

Do people really want freedom of choice? Assessing preferences of pension holders

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Abstract

Reforms of private pension plans across the world are involving the introduction of more options for pension holders to make choices to suit their preferences. Freedom of choice is not, however, a unidimensional concept despite being commonly perceived as such by policymakers. Using a unique panel survey among Dutch employees, we offer a refined typology of preferences with respect to freedom of choice. For most pension contract issues—level of pension savings, investment choice, and risk coverage—a minority (14–26%) of participants value individual freedom of choice, whereas most would either prefer to let their pension fund make the decisions, or they favor a mixed model whereby they have the option to exercise individual choice but are not obligated to take this option, or they are simply indifferent with respect to how their pension contract is designed and financed. Pension holders who distrust their pension fund or who do not express solidarity with other participants are more likely to prefer freedom of choice than those who feel a high level of solidarity and have a high level of trust in their pension fund.

KEYWORDS

choice, freedom, Netherlands, pension funds, private pensions, trust

1 | INTRODUCTION

Reforms of private pension plans across the world are broadening the options of pension holders, providing them with more choices to suit their preferences. This can be seen as a policy enactment of the principles of Milton Friedman, who placed high importance on the idea that people should be free to choose. Freedom of choice is often presented as the antidote to excessive government interference and an instrument that enables people to realize their goals and that works as a check on organizations (Friedman & Friedman, 1980). Calls for freedom have increased in volume as the individualization of everyday life has become more apparent, and trust in institutions has eroded. Numerous sociologists of repute (Beck 2002; Putnam, 2001) have documented these trends and predicted its dire consequences for social cohesion in society. Policymakers have interpreted this trend towards individualization and freedom in their

efforts to privatize tasks and services that were previously financed or provided on a collective scale. However, the question remains: Are people really willing to take their fate into their own hands?

The central research question of the current article is: To what extent do pension holders really want the freedom to choose when it comes to making decisions about their pension arrangements? It is often tacitly assumed that people desire freedom of choice, but is this true? In this article, we present a refined typology of the preferences of employees saving for retirement in a number of different pension domains.

Arguably, the freedom to make decisions can be safely entrusted to individuals when products and services possess characteristics that can easily be evaluated before purchase. However, for complex services and products with long-term consequences, such as pensions, freedom of choice may not be in the interest of citizens because they may lack the financial knowledge to deal with financial issues, or have misconceptions or cognitive biases (Bodie & Prast, 2012; Chan & Stevens, 2008; Lusardi & Mitchell, 2014).¹ In his description of the myths and truths of pension reforms, the pension economist Barr (2002) argues that freedom of choice is fraught with danger. His evaluation of pension reforms focused on increasing choice is blunt, "the possibility that increased choice is welfare improving is a myth" (Barr, 2002, p. 13).

Despite these warnings, governments have tended to move policy in the direction of increased choice. For example, the UK government is radically reforming the pension system by offering more choice to those with defined contribution pensions, allowing them to take out their pension savings as a lump sum instead of buying annuities (see HM Treasury, 2014). The reason for this reform was stated explicitly in 2014 by George Osborne, at that time the Chancellor of the Exchequer (HM Treasury, 2014, p. 3):

With more choice and support for individuals and a regulatory structure designed to both protect consumers and promote competition, I am confident that the retirement income market will develop in a way that focuses on the interests of savers.

Although this reform may offer more control for pension holders, the OECD (*Financial Times*, 2014) warned the UK government that the increased control of pensioners over their nest egg could be "detrimental to both retirement income adequacy and incentives to work", because of "myopic behaviour and insufficient financial literacy". Other countries are also moving towards private pension plans that are increasingly open to individual choice. Information on public preferences in relation to such choices is badly needed to inform the design of pension policies because incorporating choice involves ethical as well as economic dilemmas, as Sunstein (2015) makes clear. Mandating choice into pension systems can backfire and generate adverse selection (Handel, 2013) and can be just as paternalistic as not offering choice at all if such choice is not in line with people's preferences.

In short, the question "Do people want freedom of choice?" is gaining in momentum and relevance as pension systems around the world adapt to changes in population age structures (Henkens, Van Dalen, Ekerdt, Hershey, Hyde, Radl, ... Zacher, 2017; Holzmann, 2013; Whiteford & Whitehouse, 2006) and structural changes in the labor market (Kahn, 2012, 2010). In recent years, pension reforms have tended to move in the direction of individualized accounts and/or defined contribution contracts. As a result of these reforms, risks are transferred from the collective to the individual, increasing individual responsibility for adequate pension savings. In tandem with these reforms, governments are sometimes influenced by the results of polls suggesting that people would indeed prefer more choice within pension arrangements, without questioning whether these polls have produced a true reflection of people's actual preferences. In the Netherlands, for example, in 2014 the government initiated a poll among the general public about the future of pensions in which 60% of the Dutch people wished to choose their own investment portfolio, 58% wished to choose the level of their own pension premium, and 45% wanted to choose their own pension fund (Koenen, 2014).

As we show in the remainder of this article, these figures must be treated with caution because of the positive connotations of the very idea of freedom. Offering individuals freedom of choice is bound to trigger positive associations because most people value self-direction (see Davidov, Schmidt, & Schwartz, 2008 for details). However, the scant evidence that exists on making active choices on pension savings investments suggests that currently only a small minority of pension holders exercise choice (Agnew, Balduzzi, & Sunden, 2003; Ameriks & Zeldes, 2004; Byrne,

2007; Chetty, Friedman, Leth-Petersen, Nielsen, & Olsen, 2014; Rozinka & Tapia, 2007; Tapia & Yermo, 2007). Therefore, obtaining more refined insight into the degree of choice that pension holders desire in their pension arrangements is of crucial importance.

