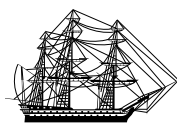


Opting out of opting out

How different messages affect people's
intention to opt out of their auto
enrolment pension scheme



Vanguard[®]



Authored by

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About Nest Insight

Nest Insight is a collaborative research unit set up by Nest Corporation to help understand and address the challenges facing Nest members and other defined contribution savers. For more information visit nestinsight.org.uk

About Nest Insight's strategic partners



Vanguard

Vanguard was founded with the purpose of taking a stand for all investors. In pursuit of this principle, Vanguard is proud to be the first strategic partner of Nest Insight in its effort to help the UK public achieve the best chance of investment success, and a comfortable retirement. For more information visit vanguard.co.uk



Invesco

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Building on its strong track record in defined contribution research, and its existing partnership with the University of Cambridge Judge Business School, Invesco partnered with Nest Insight to support their ambitious programme of research, publications and events. For more information visit: invesco.com NYSE: IVZ.

Introduction

Like many countries, the UK has faced a combination of pressures on the retirement system in recent years, headlined by rising life expectancy and, prior to 2012, a decline in private saving.

Insufficient saving for retirement can cause a number of problems for both individuals and the macroeconomy, and this has led to a significant public policy focus on increasing retirement saving. The widespread application of behavioural economic principles and 'nudges' has had a significant impact within pension systems around the world: in particular, the use of auto enrolment, reduced choice and the use of defaults in investment design, and the application of 'automatic escalation' to increase contribution levels once people start saving.

In the UK, building a more effective choice architecture via defaults has proved particularly successful. The mandatory application of auto enrolment into workplace pensions by employers has substantially boosted overall pension participation rates.

While this success has been significant, some challenges remain. Firstly, any system using default contribution rates encourages uniform savings levels for all participants. This obviously doesn't take into account the varying needs and behaviours of each individual, and suggests that there is still a role for encouraging individual choice both within and beyond the default options.

Secondly, the right to opt out from auto enrolment is an important safety valve that ensures those who neither need nor want to save aren't forced to do so. However, it's unclear whether those opting out are always doing so for considered, constructive reasons.

“...it's unclear whether those opting out are doing so for considered, constructive reasons.”

We recently undertook research focused on this latter question, seeking to understand the extent to which people followed through on an initial intention to opt out when presented with varying messages drawing on different behavioural approaches. The study comprised a review of existing literature, and two primary research exercises:

- an online survey-based exploration of responses to different messages, and
- a randomised field trial of a subset of those messages deployed within the opt-out process of a large pension scheme.

Each component of the study is summarised in the remainder of this paper.



Further reading and acknowledgments are available on [our website](#).

A review of existing literature on undersaving

Retirement expectations vs reality

Retirement represents a significant, permanent drop in income. Knowing this, traditional economic theory expects people to save some of their working age income to fund their retirement, smoothing consumption of funds over their lifetime.

In practice, many people don't save at all or don't save enough to smooth their consumption in this way.

People consistently fail to save enough to meet their needs or expectations in their old age, and this is true whether measured by income replacement rate or by self-assessment.

In the UK alone, the Independent Pensions Commission estimated that as many as 12 million people are under-saving for their retirement.



Why aren't we saving enough?

There are many possible psychological and behavioural reasons why people are failing to prepare for a comfortable retirement.



Timing

People over-value the present relative to an unknown future time. Saving for the future can be seen as losing out in the present.



Psychological distance

We tend to think about retirement as a far off, abstract event, but consider saving in immediate concrete terms, and it can be difficult to associate the two.



Financial literacy

Financial decisions about retirement are complex, involving knowledge of contribution levels, investment return assumptions, and predictions about work and income patterns projected far into the future. People tend to lack the confidence to make these choices.



Status quo bias

When faced with complex choices, people believe that their decision is unlikely to make any significant impact. They prefer to do nothing at all rather than make an active choice.

Impacting behaviour

How can we impact savings behaviour?

