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VARIABLES THAT IMPACT ON VOLUNARY PENSION CONTRIBUTIONS: A CASE STUDY

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1 INTRODUCTION

Inadequate pension savings is a problem facing all European countries. In Ireland, just over 50% of people in employment are pension scheme members (Ireland CSO, 2011). However, even those who are saving for retirement are unlikely to achieve pension adequacy which is conservatively benchmarked at 50% of pre-retirement income (Stewart, 2005).

Most pension research that seeks to explain pension behaviour is based on the individual. Inertia is a popular explanation as to why individuals do not save for retirement. For complex financial decisions, doing nothing is the most frequent consumer choice (Madrian and Shea, 2001; Weiner and Doescher, 2008).

However, viewing the pension saving decision from only one perspective, that of the saver, is perhaps too narrow. It takes attention away from the context in which pension saving decisions are made or avoided. For example, frequent changes to legislation, complex pension options, opaque risk explanations and jargon-filled literature are some of the complaints made by people who are attempting to make prudent pension savings decisions. These issues, resulting from the choices made by governments, employers and the pension industry create the environment in which pension saving inertia is observed. Uncovering any impediments to pension savings is a necessary prerequisite to sound financial choices and to promoting pension saving adequacy.

This paper reports on qualitative research based on 24 semi-structured interviews, using a stratified sample with employees in a single case study setting. The employing organisation is Medtronic, a US-based multinational in the medical devices industry with an Irish subsidiary located in Galway. With both one-way and two-way communication media, employees are regularly informed about their defined benefit (DB) pension scheme and the opportunity to increase their pension savings through an Additional Voluntary Contribution (AVC). In spite of this, research conducted in 2009 found that only 18% of employees are contributing to their AVC (Maloney and Morris, 2010). This research is attempting to identify the workplace variables that are influencing employees in their choice to invest or not invest in the AVC.

The background to this research is discussed in section 2. In the third section, the research methodology is described. Section 4 reports the findings starting with employee knowledge of their penions plan and followed by their attitudes toward the pension information distributed through the workplace. The fifth and final section is the conclusion summarises the findings and makes recommendations to improve Medtronic’s pension benefit.

2 BACKGROUND

The voluntary pension savings decision is complex. Inertia is a popular explanation as to why individuals do not save for retirement. For complex financial decisions, doing nothing is the most frequent consumer choice (Madrian and Shea, 2001; Choi, Liabson, Madrian and Metrick, 2005).

This explanation is unsatisfactory for two reasons. First, research suggests that some individual characteristics are systematically related to retirement savings. If increasing age (Madrian and Shea, 2001; Aizcorbe et al, 2003, Ireland, CSO, 2011), higher levels of income (Aizcorbe et al, 2003; Molony and Whelan, 2009) full-time employment (Ireland, CSO, 2011; O'Connell and Gash, 2003), life stage triggers (Gough and Nurullan, 2009) and a host of other characteristics are associated with higher levels of pension savings, then inertia is only part of the story.

Second, inertia ignores the context in which pension savings are made. Although individual characteristics impact directly on the voluntary pension savings decision, other variables originating from the workplace, government, financial services industry and external environment may impact on individual characteristics leading to different voluntary pension saving decisions. In Ireland, the employer is particularly important. This is because all employers are required by law to provide access to an occupational or personal pension scheme to all employees, to notify employees that they have the right to contribute and to allow access to employees by the pension provider during working hours (The Pensions Board, 2009). Recent statistics indicate that more than three-quarters of persons in employment with pension coverage, are members of occupational pension plan (Ireland, CSO, 2011). Therefore, the workplace appears to be a good place to start, in order to understand the variables that are impacting on employees' voluntary pension savings decisions.

3 RESEARCH METHODS

This case study research was conducted at a single location. Medtronic is a US-based multinational in the medical devices industry with an Irish subsidiary located in Galway employing about 2,000 people. Using a 'total rewards' approach, Medtronic communicates regularly with its employees about all aspects of their reward system, including their pension. The Pensions Board in partnership with Great Place to Work gave Medtronic a special award in 2011 to recognise their efforts at promoting pension savings.

Research conducted in 2009 indicated that in spite of the efforts made by Medtronic, only 18% if the workforce added to their pension savings using an AVC (Maloney and Morris, 2010). Qualitative research was then planned to determine the variables that were impacting on the individual pension savings decision.

Data was collected through 24 semi-structured interviews comprised of 12 demographic and employment history questions followed by 32 closed- and open-ended questions between October and December 2010. These questions included a wide range of pension-related topics. This paper focuses on the workplace variables that impact on the employees' voluntary pension savings decision.

Quantitative research found the following variables were significantly associated with retirement savings: nationality (Irish saved more than non-national); hours worked (full-time workers saved more than part-time); tax rate (those on higher levels of tax relief saved more than those on lower levels); and age (older workers saved more than younger workers) (Maloney and Morris, 2010). In order to limit the number of interviews, a decision was made to eliminate some categories of employees (non-national and part-time) and to limit the number of variables there were 'controlled'. Further, only permanent employees with two years or longer of service were included so that they would have several opportunities to be exposed to pension communication.