In the present article, we provide an overview of preferences regarding the freedom to choose different aspects of collective pension contracts, on the basis of a survey of 652 employees in the Netherlands. These employees participate on a mandatory basis in a pension fund that provides them with a supplementary pension income on top of their public pension (see Van Dalen, Henkens, & Hershey, 2017 for a short overview). For most Dutch pensioners, the public pension (first tier) and the supplementary pension (second tier) are the most important sources of their pension income. The third tier of fully private pension arrangements has until now rarely been used by most workers because the first two tiers offer sufficient pension income.² However, the Dutch government is in the process of reforming the entire pension system, and this includes considering an offering of various options within the supplementary pension system and restricting pension insurance above a certain income level (currently €100,000, although the government plans to lower this threshold to €70,000), implying that those who wish to remain insured above this level will have to make an individual decision and seek private pension insurance. This implies a radical switch because the Dutch system is traditionally based on the paternalistic model in which all key decisions are made by so-called social partners, i.e., representatives of the unions and employers. Individual choice is currently only available in the pay-out phase, on the date of retirement, and to a certain extent the level of pension benefit can be varied over time (high to begin with, switching to lower payments later in life, or the reverse). Elements of choice in what has been called the accumulation phase are non-existent currently, but such elements will certainly be considered in the future as the Dutch government believes this will increase trust in the pension system.

In the current study we measure the extent to which people prefer freedom of individual choice and the extent to which people prefer to allow decisions to be made automatically by the pension provider, or as Sunstein (2015) rephrases it, “choosing not to choose”. We focus on four issues that are prominent in the debate on expanding individual choice in pension savings: (i) deciding how much will be saved for retirement; (ii) the choice of pension fund; (iii) the composition of the pension package; and (iv) the level of risk in investing pension savings. The results suggest that quite a number of respondents value *both* freedom of choice and the ability to allow decisions to be made by their pension fund (hence a preference for what we hereafter term “delegated choice”).

Second, based on the previous two preferences—“free choice” and “delegated choice”—we offer a more refined typology of preferences and analyze the main determinants of these preferences. The results suggest that a desire for freedom of choice is closely related to the level of solidarity expressed with other pension holders and the level of reported trust in one's own pension provider. Specifically, pension holders with a desire for free choice display lower levels of solidarity and trust than other pension holders who are indifferent with respect to individual choice or who prefer their pension provider to make decisions.

2 | TWO TYPES OF FREEDOM

Freedom of choice is generally seen as intimately related to one's well-being (Sen, 1988). A lack of individual choice makes it difficult to attain the goals one values in life and to improve individual well-being. Sen makes a distinction between the *instrumental* value of freedom of choice on the one hand and the *intrinsic* value of freedom of choice on the other hand. The instrumental value—freedom enables a person to attain the best allocation of scarce resources in order to attain one's goal of optimal well-being—is familiar to economists and is perhaps driving the thinking of policymakers who propose the introduction of “freedom of choice”. Freedom may also have an intrinsic value, however, in that it may be valued in and of itself; one does not necessarily have to exercise the right to freedom in order to appreciate its value. A dual approach in the assessment of the concept of freedom is also visible in the work of Berlin, who distinguishes two types of liberty or freedom (Berlin, 1958). He opposes positive freedom on the one hand, which he relates to the possession of the power and resources to fulfill one's own potential, to negative freedom

on the other hand, which is freedom from external restraint. Positive freedom captures the idea that individuals are their own master. Negative freedom is the absence of coercion. Our conjecture is that similarly dual aspects of freedom may be applicable in matters of pension contracts. Positive freedom allows pension holders to align their pension income with their life-course preferences. However, coercion also is part and parcel of collective insurance arrangements to prevent the problem of adverse selection in insurance markets. Solidarity among pension holders is needed to safeguard the promises made to each pension holder and freedom should be restricted as part of this safeguarding. In a manner of speaking, people are required to place restrictions on their behavior, as in *The social contract* of Rousseau (1895), in order to attain a higher goal.

To obtain a clearer picture of preferences regarding freedom of choice in pension issues, it is important to acknowledge that because of the dual nature of freedom, it is possible and likely that many pension holders will value both the option of free choice and the option of allowing their pension fund to make their pension decisions. This may be because people see the need for a collective arrangement and therefore accept the accompanying rules and restrictions. It may also be because most people default to standard pension arrangements, but still feel the need for the option of choice in case they wish to depart from the decisions made by a pension fund.

The preference for both positive and negative types of freedom is expected to be (partially) determined by key elements that are tacitly assumed to be the foundation of a collectively organized pension system: solidarity and trust. We discuss these two factors next.