Several theoretical and practical methods seeking to influence individual decision making about retirement savings have been explored by other researchers.



Construal level theory

For most people, retirement is a distant, abstract concept, and far removed from the near-term actions we need to take to save for it. Encouraging people to consider retirement in the bigger picture rather than focusing on the details may help reduce our bias for the present.



Feasibility and autonomy

The less people believe they're likely to succeed at a task, the less likely they are to take any action at all. They need to believe that their goal is within their grasp. For example, studies have shown that people are more likely to save for retirement when their contribution is broken down into a small daily amount as opposed to a monthly total.



Just-in-time education

The main challenge with traditional educational interventions is that people forget information over time. The just-in-time approach involves giving people the material they need at the point they're making a decision.



Social norms

Interventions using social norms have been successfully applied to pro-environmental behaviours such as electricity consumption or towel re-use in hotels. It's possible that this could also have an impact on pension saving, which shares intertemporal choice characteristics – the process by which someone's decisions today, impact the options available to them in the future.



Gain frames and loss frames

Messages can be framed in terms of how taking a particular action will benefit you, or how not taking it could be to your detriment.



A focus on family

Rather than focusing pensions messages on how you'll benefit as an individual, this intervention focuses on the benefits that saving will bring to your family.

Overview of research

Influencing retirement savings behaviour

Nest Insight conducted two primary research exercises to explore these questions:

- 1. What is the relative impact of messaging, based on a range of different theoretical frameworks, on stated intentions to start saving or increase saving?
- 2. For a subset of those messages, what is their impact on people's propensity to complete the online opt-out process once started, following auto enrolment into a workplace pension scheme?

Stage 1

An initial exploratory online survey was carried out with 514 participants, testing potential messages aligned to the identified behavioural theories. They read 16 statements, rating them on a seven-point scale to indicate whether each message made them more or less likely to start saving or increase current levels of saving in the near future.

Stage 1 findings were used to narrow the initial 16 messages down to four. These four messages are highlighted in orange.



Social norms

'More than 90% of people now choose to save for their retirement when offered the chance at work'

'More than 9 out of every 10 people now choose to save for their retirement when offered the chance at work'

'Fewer than 10% of people now turn down the chance to save for their retirement at work when offered it'

'Fewer than 1 in 10 people now turn down the chance to save for their retirement at work when offered it'



Feasibility and autonomy

'Contributions to the pension scheme for the average member are only around £3 per day'

'Contributions to the pension scheme for the average member are only around £20 per week'

'Contributions to the pension scheme for the average member are only around £90 per month'

'Contributions to your pension don't cost much - a few pounds per day. People generally find it easier to reduce other spending to compensate than they think they will'



Just-in-time education

'Contributions to your pension now will grow until you retire - so contributions made sooner will be worth more to you than contributions you make later'

'Contributions to your pension now will grow until you retire - £1 saved now does the work of £2 in 15 years time, so it's much better value to start sooner'

'If you contribute, so does your employer. For the average member, employer contributions add around £60 per month'

'Your contributions get tax relief from the government. For the average member this could increase your contributions by around £18 per month'



Construal level theory

'Saving money now for your retirement means you'll be able to spend more money on friends and family when you're older'

'Saving money now for your retirement will help you to avoid missing out on things you enjoy now when you're older'

'Saving money now for your retirement will help you to avoid missing out on spending on friends and family when you're older'

'Saving money now for your retirement means that you'll be able to afford to keep doing more of the things you enjoy now when you're older'

1. Following compliance checks of the statements between stage 1 and stage 2, this second statement was amended to read £30 instead of £60.

Stage 2

The second phase of the study was a randomised control trial in a field setting with employees that had been automatically enrolled into Nest. Alternative versions of Nest’s online opt out process were tested by adapting a sequential pair of screens on the user journey. These were used to show selected pairs of messages from Stage 1.

A total of 2,483 Nest members who started the opt out process were randomly allocated one of the three following journeys.