The HR representative at Medtronic was asked to identify suitable candidates who were Irish, full-time, employed for two years or longer with the characteristics shown in Table 1. These were chosen to get a broad representation of responses across a range of demographic and employment characteristics.

Table 1: Characteristics of Medtronic Interviewees

25-34	35-44	45-54	55+
Low tax AVC Male	Low tax AVC Female	Low tax AVC Male	Low tax AVC Female
Low tax No AVC Female	Low tax No AVC Male	Low tax No AVC Female	Low tax No AVC Male
Standard rate AVC Male	Standard rate AVC Female	Standard rate AVC Male	Standard rate AVC Female
Standard rate No AVC Female	Standard rate No AVC Male	Standard rate No AVC Female	Standard rate No AVC Male
Upper rate AVC Male	Upper rate AVC Female	Upper rate AVC Male	Upper rate AVC Female
Upper rate No AVC Female	Upper rate No AVC Male	Upper rate No AVC Female	Upper rate No AVC Male

It was intended to interview 12 people who had never saved using an AVC. However, two of the interviewees had paid into an AVC but suspended contributions. Therefore, the sample is biased in favour of people who had made the choice to add to their pension savings using an AVC currently or in the past.

Two-thirds of the interviewees were hourly paid. Eight employees paying tax at the ‘low’ rate were on the day shift and if they did not work overtime, received marginal tax relief on pension contributions of 94%. (For details, see Maloney and Morris, 2010). Budget 2011 reversed the decision that allowed pension contributions to be deducted ‘at source’ reducing the marginal tax relief for this group of employees from 94% to the standard rate of 20%. However at the time of the interviews, the higher tax relief rate applied. Eight hourly paid workers worked the evening shift and received tax relief on pension savings at the ‘standard rate’. If they did not work overtime, tax relief for pension contributions was 20%. With significant overtime, their pension relief increased to the upper rate of 41%. One third of the interviewees were salaried. These employees were entitled to tax relief at the upper rate of 41%.

The sample is gender-balanced. The interviewees are also balanced in relation to age. There are six interviewees in each age category (25-34, 35-44, 45-54 and 55+).

At the interview, the following information about the sample population was collected. Ten interviewees were single while 14 were married or living with a partner. Thirteen had children; for eight interviewees, some or all of the children were under 21 years of age. In relation to education, two interviewees finished their education after completing the junior cert and nine after the leaving cert. Five completed third level certificates or diplomas, four completed degrees and four finished their masters. Ten interviewees had occupational pensions from former employers; one had a PRSA (Personal Retirement Savings Account).

4 FINDINGS

This section explores employees’ knowledge of and attitude towards their pension scheme in relation to particular features including the products, institutional framework, automatic enrolment, employer and employee contributions, risk and portability. The information was collected through a number of open-ended questions regarding retirement and pensions. The remainder of the section examines employee use and evaluation of pension information provided through their workplace. Each subsection begins with a brief discussion of Irish and/or international literature. It continues with the findings from the interviews.