2.1 | Solidarity in pensions

Solidarity is a key element in many public pension systems and in most occupational pension systems that offer supplementary pension rights. As argued by Tausch, Potters and Riedl (2013), solidarity can be organized at different levels. They distinguish between risk solidarity, subsidizing solidarity, and income solidarity. In all cases, solidarity implies some form of redistribution of income. Risk solidarity becomes visible in cases where risk sharing “implies that *ex post* the lucky support the unlucky” (Tausch et al., 2013, p. 298). Subsidizing solidarity involves *ex ante* transfers from one group to another, as in the case of longevity risk where women are expected to live longer than men. Based on equal contributions, this inequality implies that women will benefit more than men from such a pension arrangement. Income solidarity is the explicit redistribution of income from rich to poor individuals or households, and is especially visible in public pension arrangements. Within supplementary pension contracts solidarity generally refers to the first two types of solidarity. In the Dutch occupational pension system, all individuals pay the same contribution rate to the pension fund, above the so-called franchise. Individual differences such as age, gender, and income are not taken into account when determining the contribution rate. Securing solidarity in this contract comes at a price: to prevent adverse selection pension holders must relinquish their freedom of choice because they are only free to switch pension providers if they switch employer (Chen & Beetsma, 2014). As such, fully supporting the idea of solidarity implies that one willingly delegates choices to the pension provider. Hence, our first hypothesis is formulated as follows:

Solidarity hypothesis: Pension holders with a low level of solidarity with other pension holders are more likely to desire individual choice in collective pension arrangements than pension holders with a high level of solidarity.

2.2 | Trust in pension funds

Trust is also a factor that can be distinguished at various levels. At the most basic level, anyone who saves for a future pension is placing trust in a system that has an insurance function by protecting property rights over time. The role of trust in economic organizations and transactions is explained by Hyde, Dixon and Drover (2007) who state, “Trust reduces complexity, because it enables people to transfer responsibilities for activities that they themselves are not sufficiently competent to undertake” (Hyde et al., 2007, p. 57). As societies and the institutions that make them work

become ever more complex, greater demands are made on trust (Taylor-Gooby, 2005). This is especially pertinent in the case of pensions, where choice overload is a prevalent characteristic and people either defer choices or opt not to choose at all. As Tversky and Shafir (1992) show, an important reason why people may have difficulty in making decisions can be traced to the complexity of choices. The more freedom and the more options individuals have, the more indecisive or stressed they may become. Choice overload is a real and present issue for consumers (Iyengar, Huberman, & Jiang, 2004; Kuksov & Villas-Boas, 2010; Scheibehenne, Greifeneder, & Todd, 2010; Schwartz, 2000), and managing the overload is indeed a problem faced by citizens in many situations in their roles as consumers and producers.

The need for institutions to simplify matters and provide trustworthy advice or decisions is often suggested by policymakers (see, e.g., the UK government's point of view, HM Treasury, 2014), but at the same time, there is also an extensive body of research by sociologists and political scientists pointing to a secular decline in trust in social institutions. This important problem troubles many policymakers and CEOs of organizations in their recognition of the so-called paradox of trust: just when you need it most, it is most difficult to secure. As Putnam (2001) shows in his influential work on social capital, trust is an essential ingredient that is being eroded by the individualized lifestyles of modern society. These elements may also play out in the Dutch pension setting, in which pension funds are also seen to be facing a decline in trust (Van Dalen & Henkens, in press). Hence, we formulate the following hypothesis:

Trust hypothesis: Pension holders who have a low level of trust in their pension fund are more likely to desire freedom of choice than pension holders who have a high level of trust.

3 | METHODS AND DATA

In June 2014, we administered a survey to Dutch employees ($N = 799$, response rate 69%). In December 2014 a follow-up survey was carried out with the same respondents ($N = 720$, response rate 70%). Because of attrition and the selection criteria (only those younger than 65 years), the total sample on which this study was based was 652 respondents. The survey was conducted by the CentERdata, a survey institute of Tilburg University, which maintains a large panel of households in the Netherlands.³ The panel is representative of the Dutch population with respect to sex, age, education, and regional variation. Members of the panel were all interviewed via an internet connection.⁴ In general, people participate on the panel for about four years, during which time they are interviewed regularly on a variety of different topics. When a respondent leaves the panel, a new respondent is selected on the basis of matched socio-demographic characteristics, so that the representativeness of the sample is maintained.

3.1 | Dependent variables: Choice preferences

To reveal participant preferences regarding choice, we asked all respondents to evaluate the desirability of: (i) freedom of choice; and (ii) refraining from the exercise of individual choice and allowing the pension fund to make decisions in four elements of pension contracts (denoted for short as "delegated choice"). The four elements of the collective pension contract concern:

- *Level of pension savings:* the level of pension savings expressed as a percentage of wages;
- *Pension fund choice:* having the option to choose your own pension fund or be automatically enrolled;
- *Pension package:* the number of risks covered by the pension contract (level of old age income, invalidity pension, or a pension of your partner); and
- *Risk composition investments:* the level of risk with which pension savings are invested.

The exact wording of the questions for the case of freedom of choice is, "With respect to your pension fund, how important is it for you to have the freedom to choose with respect to the following matters?":

- Whether I save a lot or a little of my wages for my pension.
- The pension fund of my choice.
- The composition of my pension package (such as old age income, invalidity pension, or a pension for your partner).
- With how much risk my pension savings are invested.

The following answer categories were provided: 1 = very unimportant; 2 = unimportant; 3 = neutral; 4 = important; and 5 = very important.

The wording of the “delegated choice” question was designed to reflect the status quo in the Dutch pension system in which all decisions with respect to accumulating pension rights are designed and carried out by the pension fund currently. We asked the following question of pension holders, “With respect to your pension fund, how important is it to you that the following matters are automatically arranged for you?”:

- Whether I save a lot or a little of my wages for my pension.
- That I am automatically enrolled in the pension fund of my employer.
- That I have a standard pension package (such as old age income, invalidity pension, or a pension for your partner).
- With how much risk are my pension savings invested.

