



Results of the Tomorrow's Investor Pension Survey

Analysis By: Aziz Boghani and Elizabeth Evans

Purpose of the survey:

Tomorrow's investor launched the 'Pension Initiative' survey on **8 June 2009** in order to establish an understanding of the critical behavioural change being witnessed in the financial industry. The urgent need for accountable, trustworthy and transparent investments is inevitable in light of recent events that have overwhelmed the global economy. The purpose of this survey was therefore not only to identify current problems but also high expectations for the future of fund management.

Methodology:

The survey was designed to investigate critical concerns with the pension fund management, focussing on cost, accountability, and communication.

Given the advantages and limitations of both approaches, open ended and closed questions were included in the survey. It was clear from past experience that closed questions would be simpler to answer and would easily lead respondents to the more open ended questions, where they could discuss their concerns in detail.

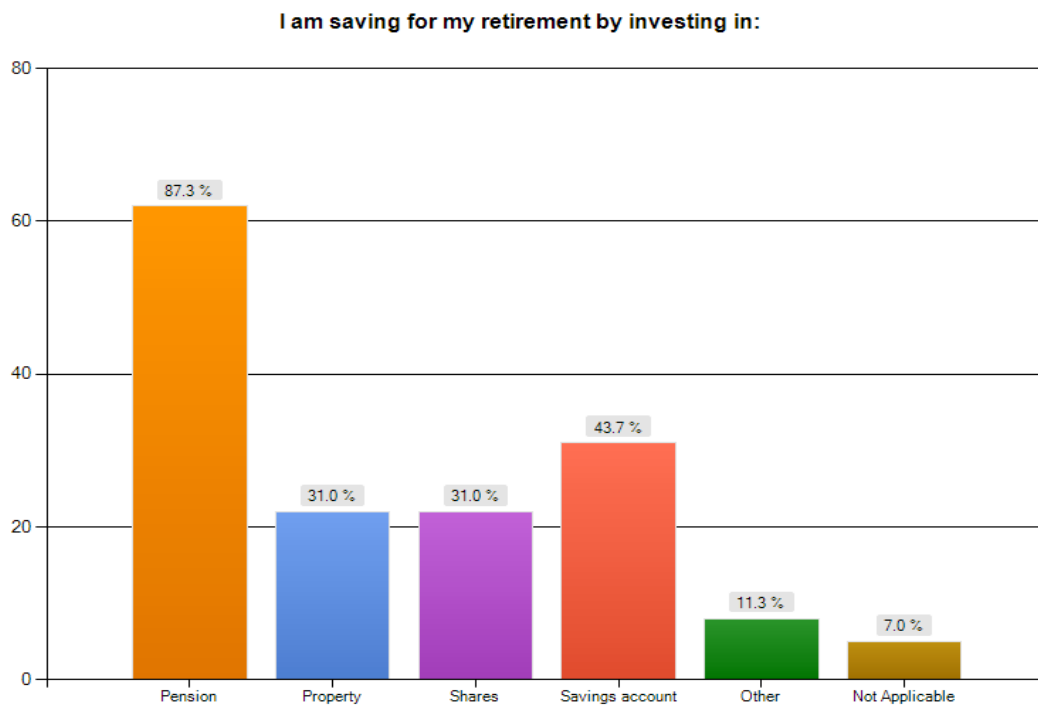
The survey was made available on the RSA website and the Tomorrow's Investor online forum. In order to broaden the variety (and views) of respondents, the survey was passed to friends, family and any subsequent contacts.

The open ended questions which required people to respond in detail were skipped by some and therefore out of a total of 108 people surveyed **66 per cent** of the people completed the survey.

The Investors:

Out of the 108 people surveyed, almost 85 per cent are employed with 13 per cent self-employed. Over 40 per cent of the investors earn in the range of £5,000 – £33,000 and almost 30 per cent earn in between £33,000 - £60,000 annually. Nearly 16% of respondents had an annual income of over £100,000.

The general trend suggests that a pension is considered the preferred way of saving for retirement, as over 85 per cent of the investors who took part in the survey saved this way. To our surprise, this was more than the number of people saving in property. An explanation for this could be the fact that the majority of people who took the survey were currently earning in the region of £5,000 and £33,000 and are saving through either a work-based pension (31 per cent) or private schemes (40 per cent).



Understanding of the impact of Annual Management Costs:

Not understanding the cost implication of pensions can have an adverse impact on savings made by investors. Research done by the RSA has found that an AMC of over 1.5 per cent can make the average investor lose around 40 per cent of savings invested into pension funds.