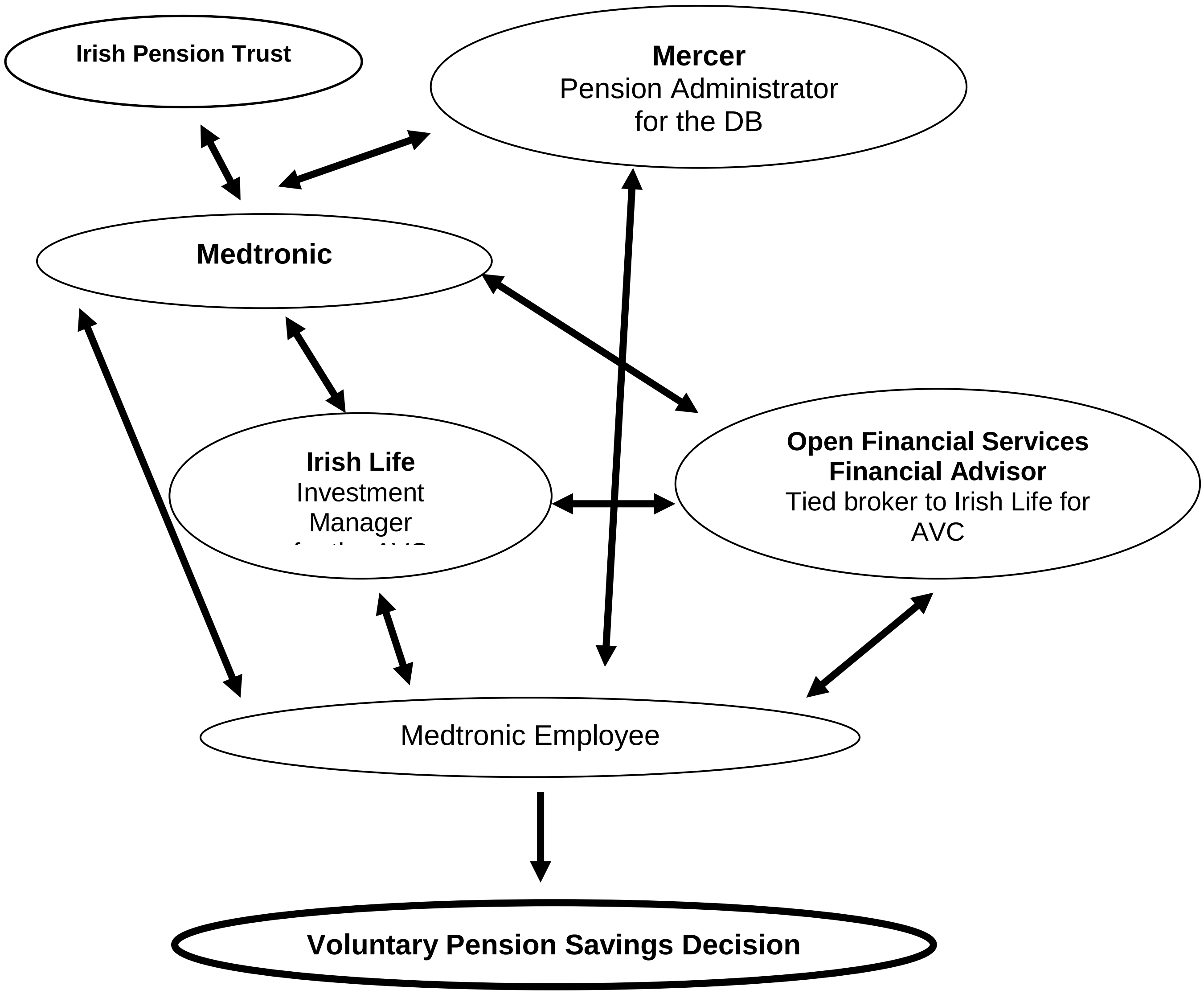
Pension products and institutional framework

The Pension Board was established in 1990 and has the responsibility of monitoring and supervising all Irish pension schemes. Since 2003, Irish employers were required to allow access to employees to a pension facility that allows for payroll deductions and immediate tax relief (The Pensions Board, 2009). Further, at least one part of the pension scheme must allow the employee to make additional contributions to their pension savings. Irish employers choose one of more or the following pension options: DB; DC (defined contribution); AVC ; and/or PRSA. Medtronic provides a DB scheme and the facility for employees to add to their pension savings through an AVC.

Like many large Irish organisations, Medtronic outsources pensions. Mercer is the Pension Administrator for Medtronic's fully-funded DB scheme. Irish Life is the Investment Manager for the AVC. By law, each pension scheme must have a trustee who '...have the main responsibility for the administration of funded occupational pension schemes and compliance with the requirements that apply to these schemes' (The Pensions Board, 2011b). This responsibility is outsourced to Irish Pension Trust. This complex institutional structure is fairly common in large Irish organizations.

An unusual feature at Medtronic is an on-site Financial Advisor who discusses a range of financial services with employees, including pensions. For AVCs, he is a 'tied' broker because only Irish Life products are offered to Medtronic employees. Unlike some Irish organisations, Medtronic works closely with the pension Fund Administrator, the Fund Manager and the Financial Advisor to develop appropriate pension services and information for employees. The institutional framework for Medtronic employees is shown in Figure 1.

Figure 1: Institutional Framework for Medtronic's Pension Plan



The double-headed arrows indicate the two-way communication and cooperative arrangements between Medtronic, Mercer, Irish Life and the Open Financial Services Financial Advisor. There is also the potential of two-way communication between Medtronic employees and representatives from each of these institutions. The Pension Trustee communicates with employees through Medtronic, rather than directly. Details of Medtronic's DB and AVC scheme are shown in Table 2.

Table 2: Features of Medtronic's Pension Products		
Features	Element	
	Defined Benefit	AVC
Participation	Compulsory	Voluntary
Risk	Company	Employee
Eligibility	Over 25 and under 65	All employees
First eligible	1st of January after joining company	
Employee contributions	5% of *Pensionable Salary* and 5% of *Pensionable Bonus*	Many options including: ➢ Monthly payroll deduction ➢ Annual deduction ➢ Once-off
Employer contributions	Varies based on solvency requirements	None
Fund cost	Not transparent	➢ 0.4% of value of the fund annually (paid by employee) ➢ Annual fund fee subsidised by Medtronic
Tax relief	➢ PRSI relief ➢ Income tax relief at marginal rate ➢ Maximum contribution that attract tax relief varies with age ➢ No tax liability on employer's contribution	Same
Vesting of employee contributions	Immediate	Immediate
Vesting of employer contributions	2 years of qualifying service	N/A
Withdraw	Only if employee leave the company with less than two years of qualifying service	Same
Investment options	None	Five options with varying levels of risk
Portability (transfer from other plan)		Transfer of assets from similar pension arrangements to AVC
Other	➢ Death in service benefit ➢ Early retirement from age 50 with reduced pension income	
Communication	➢ Member Explanatory	➢ On-site Financial