The answer categories to this set of questions were the same as those referring to the “freedom of choice” question. Questions such as these, which refer to two choice settings within one survey, run the risk of so-called carry-over, i.e., effects that “carry over” from one experimental condition to another. In our case, asking respondents how important the freedom to choose is and asking immediately afterwards for their assessment of the freedom not to choose, is a case in point. One cannot rule out that whatever question is asked first will affect the response to the subsequent one. Respondents know they are expected to be consistent and may therefore give a biased answer to the second question to ensure their responses do not contradict one another. Common strategies to minimize these carry-over effects include allowing sufficient time to elapse between conditions and splitting up the sample into two randomly selected subgroups (see Lewis-Beck, Bryman, & Liao, 2003).

In the present article we used the following design. In the first survey, carried out in June 2014, we split the total sample N of pension holders into two randomly selected samples (A and B, see Figure 1).

Sample A received the question evaluating their preference for freedom of choice over the above stated pension issues. The other group (sample B) was asked to evaluate the importance of automatically delegating all choices to the pension fund. Comparing the answers of both subgroups at the same time offers the opportunity to assess whether any support exists for both the option to have freedom of choice as well as the option to delegate choice. In December 2014, the follow-up survey was carried out, in which the questions were switched for the two groups (at the point of wave 2 in Figure 1). Groups A and B both evaluated the same elements of the pension contract. The half year gap between the two surveys limited the risk of bias related to potential carry-over effects that can occur if the same respondents are subject to two experimental conditions (De Leeuw, Hox, & Dillman, 2008). Based on the result of the surveys, we present a typology of choice preferences.

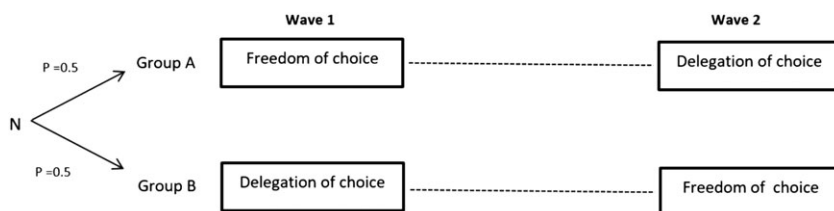


FIGURE 1 Structure of the sample and sequencing of questions concerning freedom of choice

3.2 | Independent variables

To explain the differences in preferences we focus on two variables offering a test of our hypotheses: solidarity and trust. The expressed level of solidarity with other pension holders was measured by giving respondents a short definition of the principle of solidarity and then asking them, “In your opinion, how important is the principle of solidarity with other participants within a pension fund?” (answer categories were 1 = very unimportant to 5 = very important). The employee’s level of trust in his or her own pension fund was measured by the following question, “Can you give an indication of how much you trust your current pension fund to govern your pension savings and rights?” (1 = no trust at all to 5 = trust completely). To minimize the carry-over effects and obtain unbiased opinions on these key variables, the trust question was asked at wave 1 and the solidarity question at wave 2.

In addition to these key variables in the analyses we controlled for age (in years), sex, education, and (self-reported) financial knowledge. We included these control variables because research shows that socio-demographic profile has a role in making financial decisions, although the influence of these factors may differ across countries (Agarwal, Driscoll, Gabaix, & Laibson, 2009; Barber & Odean, 2001; Engström & Westerberg, 2003).

Education is measured by three categories of highest attained educational level: low (primary education or low vocational training); middle (high school or mid-level vocational training; and high (university or high-level vocational training). Financial knowledge was measured with the following item, “I know a lot about financial matters” (1 = fully disagree to 5 = fully agree). The descriptive statistics for all variables used in the subsequent analysis are listed in Table 1 (a correlation matrix of all the variables is presented in the Appendix, Table A1).

3.3 | Analyses

The analysis consists of two steps. First, we present frequencies for the importance of both freedom of choice and delegated choice separately, as well as a more refined typology of choice preferences by pooling the information in the “free choice” and “delegated choice” survey questions. Second, we analyze this typology using multinomial logit analysis. In this analysis we investigate the impact of trust and solidarity on choice preferences.

4 | RESULTS: FREEDOM OF CHOICE TYPOLOGY

4.1 | Importance of freedom of choice

The first results regarding how much value is placed on individual freedom of choice are presented in Table 2. These results suggest that freedom of choice is highly valued by pension holders. The data reveal that this is particularly true

TABLE 1 Descriptive statistics for explanatory variables

| | Mean | Standard deviation |
|---|------|--------------------|
| Expressed level of solidarity (5-point scale) | 3.78 | 0.89 |
| Trust in own pension fund (5-point scale) | 3.42 | 0.95 |
| Financial knowledge (5-point scale) | 2.95 | 0.97 |
| Age (in years) | 45.1 | 10.5 |
| Sex (male = 0) | 0.42 | 0.49 |
| Education | | |
| Low | 0.16 | 0.37 |
| Middle | 0.30 | 0.46 |
| High | 0.53 | 0.50 |

Note. N = 652.

TABLE 2 The importance of freedom of choice in matters of the collective pension contract, pension holders in the Netherlands (percentages)

| Individual choice with respect to: | Very unimportant | Unimportant | Neutral | Important | Very important | Total |
|------------------------------------|------------------|-------------|---------|-----------|----------------|-------|
| Level of pension savings | 1.2 | 7.5 | 31.9 | 51.2 | 8.1 | 100.0 |
| Pension fund | 0.8 | 9.5 | 42.2 | 37.1 | 10.4 | 100.0 |
| Pension package | 0.3 | 4.9 | 31.3 | 53.2 | 10.3 | 100.0 |
| Risk composition investments | 0.3 | 2.6 | 19.2 | 53.4 | 24.5 | 100.0 |

Notes. N = 652.