The control message

The ‘control’ journey was the screens that have been used by Nest since inception.

Screen ‘control 1’

1. Can you afford it?

2. Happy to lose out?

3. Confirm opt-out

4. Opt-out complete

The law requires this opt-out must be carried out by the member. If you're an employer using this journey to opt out one of your workers, you'll be breaking the law if you continue.

You've selected to opt-out from: Org_02

1. Not sure you can afford it?

You might be wondering if you can afford to save in a pension scheme.

Whether your retirement is a long time off or just around the corner, it's still a good idea to put money away now. Why not give it a go and take small steps towards a better future?

You can always take a break from making contributions later if you'd like to.

If you're happy to keep saving for now, log into your NEST account. This will help you keep up-to-date with what's going into your retirement pot. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you'd like to opt out of your enrolment into NEST click on *Opt out*.

Cancel

Log into your account

Opt out

Screen ‘control 2’

1. Can you afford it?

2. Happy to lose out?

3. Confirm opt-out

4. Opt-out complete

You've selected to opt-out from: Org_02

2. Did you know you'll miss out on extra money?

If you opt out now you'll miss out on money from your employer.
To find out how much this could be, enter your earnings information below.

Your yearly earnings:

£ Enter yearly earnings

In the first year, you could lose out on

£ This amount is based on your yearly earnings and the contribution rate your employer agreed to pay.

You'll also miss out on any tax relief you may be eligible for.

If you don't want to miss out on making the most of your contributions and getting extra money from your employer, click on *Log into your account*. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you're sure you want to opt out of your enrolment with NEST, click on *Continue to opt out*.

Cancel

Log into your account

Continue to opt out

Just-in-time education statements

Treatment 1, screen 1

1. Why now?

2. Not sure it's worth it?

3. Confirm opt-out

4. Opt-out complete

The law requires this opt-out must be carried out by the member. If you're an employer using this journey to opt out one of your workers, you'll be breaking the law if you continue.

You've selected to opt-out from: Org_02

1. Why now?

You might be wondering if you really need to start now or if you could put this off until later. But contributions to your retirement pot now will grow until you retire - so contributions you make now will be worth more to you at retirement than contributions you make later.

If you're happy to keep saving for now, log into your NEST account. This will help you keep up to date with what's going into your retirement pot. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you'd like to opt out of your enrolment into NEST click on *Opt out*.

Cancel

Log into your account

Opt out

Treatment 1, screen 2

1. Why now?

2. Not sure it's worth it?

3. Confirm opt-out

4. Opt-out complete

You've selected to opt-out from: ORG_01

2. Not sure it's worth it?

You might be wondering if saving for your retirement is worth it. But did you know that when you contribute, so does your employer? For the average member, employer contributions add around £30 per month to their pot.

If you're happy to keep saving for now, log into your NEST account. This will help you keep up to date with what's going into your retirement pot. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you'd like to opt out of your enrolment with NEST, click on *Continue to opt out*.

Cancel

Log into your account

Continue to opt out

Construal level theory and social norm statements

Treatment 2, screen 1

1. Why save?

2. Not sure it's for you?

3. Confirm opt-out

4. Opt-out complete

The law requires this opt-out must be carried out by the member. If you're an employer using this journey to opt out one of your workers, you'll be breaking the law if you continue.

You've selected to opt-out from: Org_02

1. Why save?

You might be wondering why you should save now and whether you can really afford it. But saving money now for your retirement means that you'll be able to afford to keep doing more of the things you enjoy now when you're older.

If you're happy to keep saving for now, log into your NEST account. This will help you keep up to date with what's going into your retirement pot. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you'd like to opt out of your enrolment into NEST click on *Opt out*.

Cancel

Log into your account

Opt out

Treatment 2, screen 2

1. Why save?

2. Not sure it's for you?

3. Confirm opt-out

4. Opt-out complete

You've selected to opt-out from: Org_02

2. Not sure it's for you?

You might be wondering whether pension saving is really for you. But did you know that more than 9 out of 10 people now choose to contribute to a pension when offered the chance at work?