	Booklet ➢ Compulsory pension workshop for new entrants ➢ HR Senior Compensation & Benefits Analyst ➢ Total Rewards Newsletter ➢ Annual statement for DB ➢ Annual statement for AVC ➢ Total Reward Updates/Employee Benefits Days ➢ Pension consultants available on site and via call centre ➢ E-mail updates	Advisor ➢ Member Explanatory Booklet ➢ AVC benefit statement (annual statement with contribution, charges, current value and projected future value at retirement) ➢ Pension Planet (online service with personal pension information) ➢ PensionPhone (phone service to check fund value

While most employees recognised that they were paying into a scheme, 12 of the interviewees identified or described it as a DB scheme. The understanding of four employees was superficial. One stated, '*It's a defined benefit, whatever that mean…'* Other demonstrated a deeper knowledge. One employee worked for many years for an employer without a retirement scheme. His remarks indicate that he realizes that this DB pension will be based on years of contribution and final salary, '*I suppose my main consideration is as well, the maximum contribution is 40/60s of your final salary... that's the ideal so if I work until I'm 65, I'll have about 27 years with Medtronic. That's going to leave me short about 13 so I'm kind of hoping the AVCs will go pretty close to making up for the other 13 and that it won't be too far off 2/3s.'*

Sixteen employees understood that there were two different schemes. In some cases, the knowledge of the difference between the schemes was accurate but superficial, '*There is so much taken out of your wages every week. And then you can put in extras if you want to.'* Other responses demonstrated that it took a while before the difference between the DB and AVC schemes was understood. An employee that has been contributing to the AVC scheme for 10 years reflected, '*… the company that looks after the pension… provide an annual statement if I'm not mistaken... for the main scheme and for the AVCs which at first I thought was a bit confusing because I didn't realise there were two separate schemes actually and two separate funds.'*

Most employees identified the DB scheme as the 'Medtronic' scheme. Only six interviewees mentioned Mercer by name and the identification did not suggest a clear understanding that Mercer was the pension fund administrator. When asked 'Can you tell me something about Medtronic's pension plan, one interviewee responded, '*I know that I got a letter and Mercer is on the envelope.*

That's about it.' Another understood the role played by the pension fund administrator but wasn't sure if it was Mercer, '*I understand that it's operated in Ireland, was operated in Ireland by Mercer. I think that it might have changed but I'm not sure.'* Yet another interviewee was unclear if Irish Life had replaced Mercer, *'Well Mercer do come in here every so often. I think that it is actually Irish Life now that have taken that over.'*

Only two employees made the connection between their AVC scheme and the Investment Manager, Irish Life. Eleven employees, most of them contributing to AVCs, connected the scheme with Open Financial Services or its employee, the on-site Financial Advisor as this comment indicates, '*So... every time it (the budget) comes up about pension changes... I would be looking at it with the Open Finance crew who are in here... his regular thing is to increase your AVCs to get the maximum benefit…'*

To summarise, Figure 1 shows a very complex institutional arrangement for Medtronic pensions. Half or more of the employees were able to give some detail about their DB scheme and two-thirds recognized that there were differences between the DB and AVC scheme. For a few employees, the details were quite sketchy. Most employees did not identify Mercer with their DB scheme or Irish Life with their AVC. Instead, the DB scheme was associated with Medtronic and the AVC scheme with Open Financial Services or the Financial Advisor.

Structural features of the DB scheme: automatic enrolment and contributions

A structural feature for pension schemes is 'automatic enrolment'. For some DC schemes in the US, the employee is enrolled shortly after employment begins but can 'opt out' of the scheme (Madrian and Shea, 2001; Choi et al, 2005. In Ireland, permanent employees are automatically enrolled if a DB scheme is open to new members. Medtronic permanent employees are automatically enrolled in their DB scheme either beginning at age 25 or the January following employment. Employees are required to contribute a percentage of their pay and there is no 'opt out' option. Medtronic's contribution varies based on solvency requirements and is generally far higher than the 5% of wages or salaries paid by employees.