A lack of understanding of this issue was reflected by the majority of people who took the survey, as almost 60 per cent of respondents were unaware of how much they pay towards managing the cost of their pension funds annually. They were accordingly

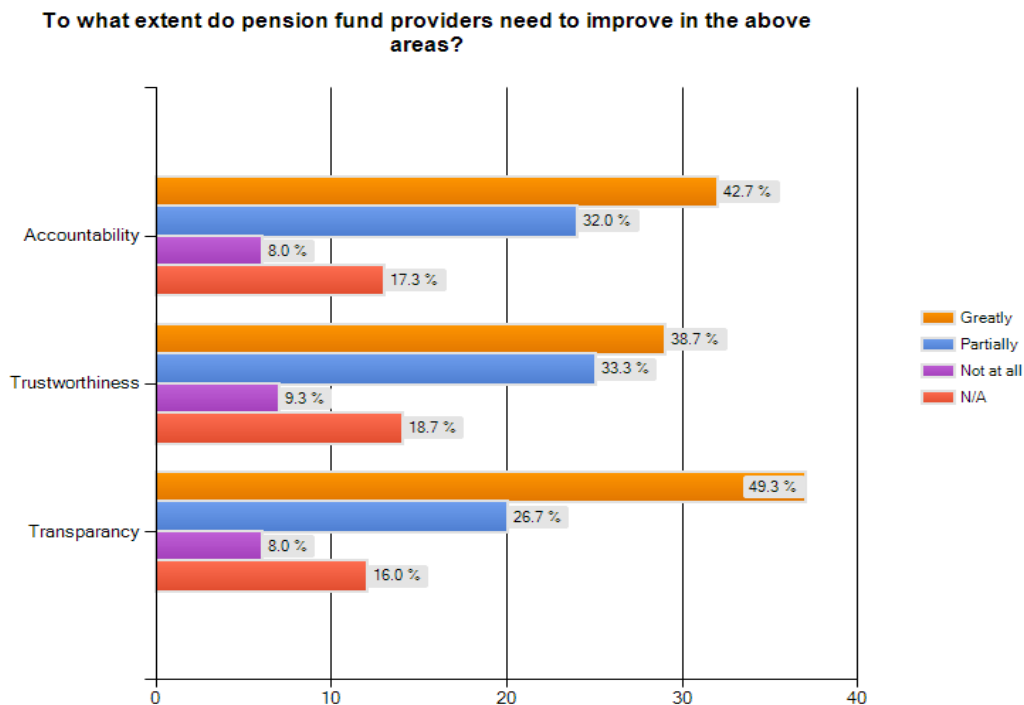
unaware of the overall impact of this cost to their pension, whilst over 65% of people said they had never really thought about it.

Accountability / Transparency / Trustworthiness:

The entire financial system has been shown to be culpable for the recent global economic meltdown, and the subsequent loss of trust. The emerging economic values of accountability, transparency and trustworthiness are going to be the foundations on which the financial system will need to build future investments.

This is because the shareholders of today and tomorrow will be both more vigilant, and anxious, than ever before.

As a result of recent events, future investors will demand the highest level of transparency, accountability and trustworthiness.



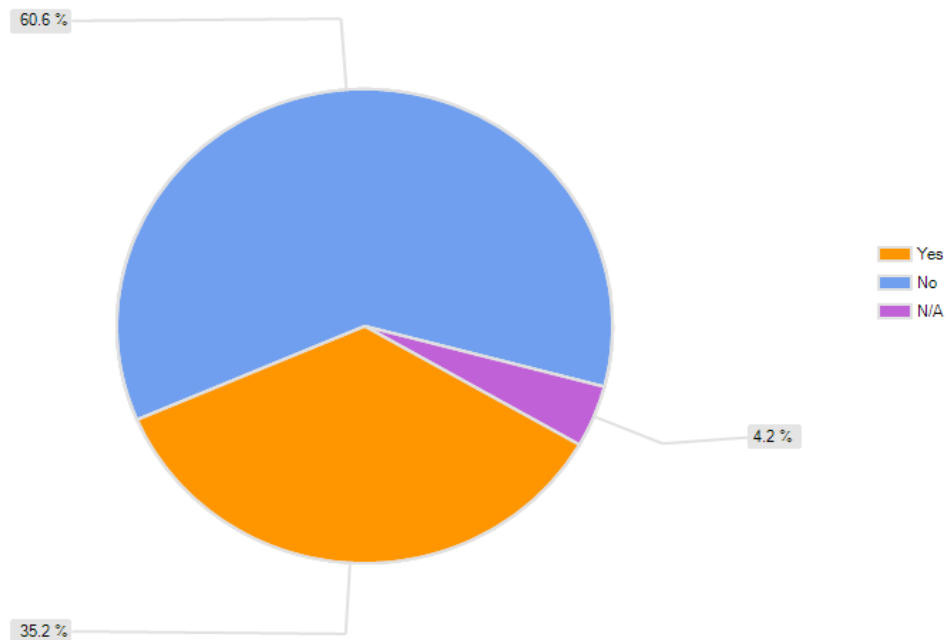
Investors will increasingly expect a great deal of information on various aspects of both the working practice and risk/investment decisions taken which will influence the management of their funds. This might include information about remuneration packages, receiving communication without the jargon and a better explanation of risks.