If you're happy to keep saving for now, log into your NEST account. This will help you keep up to date with what's going into your retirement pot. Alternatively, you can also click on *Cancel* to leave the opt-out process.

If you'd like to opt out of your enrolment with NEST, click on *Continue to opt out*.

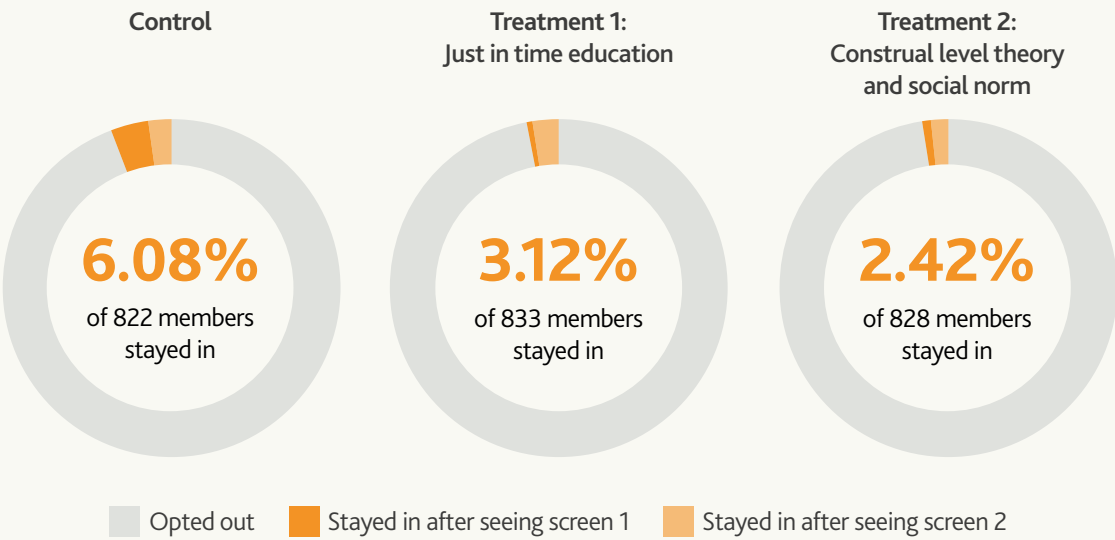
Cancel

Log into your account

Continue to opt out

Findings

As the data shows, the tendency to complete opt out is related to the messages an individual sees. The difference between the control condition and the two test conditions was small but statistically significant. However it operated in the opposite direction to that predicted in the study - those in the control condition were slightly less likely to complete the opt-out process than in either test condition, in spite of the evidence from stage one suggesting that the statements in the test condition should have a strong impact.