The question in the survey was phrased as follows, "With respect to your pension fund, how important is it for you to have the freedom to choose with respect to the following matters?"

when the choice concerns the level of risk with which savings are invested, but it is also prevalent for the composition of the pension package and the level of savings. In each of these domains a (large) majority of pension holders state that freedom of choice is (very) important.

4.2 | Importance of delegation of choice

Table 3 presents the outcomes for the following question, "With respect to your pension fund, how important is it for you that the following matters are automatically arranged for you?". If the attitudes on the freedom of choice measure were one-dimensional, one would expect based on Table 3 that this group would not value the delegation of decisions very much. However, the results show a remarkably different, if not counterintuitive, picture if one takes a one-dimensional view of freedom. It suggests that the great majority of pension holders do not desire freedom of choice and would very much like to let their pension fund take care of pension decisions. For instance, the finding that 75% of respondents indicate that they find it (very) important that the level of pension savings is determined by their pension provider can hardly be seen as a sign that they value freedom of choice. The same can be said about the level of risk with which savings are invested (74% find it important that the pension provider takes care of this decision).

4.3 | Typology of choice preferences

In this section, we present a typology of respondents by pooling the answers to the two questions on freedom of choice and delegation of choice as shown in Tables 2 and 3. We collapsed the five response categories into three categories—(very) unimportant, neutral, (very) important—because the numbers in each cell are otherwise too small to allow reliable statistical analysis. Based on participants' answers, we constructed the typology depicted in Table 4.

TABLE 3 The importance of delegated choice in matters of the collective pension contract, pension holders in the Netherlands (percentages)

| Letting pension fund decide with respect to: | Very unimportant | Unimportant | Neutral | Important | Very important | Total |
|--|------------------|-------------|---------|-----------|----------------|-------|
| Level of pension savings | 0.8 | 5.8 | 18.7 | 62.0 | 12.7 | 100.0 |
| Pension fund | 4.5 | 13.3 | 28.5 | 45.4 | 8.3 | 100.0 |
| Pension package | 0.0 | 3.9 | 21.2 | 61.8 | 13.3 | 100.0 |
| Risk composition investments | 0.9 | 4.6 | 20.4 | 51.8 | 22.2 | 100.0 |

Notes. N = 652.

The question in the survey was phrased as follows, "With respect to your pension fund, how important is it for you for you that the following matters are automatically arranged for you?"

TABLE 4 Typology of choice preferences

| Value of freedom of choice | Value of delegated choice | | |
|----------------------------|---------------------------|---------|------------------|
| | Not (very) important | Neutral | (Very) important |
| Not (very) important | 0 | 1 | 2 |
| Neutral | 1 | 1 | 2 |
| (Very) important | 3 | 3 | 4 |

We distinguish five types of pension holders (and the numbers in Table 4 correspond to these categories), namely:

- (0) *Unimportant*: these are the respondents who assess both freedom of choice and delegation of choice as unimportant.
- (1) *Neutral*: these are the respondents who either assess freedom of choice and the delegation of choice as neutral; or who consider one of the options (freedom or delegation of choice) unimportant and who were neutral towards the other.⁵
- (2) *Delegation of choice*: these are the respondents who assess delegation of choice as important and assess freedom of choice as either neutral or unimportant.
- (3) *Freedom of choice*: these are the respondents who assess freedom of choice as important and delegation of choice as either neutral or unimportant.
- (4) *Both settings important*: these are the respondents who assess both freedom of choice and delegation of choice as important.

The distribution of choice preferences for the five categories or types of pension holders is presented in Table 5. Pooling the outcomes for the two questions shows that a diversity of preferences exists; a diversity that could give rise to counterintuitive outcomes if one does not acknowledge that freedom can have different meanings or connotations as indicated by Berlin (1958). If we consider the separate pension domains, on which pension holders were asked to express an opinion, a number of observations can be made.

First, the category of pension holders desiring freedom of individual choice is a minority and varies across pension domains (between 14% and 26%). It should be noted that pension holders do not have the same preferences for every domain; some want freedom in just one domain and others want freedom in two or more domains. If one calculates the percentage of pension holders (not shown in the table) who value individual freedom for *all four* domains this group is extremely small (2%).

TABLE 5 Refined choice preference ordering in matters of pensions, pension holders in the Netherlands (percentages)

| Pension choice domain: | Refined choice preference ordering | | | | | Total |
|------------------------------|------------------------------------|-------------|--------------------------|-----------------------|------------------------------------|-------|
| | Unimportant (0) | Neutral (1) | Delegation of choice (2) | Freedom of choice (3) | Both choice settings important (4) | |
| Level of pension savings | 0.0 | 10.1 | 30.5 | 15.2 | 44.2 | 100.0 |
| Pension fund | 1.5 | 18.6 | 32.4 | 26.2 | 21.3 | 100.0 |
| Pension package | 0.0 | 10.7 | 25.8 | 14.1 | 49.4 | 100.0 |
| Risk composition investments | 0.0 | 7.5 | 14.6 | 18.4 | 59.5 | 100.0 |

Note. N = 652.

Second, the category of pension holders who desire delegation of choice is, for most pension domains, larger than the group of participants who desire freedom of choice (only in the case of investment choices is delegation a smaller percentage).

Third, the category of pension holders who value both freedom of choice and delegated choice is clearly important for some domains and the dominant preference (see risk composition of investments, where approximately 60% of the participants fit this categorization). The fact that this category of pension holders exists and is not negligible shows that a one-dimensional view of freedom of choice may hamper an understanding of the way pension holders view freedom.