All employees knew that they contributed to their pension scheme. Even employees who did not know much about their pensions realised, '*It's taken out of my wages every week.'* For some employees, their awareness of pensions was prompted by the payroll deduction, '*With Medtronic when I joined, once you hit 25 you were obliged to start contributing to the pension. So I haven't thought about it too much since then.'* Another employee mentioned that the deduction was occasionally discussed casually with colleagues, '*We're paying so much* *towards our pension every week... E11 or 12 euros whatever it is and we just accept that…. We just mill over it really...'*

Twenty-three interviewees realized that Medtronic contributed to their DB. Some interviewees needed a prompt, '*Yes, I think we pay some and they pay some.'* Others noted, '*They contribute significantly to it.'*

To summarise, all employees realized that they contributed to their DB scheme because of the deduction on their pay slip. All but one employee realized that Medtronic contributed but most were not aware that Medtronic's contribution is significantly greater than their personal contribution.

Risk: DB and AVCs

Risk is another feature of pension schemes. Traditionally, DB schemes are considered to be the best type of scheme from the perspective of employees because the investment risk is assumed by the employer. Pension payments for retired employees begin after work ends and continue until they die. For Medtronic, if an employee works for 40 years, their pension income from the DB scheme will be two-thirds of their wages averaged over their last three years of employment. The flat-rate contributory OAP (old aged pension) that the employee collects from the State is deducted, reducing Medtronic's liability. However, should the amount of the OAP fall, the structure of this scheme means that Medtronic will absorb the loss. In this sense, Medtronic is absorbing three forms of risk: investment risk, risk based on the longevity of the retiree; and risk based on the possibility that the amount of the contributory OAP will fall.

Nine employees made positive comments about the DB scheme. Some were superficial, '*It's a defined benefits plan. It's a good pension plan.'* Other employees believed that the DB scheme compared favourably to the occupational pension scheme of their former employer. '*I suppose in my previous employment I was on a defined contribution pension and now I'm on a defined benefit pension now… I see myself in a better position now with the defined benefit than I was with the defined contribution...'* This comment shows an understanding that for employees enrolled in a DB scheme, is at low risk, '*It's defined benefits... It's my understanding that it's a very good pension fund, as pension funds go. The risk is low... as far as I'm aware you're not depending on how the markets are doing as to how well you'll do in terms of the value of the pension fund.'*

Medtronic's pension scheme is fully funded and this is communicated to employees periodically. However, it has been widely publicised that the schemes of well known companies like Waterford Crystal have been wound up with employees receiving a small fraction of their 'entitlements' (Carolan, 2011). The Pension Board reported in their Annual Statement that 75% of DB schemes in Ireland are currently underfunded. This led the Chief Executive of the Pension

Board, to observe, '...it is now over three years since the markets crashed and all data… show no noticeable reduction by Irish schemes of their aggregate equity exposure. The unavoidable conclusion is that, in very many cases, trustees have not faced up to the issues, and are continuing to expose the benefits of their members to significant risks of further losses' (The Pension Board, 2011a, p. 5). Moloney and Whelan (2009, p. 3) discuss the rhetoric and the reality of Irish DB schemes stating, 'The defined benefit scheme in the private sector, generally believed to be the ideal model... is shown not to be so: their pension promises rely too much on the employer's goodwill and its continuance... The weak regulatory system is helping to conceal the true cost of superannuation undertakings, with the risk ultimately borne by the member.'

One employee was convinced that the DB scheme was in good condition. She said, '*I know that the fund is, was in a good condition the last update I that I had. Medtronic had given a boost to it in order to ensure its good condition given the economic situation.'* Seven employees, however, were concerned about Medtronic's DB scheme. Five of these had lost some of the value of their pensions from previous employment. One employee joined Medtronic after working 20 years with a different employer whose pension scheme was not fully funded. He recognised that companies are moving away from DB schemes, '*Defined benefit is a massive liability for a company like Medtronic so I know that the modern trend is to change that and that's happening... I know with my previous organisation, they have changed the pension from a defined benefit to what you get out based on investments. It's changing all the time so there are no guarantees.* Another employer was concerned that the amount paid at retirement could be reduced, '…*they could reduce it. It could potentially be reduced from 2/3s of final salary to say a half... if the pension fund comes under pressure... if I'm not mistaken.'* Another employee lost her pension savings after her employer closed, as did her husband, a construction worker. She asked the question, '*I say to myself why am I paying a pension at all? You know that is my honest view on it, I meant for all you get back you'd be better saving your few pounds a week yourself.'*

Benartzi and Thaler (2007) discuss the difficulties faced by employees in understanding risks associated with different portfolio options. When testing new pension fund participants, Benartzi and Thaler (2007, p. 92) found that '...their exposure to equities was exactly wrong. They bought high and sold low.' This suggests that when faced with risks, the average pension fund participant is not well-equipped to make complex financial choices.

For AVC schemes in Ireland, the risk is absorbed entirely by the employee. The Pension Board (2006, p. 52) states, 'The most common approach is for AVCs to be treated like a *Defined Contribution Scheme*. The benefits you ultimately receive will depend on the investment return achieved and the amount of AVCs you have paid.' The investment return is based on the performance of the fund that the consumer chooses.

Medtronic employees are offered five AVC funds with different levels of risk. The number of funds is limited to keep fund costs low.