RSA

Fifty per cent of people who took this survey thought that pension fund providers needed to partially improve in the level of their accountability, whilst 46.8% of people feel only partially informed about their pension funds with an extra 22.6% of people feeling already well informed and 30.6% of people feeling poorly informed.

Considering this, 60.6 % of people did not know how or where their money is being invested with only 37.9% saying they did.

Do you know how and where your money is being invested by your pension fund provider?

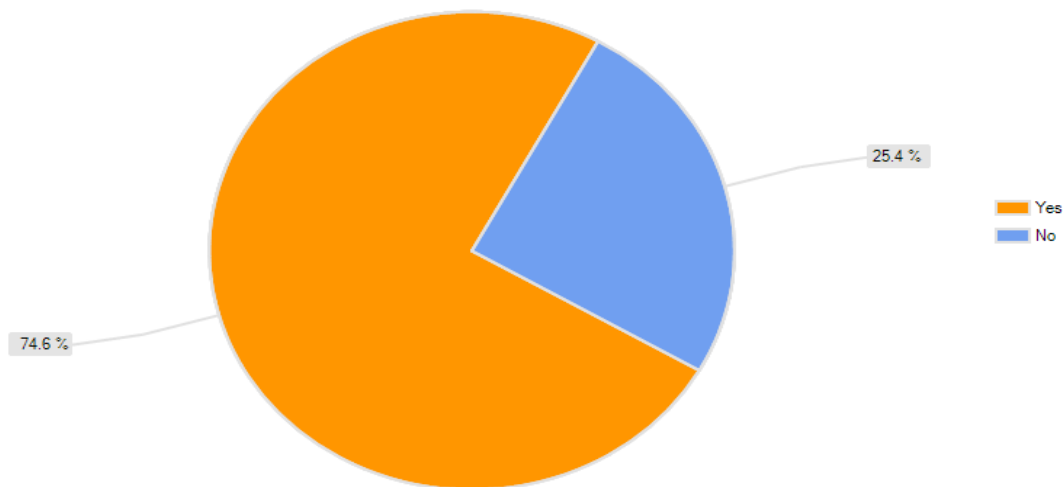


The lack of education about financial products can be blamed for not understanding the information available. Adding to this problem is the fact that the language used is complicated and full of jargon.

Future trends:

The majority of people surveyed would like to know the whereabouts of their investments and be more engaged with the investment decisions made for them. However, there is the potential risk that better engagement will increase costs for providers, which will inevitably be passed on to investors.

Would you like to be better engaged with the investment of your money?



75.8% of people would ideally wish to access information about their investments online which tends to be the preferred method for communication regarding other matters.

Further Comment:

One investor suggested the following solution to the issue of accountability, ***“(Produce a report reflecting how the funds are doing, investment strategy and the risks etc. Also treat members as adults and not blind them with jargon”.***

Further analysis of comments from respondents suggested that a radical transformation is required in the fund management industry when dealing with investors.

RSA

Suggestions included:

1. Specific regulation around costing
2. Stringent reviews of fund managers
3. Products designed for people with little knowledge of investment (eg. Profits included weaknesses eliminated)
4. Reports written in plain terms (jargon free)

People's expectations of engagement go further than the more immediate concerns of their investment, with some of the respondents to the survey expressing their desire to have a say on the remuneration, and bonuses, provided to fund managers.

RSA research has shown that proper investment of funds can be provided at a low cost, whilst providing investors with true ownership of their money.

For more information, please visit the Tomorrow's Investor RSA website at:

<http://www.thersa.org/projects/civic-capitalism/tomorrows-investors>.