Fourth, a small percentage—but certainly not a negligible one (8–19%)—of pension holders are neutral with respect to whether they value freedom of choice or delegation of choice. This relatively small group may shed light on the divergence between economists and psychologists regarding choice as noted by Johnson and Goldstein (2003). Economists trained in the neoclassical tradition assume that preferences exist and are revealed by actions, whereas psychologists and behavioral economists (Kahneman & Tversky, 2000; Payne, Bettman, & Johnson, 1992) view preferences more as being constructed when people have not thought about a topic before. The power of default positions in pension systems may derive in large part from the existence of a group of people whose preferences have yet to be constructed. Our group of indifferent pension holders may be a reflection of true indifference or may be a result of their preferences still being “under construction”.

Lastly, those pension holders who consider both choice options to be unimportant occupy a negligible category, which suggests that the issue of choice matters to pension holders even though they do not always have a clear preference.

5 | WHO DESIRES INDIVIDUAL CHOICE AND WHO DOES NOT?

The typology of choice preferences presented in the previous section begs the question of whether there are substantial differences across the various pension holders. Are the participants who opt for freedom of choice also the people displaying low levels of solidarity and low trust in their pension fund? And does the opposite apply to participants who opt for delegating all choices to their pension fund? To test the *trust hypothesis* and the *solidarity hypothesis* we performed a multinomial logit analysis. We expect freedom of choice to be associated with a low level of solidarity with other participants in a pension fund, and a low level of trust in the pension fund in which one has accumulated pension rights.

Table 6 presents the results of this (multinomial) regression analysis where two models are estimated for each separate pension domain. To see the contribution of trust and solidarity we present first the models with only the control variables (columns 1–3), and in the columns 4–6 the full model (trust and solidarity plus control variables). Coefficients are presented in the form of relative risk ratios: the risk of the outcome relative to the base outcome, which in our case is the category “delegation of choice”. A coefficient greater than 1 signifies a positive relationship, and less than 1 a negative relationship.

The results show strong support for the solidarity hypothesis. The expressed level of solidarity is the variable with the strongest association with the various choice domains. If we restrict our attention simply to the choice between delegating individual choice and having freedom of choice (column (4) in Table 6) it appears that the higher the level of solidarity of pension holders the less likely they are to belong to the category “freedom of choice” compared with the category of “delegation of choice”. The relative risk ratio of 0.55 connected to the level of pension savings denotes that if a subject were to increase his or her solidarity score by one unit, the relative risk of being the type who wants “freedom of choice” relative to the type who wants “delegation of choice” would be expected to decrease by a factor of 0.55, given the other variables in the model are held constant.

The estimation results show that the trust pension holders have in their pension fund does not have a substantial effect across all domains and choice categories. However, in those domains where one can trace the

TABLE 6 Multinomial logit analysis of choice preference for the four separate pension instruments

| | Preference ordering (Delegation of choice is reference category): | | | | | |
|--------------------------------------|---|-----------------------------|-------------|-----------------------|-----------------------------|-------------|
| | Model with only control variables | | | Full model | | |
| | Freedom of choice (1) | Both settings important (2) | Neutral (3) | Freedom of choice (4) | Both settings important (5) | Neutral (6) |
| Choice with respect to: ^a | RRR | RRR | RRR | RRR | RRR | RRR |
| <i>Level of pension savings</i> | | | | | | |
| Expressed level of solidarity | - | - | - | 0.55*** | 0.80* | 0.69** |
| Trust in own pension fund | - | - | - | 0.63*** | 0.85 | 0.76* |
| Age (in years) | 0.97*** | 0.98 | 0.98* | 0.98 | 0.99 | 0.99 |
| Sex (male = 0) | 1.01 | 1.07 | 1.24 | 0.97 | 1.05 | 1.20 |
| Education (low = 0) | | | | | | |
| Middle | 0.73 | 0.70 | 0.43** | 0.76 | 0.72 | 0.44** |
| High | 0.55 | 0.45*** | 0.22*** | 0.70 | 0.50** | 0.26*** |
| Financial knowledge | 1.25* | 1.26** | 1.16 | 1.33** | 1.29** | 1.21 |
| Pseudo R ² | 0.02 | | | 0.04 | | |
| <i>Pension fund</i> | | | | | | |
| Expressed level of solidarity | - | - | - | 0.55*** | 1.06 | 0.81 |
| Trust in own pension fund | - | - | - | 0.55*** | 0.76** | 0.81* |
| Age (in years) | 0.99 | 1.01 | 0.99 | 1.00 | 1.01 | 1.00 |
| Sex (male = 0) | 0.99 | 1.32 | 1.04 | 0.93 | 1.35 | 1.02 |
| Education (low = 0) | | | | | | |
| Middle | 0.86 | 1.23 | 0.78 | 0.90 | 1.31 | 0.80 |
| High | 1.00 | 0.96 | 0.84 | 1.40 | 1.10 | 0.96 |
| Financial knowledge | 1.22* | 1.03 | 0.97 | 1.33** | 1.08 | 1.01 |
| Pseudo R ² | 0.01 | | | 0.04 | | |
| <i>Pension package</i> | | | | | | |
| Expressed level of solidarity | - | - | - | 0.58*** | 0.91 | 0.65*** |
| Trust in own pension fund | - | - | - | 0.80 | 0.90 | 0.89 |
| Age (in years) | 1.00 | 1.00 | 0.98 | 1.01 | 1.01 | 0.99 |
| Sex (male = 0) | 1.56 | 1.13 | 1.54 | 1.51 | 1.13 | 1.50 |
| Education (low = 0) | | | | | | |
| Middle | 0.99 | 1.00 | 0.54 | 0.99 | 1.02 | 0.54 |
| High | 0.77 | 0.85 | 0.33*** | 0.89 | 0.90 | 0.36** |
| Financial knowledge | 1.23 | 1.28** | 1.01 | 1.24 | 1.30** | 1.02 |
| Pseudo R ² | 0.01 | | | 0.03 | | |
| <i>Risk composition investments</i> | | | | | | |
| Expressed level of solidarity | - | - | - | 0.69** | 0.86 | 0.91 |
| Trust in own pension fund | - | - | - | 0.79 | 0.78* | 1.04 |
| Age (in years) | 0.96*** | 0.98 | 0.97** | 0.97** | 0.99 | 0.97* |
| Sex (male = 0) | 2.47*** | 1.28 | 0.93 | 2.43*** | 1.27 | 0.90 |
| Education (low = 0) | | | | | | |
| Middle | 1.01 | 1.02 | 0.44* | 1.03 | 1.07 | 0.43* |
| High | 1.13 | 0.93 | 0.35** | 1.32 | 1.09 | 0.35** |