Seven employees mentioned risk related to AVCs. Two employees simply acknowledged that different AVC fund involved different degrees of risk, '…*they have three choices with the AVC... I think the high risk, medium risk and low risk…'* One employee compared investing in an AVC with '…*buying a cat in the bag...'* He and three other employees thought that the government should bring out an SSIA (Special Savings Incentive Account) type scheme. This was a five year saving scheme that finished in 2008. Risk-averse savers received a low, guaranteed rate of interest from banks, the post office or credit union and a 20% contribution by the government if they saved regularly for five year. One woman commented, '*One thing they did and it wasn't for pensions it was the SSIA. That certainly was a huge encouragement... that you would be guaranteed rather than a lot of pensions where there is risk involved.'* Although a cash option is available for the AVC on very similar terms to the SSIA, none of these interviewees saw the similarity.

Three employees lost money invested in AVCs because of the deterioration of the equity market. For one person, the amount was small, '*I have my contributions now in cash, so I'm not suffering. It was in equities, I lost a little bit. But that was my own choice.'* Another interviewee realized that he lost thousands of euro when he received his annual statement and said, '*… the people who should have known, like the pension fund managers, like Irish Life or the trustees of the Medtronic fund, that at the very least they should have made people aware that they might want to consider options. There was no such communication. There was no such advice. That was a painful lesson... people… knew that people's pension funds were going down the toilet and said nothing for over a year...'* Following this loss, he spent time with the financial advisor and HR representative to 'educate' himself. He believed that his very vocal and emotional response led Medtronic to '…*come out and really educate people on it. So people are aware of it now, but it's a little too late now...'*

To summarise, while Medtronic's DB scheme is fully funded, over a quarter of interviewees were concerned about the future of the scheme. For five of seven employees, their concerns are based on experience with losses from former pension schemes. In relation to AVCs, five options with different degrees of risk are too many for three employees who want a single 'safe' option. Those whose equity-invested AVC schemes lost value recognized their personal responsibility but one raised the issue of corporate responsibility. While legally the employer does not bear any responsibility for the performance of an AVC, this research suggests that during periods of equity volatility, poor fund performance could impact on the employment relationship. Founded and unfounded attitudes about risk, as well as information issues in relation to market volatility could negatively impact on people's attitudes towards saving for retirement.

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Portability

Portability refers to ease of moving pension savings, particularly when an employee changes employment. The 401(k) in the US and the PRSA in Ireland were developed specifically for the purpose of being easy to move. Occupational pension are also reported to be '…portable and need not frozen as used to be the case' (The Pensions Board, year unknown). However, several caveats apply. For interviewees, a straight-forward transfer of benefits to their Medtronic occupational plan was the exception rather than the rule.

Ten employees reported that they had occupational pensions from previous employment. Six of 10 interviewees mentioned difficulties related to their occupational pensions from former employees. A common theme is that their former pension has not been consolidated with their current Medtronic occupational pension scheme, '*One of the big concerns for me was going back to my previous employment, I would have liked to move the fund from there to here but it is cost prohibitive to do it... It's a big concern for me... I would still like to do it but I'd lose a lot in the process...'* Advice about moving a pension sometimes differs among the pension advisors, '*What happened before I spoke to two people that worked for Mercer and I got different information from both of them so I then I kind of thought I have absolutely no clue... to be fair the guy from Open... he explained it maybe better... it was beneficia'* Another man, two years from retirement, spoke of the frustration that he felt in trying to resolve an issue with his former employer. He had been given a tax-free lump sum when he was made redundant and only later realized that it could be part of a pension entitlement. His efforts to resolve this issue was met by silence from his former employer, '*I've written two letters to the section in Hiberian Life that deals with staff retirement... No reply... I'm going to write to the managing director after Christmas...It's important at this stage, if I'm getting a tax-free lump sum from Medtronic that it's within the government guidelines... I could be taxed.'* Each situation required cooperation from pension providers and/or former employers. All employees dealing with this type of issue were using the services of the on-site Financial Advisor to resolve their problem.

To summarise, the issue of pension portability was not anticipated but is an important issue for a quarter of interviewees. All of the interviewees felt frustrated and out of their depth in trying to resolve the problems that they faced. Uncertainty related to the value of pension savings from former employment had a negative impact on the interviewees ability to plan for their retirement.

Pension communication

As organizations move away from DB schemes to DC schemes, employees are required to make increasingly complex decisions about their pensions. Current thinking about ways to increase retirement savings include both changes to pension scheme structure and communications (Benartzi and Thaler, 2007; Choi et al, 2005b; Weiner and Doescher, 2008). A structural change like automatic enrollment gets employees into a pension scheme increasing pension coverage. Communication helps employees to determine if their level of savings is sufficient to achieve pension adequacy.