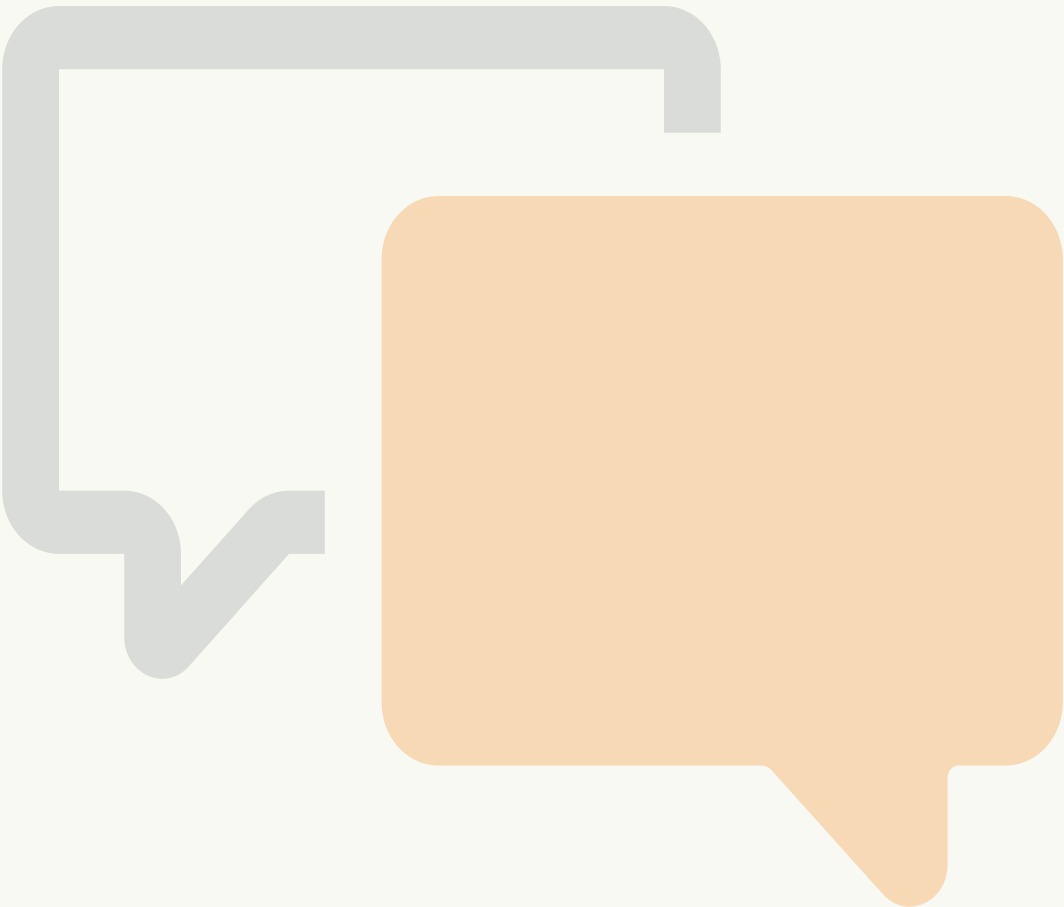


Between the pairs of test messages, people were less likely to complete the opt-out process after seeing the just-in-time educational pair than the construal and norming pair, as suspected. However, the effect wasn't statistically significant.

The results

The research came to three main findings.

1. People demonstrate clear differences in their stated intention to save when shown different messages. Their intentions are more affected by a just-in-time educational approach, and least influenced by the perceived ease of saving. Messages framed around construal level theory of retirement saving and messages based on social norms fall in between, with the former having more impact.
2. These messages have an impact on overall opt-out levels in a field setting.
3. The relative impact is different to that predicted by intention. Further, the message prompting the strongest stated intention had the weakest impact on actual opt-out rates.



Conclusion

As population demographics continue to shift, we'll continue to see policymakers move from traditional retirement models to ones that put the onus on individuals to choose and save for the kind of retirement they want. This can only prove tricky given our failure to act in our own self-interest when it comes to planning for retirement.

Interventions based on choice architecture, such as auto enrolment, have proven much more successful than those based on traditional economic models. But, even these models fail to fully address under-saving. There remains scope to optimise individual actions and behaviours.

The findings of this research are mixed. A clear, if simplistic, picture emerges of the relative impact of some different types of intervention on self-reported intentions, with just-in-time educational messages appearing to hold out the most promise. The findings of these self-reports of intention do not accurately predict actual behavioural reactions to these messaging interventions when applied in a field setting. Yet in that field setting, there is nonetheless a clear behavioural effect of varying these messages, one which has a small but statistically significant impact on the numbers of people completing the opt-out process. This is a finding worth exploring in further experimental settings, to establish if existing interventions to reduce opt-outs can be made yet more effective, and individuals' financial wellbeing in retirement enhanced as a consequence.

“A clear, if simplistic, picture emerges of the relative impact of some different types of intervention on self-reported intentions, with just-in-time educational messages appearing to hold out the most promise.”



The full research paper, *Opting out of opting out*, is available on [our website](#).

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To find out more visit our website

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