(Continues)

TABLE 6 (Continued)

| | Preference ordering (Delegation of choice is reference category): | | | | | |
|-----------------------|---|-----------------------------|-------------|-----------------------|-----------------------------|-------------|
| | Model with only control variables | | | Full model | | |
| | Freedom of choice (1) | Both settings important (2) | Neutral (3) | Freedom of choice (4) | Both settings important (5) | Neutral (6) |
| Financial knowledge | 1.03 | 0.97 | 0.77 | 1.07 | 1.01 | 0.76 |
| Pseudo R ² | 0.03 | | | 0.04 | | |

Notes.

RRR = Relative Risk Ratio.

^aThe neutral category encompasses the categories (0) and (1) of Table 4.

N = 652.

***p < 0.01. **p < 0.05. *p < 0.1.

influence of trust—the level of pension savings and the pension fund choice—the trust hypothesis cannot be rejected: the more one trusts the pension fund, the less one is in favor of free individual choice and the less one is indifferent.

With respect to the control variables, the results show that there are no clear gender effects on the choice preferences, except that female participants are far more in favor of free choice than men concerning the risk composition of pension investments. A possible interpretation of why the current study finds women to be more willing to take charge of their pension investments may be related to previous robust findings showing that women are generally more risk averse than men in making financial decisions (Charness & Gneezy, 2012; Jianakoplos & Bernasek, 1998; Van Rooij, Kool, & Prast, 2007; Watson & McNaughton, 2007). In cases where they expect that their pension fund does not match their (lower) taste for risk, they are more likely to express the desire to control their investments. This seems plausible; after all, pension providers are known to be dominated by male employees and executives, and as Barber and Odean (2001) show for the case of the United States, men tend to display overconfidence in taking investment risks and engaging in excessive trading compared to women. Men tend to react more to short-term “noise” on the markets, whereas women are more likely to be long-term investors whose strategy is to ignore short-term market movements.

A final note on control variables is that “financial knowledge” was a statistical significant predictor of choice preferences with respect to level of pension savings and the issue of pension fund choice: people with more financial knowledge have a stronger preference for making their own decisions at the level of pension savings and the pension fund.

6 | CONCLUSIONS AND DISCUSSION

Do pension holders really want freedom of choice? This question is at the forefront of debates in countries that are in the process of reforming their pension systems. It is also a question that transcends the terrain of pensions and can be applied to society at large (Sunstein, 2015).

The results of our study offer a number of novel insights regarding desired freedom of choice in matters of pension finance. Freedom has a positive connotation, and this also comes across in our results. Simply polling pension holders with respect to the issue of free choice, as is the case in political and marketing campaigns, does not yield a straightforward answer. We discovered that quite large numbers of pension holders appreciate having the option of free choice as well as delegated choice, i.e., letting their pension fund take care of decisions. This outcome suggests that there are more dimensions to freedom than is commonly perceived or assumed. By pooling the information from both survey questions we offer a more refined typology of preferences for a number of important domains of pension decision-making.

Besides the fact that a small percentage of people are indifferent with respect to issues of choice, the results show that the percentage of pension holders who want complete freedom of choice is also small, although not negligible. This corresponds well with the finding for the Netherlands by Van Rooij et al. (2007) who show that the Dutch are reluctant to take control of their retirement investments. However, the findings from the present article extend this result to more domains of pension finance. Most pension holders either opt for the status quo (letting all decisions be dealt with by their pension fund) or a mixed model in which they place importance on both free choice and delegated choice. The latter category seems to have close links to what has become known as “soft paternalism” or “libertarian paternalism” (Sunstein & Thaler, 2003). This result suggests that the two concepts of freedom to which Berlin (1958) referred are both important. That there is a category of pension holders who want freedom of choice as well as delegation of choice seems to merge the concept of negative freedom in terms of not being subject to restraints and the concept of positive freedom in terms of being in control of one's life and destiny.

A second contribution concerns the profile of those who want freedom of choice over a particular domain of pension finance. For all domains of pension finance, the expressed level of solidarity is an important predictor: a relatively low level of solidarity is associated with a desire for freedom of choice. To a lesser extent, trust in the pension fund is of importance in explaining choice preferences: relatively low levels of trust are associated with the desire for freedom of choice.