However, empirical research does not make a convincing link between pension communication in the workplace and changes to pension saving behaviour. Choi. Liabson and Madrian (2005b) found that employees did not exploit a significant arbitrage opportunity, even when they were informed about it. Duflo and Saez (2003, p. 840) did report an increase in enrolment in a university pension scheme following relatively minor intervention involving attendance at a benefits fair but stated, '…these effects remain very small compared with changing default enrollment rules…' or other structural changes.

The limited evidence found to date suggests that consumers think that pension information is confusing. In a survey commissioned by the Office of Fair Trading (1997) in the UK, 44% of respondents agreed or strongly agreed with the statement, 'I have found all the information I have seen, and the advice I have received on pensions very confusing'. In another survey the by the Association of British Insurers (2003), 56% of respondents reported that they understood pensions fairly badly or very badly.

The Pension Board outlines the responsibilities of Irish employers and pension trustees in relation to information provision. They state, 'The Pensions Board encourages them to give members as much information as possible and to do so in a way that is easy to read and understand' (The Pension Board, 2010, p. 3). The Pension Ombudsman, Paul Kenny, stated that clear communication was an aspiration rather than a reality, 'Communications in the pension industry are often very poor… What you end up with is something that's full of jargon, that's full of legalese, that's absolutely correct but completely incomprehensible' (*Pension Shock: The Future is Now,* 2011).

There are a number of one-way and two-way communication media to inform Medtronic employees about their DB pension scheme and to highlight the opportunity to increase their pension savings through an AVC. These are prepared by Medtronic, Mercer, Irish Life and Permanent and the on-site Financial Advisor sometimes through cooperative efforts (See Table 2 and Maloney and Morris, 2010 for more information about Medtronic's pension communication). Because Medtronic takes its information role so seriously, there were several questions aimed at understanding employee views about pension information.

Employees were asked if they had ever looked at any of the pension information supplied through their workplace. Their responses are shown in Table 3.

Table 3: Number of Pension Information Media Examined	
No of sources	Number
No/don't remember	5
1 source	8
2 sources	4
3 or more sources	7

All of interviewees who did not remember any pension media were not contributing to an AVC. Most of the interviewees had looked at one or more communication media. The specific media mentioned are shown on Table 4.

Table 4: Specific Media Looked at by Medtronic Employees	
Media mentioned	Number
Financial Advisor	14
Personal Benefit Statement	8
Employee Benefit Day	6
Members Explanatory Booklet	5
Pension Provider	4
Email updates	2
Induction Handbook	1
Total Rewards Newsletter	1
Induction handbook	1
Other (not specific)	2

The Financial Advisor is the most frequently mentioned information source. Two-way sources (Financial Advisor, Pension Provider and Employee Benefit Day) are mentioned more frequently than one-way than one-way. The Personal Benefit Statement was the most popular one-way media.

One person who used multiple information sources, offered this observation, '*Probably the least clear of those is the Mercer one that comes out to my own home. It's in the least user-friendly kind of language I find. I think it's kind of financial talk... ...the Total Rewards Newsletter, I always think that's very clear. Open Financial Services, they do an e-mail out to advertise their services... They'll state something like, "If you're in this group and you have this earnings then you should contact us because of Y." So it's normally easy to figure out whether it applies to you or not.'*

Employees were asked, 'If you wanted information about your pension plan, what would you do?' Their preferred choices are shown are shown in Table 5. Ten employees mentioned more than one information sources.

Table 5: Preferred Information Source for Pension Information	
Source	Number
HR	13
On-site Financial Advisor	11
Mercer	3
Supervisor	3
Other (website, bulletin board)	3

All respondents mentioned at least one two-way source, '*I suppose firstly, I'd probably talk to my manager… to get his understanding. If he wasn't sure, I'd contact HR then Open Finance.'* Another interviewee with very little interest in pensions was one of three people to mention a one-way information source, '*I would call someone up in HR. There's a very good HR website as well so I'd probably use that.'*

When asked if they found pension information confusing, four people reported that they never looked at it in sufficient detail and therefore didn't know. The other 20 reported that it was confusing citing between one and three reasons for their confusion. These are categorised in Table 6.

Table 6: Reasons for Pension Information Confusion	
Reason	Number
Hard to grasp the detail	9
Former pension issue	5
Relationship between savings and retirement income	4
Risk issues	3
Legislation	2
Hard to evaluate different views	1

Nine people found it difficult to grasp the detail of pension information. In relation to written information, one person stated that she could understand the differences between the DB and AVC schemes and therefore, *'…on a scale, I probably have a bit better (understanding) than some in the organization. But yet on my own individual pension, I cannot figure out the detail on it…'* Another person linked the difficulty in understanding the information with the decision to forego additional pension saving. He said, *'If they were to simplify the facts and the figures and everything… because it can get quite confusing and it's kind of out of your depth then there's disinterest. Nobody wants to know then…'*

Some interviewees found it difficult to understand the information given in group meetings and training sessions. As one person stated, *'When I go to meetings I definitely find it confusing… I was at meetings at the last place I worked and I didn't really grasp it either.'* Another stated the information was presented too quickly, '*When we were brought in... there was a group gotten together...Somebody just started telling you this, this and this... And to be honest,* *a lot of it just goes straight over the head... it's just being thrown at you... you're trying to get it together in your head before you can ask the question but it's gone by.'*

Five people raised former pension issues as a source of confusion as discussed under 'portability'.

