

This nudge could be from their provider, but as most had not interacted with the pension industry for a very long time, they were still under the impression that the industry is very much commission and sales driven. This made them suspicious of the motives behind any provider communications, and wary of taking independent financial advice. Messages, particularly about the need to save more, or the benefits of leaving pension money invested would therefore be more powerful coming from an independent source.

GIVE THEM THE BASIC FACTS AND FIGURES, NOT JARGON, AND EXPLAIN TO THEM YOU HAVE X AMOUNT IN THE POT, IF YOU ARE GOING TO RETIRE IN 10 YEARS’ TIME YOU GET X AMOUNT, AND IF YOU THINK THIS IS NOT SUFFICIENT FOR YOU TO LIVE ON THEN THINK ABOUT EXTRA MONEY. LET THEM FEEL THEY ARE MAKING A DECISION. IT GOES BACK TO COMMUNICATING, IT DOESN’T MATTER HOW MUCH YOU SAY IF THE RECEIVER DOESN’T GET THE MESSAGE THEN IT IS USELESS. I THINK LANGUAGE HAS GOT A LOT TO DO WITH IT. THERE HAS TO BE MORE DISCUSSIONS OR INTERVENTIONS WITH PEOPLE ESPECIALLY WHEN THEY GET TO 40. GIVE THEM A KICK UP THE BACKSIDE THEN, NOT SIX MONTHS BEFORE THEY RETIRE.

ABOUT JUST

Just (Just Group plc) is a FTSE-listed specialist UK financial services company created by the merger of Just Retirement Group and Partnership Assurance Group.

A leader in the individual retirement income, lifetime mortgage, care and defined benefit de-risking markets, Just has been trusted to manage over £15 billion of customers' retirement savings and has helped customers release over £3.5 billion from their properties.

Just provides a wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees.

ABOUT IGNITION HOUSE

Ignition House is a specialist financial services research consultancy with a reputation for excellence built around the skills, knowledge and experience of our senior team.

Founded by Janette Weir and Edward Ripley in 2009, we work with regulators, public sector bodies, industry associations and financial services institutions to help them address the particular business issues they face.

We are experts in the pensions and at retirement markets and have been actively involved in understanding consumers' reactions to the new pension freedoms.

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Janette Weir and Edward Ripley authored the report, with analytical support from Joseph Birch. The views expressed in this report are those of the authors and not necessarily those of Just. Any errors are the responsibility of the authors.

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