It is important to acknowledge that our study has several limitations. The first concerns the generalizability of the findings to other countries and pension domains. Circumventing this limitation would involve replicating this study across time and space to provide evidence that the typology of choice preferences is robust and has predictive power across countries.

A second limitation involves the fact that the questions were posed in a country that has, according to some (Ambachtsheer, 2011), one of the top pension systems in the world (Mercer, 2015), but also one which currently does not allow much choice. Therefore, most of the Dutch population do not have personal experience of making significant pension decisions. Such decisions have been delegated by design to the national government in its role as sponsor and regulator for supplementary pensions, and on a day-to-day basis to representatives of employer organizations and unions when it comes to the governance of pension funds (see Van Dalen, Henkens, Koedijk, & Slager, 2012). In this setting it may be hard for pension holders to understand and value freedom of choice properly, and they may therefore stick to the status quo.

Despite these limitations, the method and results presented in this contribution may offer food for thought for policymakers who are either contemplating the introduction of more freedom of choice or who are trying to restrict the use of freedom. Pension funds across the world diverge with regards to the extent and type of choice they offer (Garcia-Huitron & Ponds, 2015; Whiteford & Whitehouse, 2006). Both sides of the spectrum—those systems allowing complete freedom of choice such as the United States and New Zealand and those systems where choice is (virtually) absent such as the Netherlands—experience difficulties in reforming their systems to make individual choice work. One reason for this may be that freedom of choice as a concept has more dimensions than is commonly perceived by policymakers with neoliberal orientations who tacitly assume that everyone desires freedom of choice. Our exploratory work suggests assuming that all pension holders desire freedom of choice is misguided. Designing pension reforms requires policymakers to respond to pension holders as they are in real life: a diverse group of people with an equally diverse set of preferences.

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CONFLICT OF INTEREST

None declared.

ENDNOTES

- ¹ In addition to these internal factors, fiscal and pension institutions may not be adapted adequately to facilitate income earners (and low-income earners especially) to participate in voluntary savings programs, as Casey and Dostal (2013) show for the cases of Germany and the United Kingdom.
- ² This also applies to growing number of self-employed people who need to take care of their own pension arrangements in the third tier, but who generally forego this arrangement because it costs too much (Hershey, Van Dalen, Conen, & Henkens, 2017).
- ³ For details, see <http://www.centerdata.nl/en/> (accessed December 27, 2017).
- ⁴ CentERdata provided internet access to those who did not already possess it (either through their televisions or by giving them an internet subscription for their PC, and when lacking a PC, they were provided with a simple PC with internet connection). As such, there was no selectivity with regard to whether or not people had access to the internet.
- ⁵ We have not divided these categories into smaller categories as someone who does not consider, for example, choice, important and is neutral with respect to "no choice" is still at most indifferent with respect to one option. And as it turns out, the "not important" group is negligible, making categories 1–4 the most interesting.

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APPENDIX

TABLE A1 Correlation matrix of variables underlying those used in multinomial logit analysis

| | Ch 1 | Ch 2 | Ch 3 | Ch 4 | Del 1 | Del 2 | Del 3 | Del 4 | Age | Sex | Edu | Finance | Trust | Solidarity |
|--------------|--------|--------|--------|--------|-------|-------|-------|-------|--------|--------|-------|---------|-------|------------|
| Choice 1 | 1.00 | | | | | | | | | | | | | |
| Choice 2 | 0.35* | 1.00 | | | | | | | | | | | | |
| Choice 3 | 0.38* | 0.43* | 1.00 | | | | | | | | | | | |
| Choice 4 | 0.40* | 0.36* | 0.29* | 1.00 | | | | | | | | | | |
| Delegation 1 | -0.08 | -0.04 | -0.01 | -0.06 | 1.00 | | | | | | | | | |
| Delegation 2 | -0.18* | -0.21* | -0.10* | -0.14* | 0.34* | 1.00 | | | | | | | | |
| Delegation 3 | -0.06 | -0.04 | 0.06 | -0.03 | 0.39* | 0.33* | 1.00 | | | | | | | |
| Delegation 4 | 0.10 | 0.12* | 0.09 | 0.15* | 0.32* | 0.12* | 0.30* | 1.00 | | | | | | |
| Age | -0.07 | 0.04 | 0.07 | -0.05 | 0.12 | 0.09 | 0.07 | 0.15* | 1.00 | | | | | |
| Sex | 0.05 | 0.06 | -0.01 | 0.07 | -0.01 | 0.05 | -0.06 | -0.07 | -0.15 | 1.00 | | | | |
| Education | -0.08 | -0.03 | -0.04 | 0.05 | -0.03 | -0.03 | 0.03 | -0.06 | -0.26* | 0.09 | 1.00 | | | |
| Finance kn. | 0.03 | 0.04 | 0.12* | 0.05 | -0.04 | -0.06 | 0.05 | -0.01 | 0.02 | -0.22* | 0.07 | 1.00 | | |
| Trust | -0.17* | -0.19* | -0.03 | -0.13* | 0.12* | 0.18* | 0.07 | -0.03 | 0.17* | -0.04 | 0.16* | 0.16* | 1.00 | |
| Solidarity | -0.16* | -0.13* | -0.03 | -0.10* | 0.20* | 0.25* | 0.23* | 0.07 | 0.19* | -0.07 | -0.00 | 0.00 | 0.20* | 1.00 |

Notes. Choice settings numbers refer to: 1 = level of pension savings; 2 = pension fund choice; 3 = pension package; 4 = risk composition of investments.

*p < 0.01.