Four people found it difficult to relate their current pension savings with their future retirement income. One interviewee stated, *'I know that even the statements we get from the company about your pension, I don't find them clear that you'd be able to pick it up and say okay if I keep going as I am, this is what I'll get or if I put in another 200 a month, this is what I'll get...'* Another interviewee added that it was very difficult to understand the impact of the contribution on his take-home pay because of tax relief. He suggested that, *'It's very nice to have a calculator that you can actually just input your figures in and it will spit out... if you invest X amount in your pension, this is what it's going to cost you in your bottom line. If you do that, this is what it's going to give you at retirement.'* This would really benefit people like him who are *'…watching their pennies…*'

Three people found pension advice confusing in relation to risk. This was discussed in a previous section.

Two people mentioned that legislation was a source of confusion. One interviewee stated, *'…the rules are likely to change in the near future if they're not changing already and it's hard to keep abreast of those because you are not in the loop.*' Another interviewee had difficulty understanding *'…how it actually works with the tax regime and everything*'.

One person mentioned that pension advice was confusing because it differed depending on the source. As noted above, pension advisors associated with Medtronic disagreed particularly in relation to consolidating pensions from different employers. However, the information can also come from colleagues or from outside the company. As one interviewee observed *'I do (find pension advice confusing) because there's an awful lot of people who have... their own opinions on pensions...'*

To summarise, of 24 interviewees 19 used one or more sources of Medtronic information. Although a large number of the sources of pension information were mentioned, two-way sources were the most frequent. Two-way communication was also preferred for pension questions. The premium placed on two-way communication is probably related to the complexity of pension issues. Most interviewees (20 of 24) thought that pension information was confusing. This benefit is labour intensive to deliver and appears to require a subject expert to explain the detail, to interact with other pension specialists to resolve pension problems and to keep current on legislation.

5 CONCLUSION

This case study research was conducted in an organistion that has devoted considerable resources to pension communication. The objective was to identify variables that impact on voluntary retirement savings. Twenty-four semi-structured interviews were conducted allowing employees to explain their knowledge and attitudes toward pensions.

Information for Medtronic employees comes from four sources: their employer, Mercer, Irish Life and the Financial Advisor employed by Open Financial Services. Most employees did not demonstrate a great deal of knowledge about their pension but perhaps that is not surprising given the complexity of both the institutional framework and the products.

Finding the balance between accuracy and clarity is a great difficulty for providers of pension information. Although there is plenty of information available for Medtronic employees, the variable quality of pension information impacts on voluntary retirement savings. Some pension information is delivered so rapidly or is so obscure that it is off-putting to some employees. Employees identified examples of ‘bad’ and ‘good’ pension communication, indicating that it is possible to communicate pension information effectively.

Another information issue impacts on pension adequacy. Employees who are interested in their retirement income cannot determine if they are saving enough because a statement about their DB contributions comes from one source while AVC savings information comes from another. Based on employee views, there is a need for information that combines their AVC and DB contributions requiring cooperation from Mercer and Irish Life. Consideration also needs to be given to informing employees with AVCs more frequently than once a year about their fund balance during periods of equity volatility.

This research identifies a dilemma for Medtronic. Medtronic outsources the pension benefit but remains an active participant in developing the service and communicating about pensions to its employees. Medtronic demonstrates concern for their employees, encouraging them to make choices that will benefit them during their retirement. However, its close association with pensions can backfire. Their pension scheme is fully funded, yet a quarter of the interviewees are concerned about its future viability. Because Medtronic is involved in AVC communication, unfavourable employee investments reflect back on their employer. Employees may come to resent Medtronic who is acting as a conscientious employer, trying to promote its employees’ best interest.

Pension portability is also of concern and impacts on the voluntary pension savings decision. People are changing jobs more frequently. For a quarter of interviewees, planning for their retirement is much more difficult because issues arising from occupational pensions from former employment means that some of their retirement savings remain outside of the Medtronic pension plan. One would wonder how, in the absence of a Financial Advisor, employees would resolve these issues. Designing occupational pension schemes that are standard and portable would help to prevent future problems. Developing a mechanism to transfer assets from one employer to another would also help. These changes are outside of the control of Medtronic and would have to be coordinated through the Pensions Board and the financial services industry.

Pensions must be the most labour intensive benefit. For a large company like Medtronic, it is a struggle to meet the information needs of its employees and to manage the problems that arise from participation is more than one occupational pension scheme. More research needs to be done to understand how this benefit is managed in small organizations with less resources. The inability to cope with all of the various complexities may be the reason why almost half of the people in employment are not members of pension schemes.

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