

Amounts and Accounts: Reforming Private Pension Enrolment

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Preface

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Executive summary

The government has recently legislated radical private pension reforms that will lead to the majority of employees being covered by provisions for ‘automatic enrolment’ by their employers into a private pension, which in some cases will be a new ‘Personal Account’. This Commentary provides an assessment of the number of individuals likely to be affected by these reforms and their characteristics. Under these reforms, all employees aged between 22 and the state pension age with annual earnings above £5,035 (in 2006–07 earnings terms) and who do not actively decide not to be in a pension scheme will be enrolled automatically into a private pension. Among such employees in 2005:

- Two-thirds were currently contributing to a private pension and one-third were not. Three-quarters could have joined an employer’s pension scheme. The proportion contributing to a private pension has declined slightly over the last decade.
- Median annual earnings among those not contributing to a private pension were £14,000, compared with £21,600 among those who were. Median net liquid assets among those not in a private pension were £0, compared with £3,000 among those who were.
- There was no difference in the distribution of gross debts among those not currently contributing to a private pension and those who were. But those not contributing were less likely to have sufficient savings and investments to offset those debts, and were therefore more likely to have negative net financial assets, than those who were.

Any increase in pension saving among those not currently contributing to a private pension is therefore likely to be small – at least in absolute terms. On the other hand, given that individuals in this group have less scope for reshuffling assets than individuals with higher earnings and levels of assets, a part of any pension saving they do might represent new saving (and lower spending). They might, however, increase their debts.

All employers will have to default employees earning more than £5,035 (in 2006–07 terms) who are aged between 22 and the state pension age into a private pension scheme that meets certain minimum standards.

- If all individuals not currently contributing to a private pension placed 5% of their gross earnings in the relevant earnings band into a private pension, then overall net incomes would fall by 0.5%, with the biggest drop being among those in families with middle and upper-middle incomes.
- Employers who would not have otherwise offered their employees the chance to join a private pension scheme might be more likely than other employers to choose to default employees into a new Personal Account. In 2005, 4.7 million employees aged between 22 and the state pension age earned more than £5,035 (in 2006–07 earnings terms) and were not offered the chance to join an employer’s pension. Of these, 1.0 million contributed to an individually arranged Personal or Stakeholder Pension in 2005.

- Of these 4.7 million individuals, 28% were in this situation in all years from 2001 to 2005, while 21% were in this situation for the first time over this period. In total from 2001 to 2005, 8.6 million individuals had earnings above £5,035 (in 2006–07 earnings terms) and were not offered an employer’s pension scheme, in at least one year out of the five. Of these, 4.2 million did contribute to a private pension in at least one year over this five-year period.
- Had all these 4.7 million employees been instead defaulted into a Personal Account in 2005, their default contributions would have been £4.2 billion. The median default contribution would have been £770. Over the five years from 2001 to 2005, median cumulated default contributions to these funds for these 4.7 million employees would have been £2,170.

The number of Personal Accounts is likely to increase quickly over time as individuals’ circumstances change. There are likely to be many individuals with relatively small default contributions, although a not insignificant number of individuals are likely to remain in the Personal Account default group for some time. Almost one-half of those likely to be defaulted into a Personal Account over the period from 2001 to 2005 would have contributed to a private pension in at least one of those five years, suggesting that not all contributions will be new private pension saving. Even some of those who, in the absence of the reform, would not have saved in a private pension in that year might have placed funds in a private pension in a subsequent year. There might therefore be considerable competition between Personal Accounts and existing pension providers for new funds.

1. Introduction

Recent years have seen concerns from both the government and its Pensions Commission that many individuals – indeed, too many individuals – were making inadequate provision for their retirement (Department for Work and Pensions, 2002; Pensions Commission, 2004).¹ As a result, the Pensions Commission (2005) recommended significant reforms to both the state and private pension systems. These reforms were largely taken up by the government (Department for Work and Pensions, 2006a) and legislated for in the Pensions Acts of 2007 and 2008.²

The main features of the reforms to the state pension system were as follows:

- first, to commit to continuing the recent practice of indexing the Pension Credit Guarantee – the means-tested benefit to which pensioners in families with the lowest incomes are entitled – in line with growth in average earnings;
- second, to increase the generosity of the Basic State Pension both by (on average) making it easier to qualify for and by indexing its level to growth in average earnings (instead of by the greater of 2½% or the growth in the retail price index) from some point in the next parliament;
- third, to increase the state pension age for both men and women from 65 to 68 in stages between 2024 and 2046.

There were some other, more technical, changes that will reduce the generosity of the Pension Credit Savings Credit (to which some pensioners in families with lower incomes are entitled) and reduced accrual of the State Second Pension for higher earners.

One of the key objectives of the reforms is to help reduce the number of working-age individuals who are thought to be considerably undersaving for their retirement. The reforms to state pensions described above are intended to help in two ways: first, by increasing the income most individuals can expect to receive from the state once they reach the state pension age; and second, by reducing the extent to which state support is targeted on lower-income pensioners and thus provides a disincentive for some individuals to save privately for their retirement.³ Previous analysis has looked at the direct impact that these reforms will have on pensioner incomes (Brewer et al., 2007) and on the incentives faced by working-age individuals to save for retirement (McCauley and Sandbrook, 2006; Pensions Policy Institute, 2006 and 2007; Department for Work and Pensions, 2009). The reforms to state pensions will also lead to a simpler – and therefore easier-to-comprehend – pension system, which should also help individuals to develop an appropriate retirement saving plan.

¹ See also Banks et al. (2005), who provide an assessment of the numbers of those aged between 50 and the state pension age in England whose retirement resources are judged to fall below different possible definitions of adequacy. Scholz, Seshadri and Khitatrakun (2006) assess the number of individuals in the US who might be considered to be making suboptimal retirement saving decisions.

² Pensions Act 2007, which covered the state pension reforms, can be found at http://www.opsi.gov.uk/acts/acts2007/ukpga_20070022_en_1. Pensions Act 2008, which covered reforms to the private pension system, can be found at http://www.opsi.gov.uk/acts/acts2008/ukpga_20080030_en_1.

³ Clark and Emmerson (2003) describe UK pension policy under New Labour prior to these reforms and highlight the tension between the desire to maintain the generosity of means-tested support for pensioners relative to average earnings to protect pensioners in lower-income families and simultaneously trying to continue the previous Conservative government's policy of gradually privatising pension provision.

The reforms to private pensions – which are undoubtedly radical – are also primarily intended to reduce the number of individuals thought to be seriously undersaving for their retirement. A key feature of these reforms is being termed ‘automatic enrolment’. This provision will mean that enrolment by their employer into a private pension⁴ arrangement will become the default position for all employees aged between 22 and the state pension age and with earnings over £5,035 (in 2006–07 earnings terms). That is to say that unless such employees then actively choose to leave the scheme, they will be making private pension provision; by contrast, for most individuals it is currently the case that those who wish to save in a private pension have to make an active decision to opt in. Under the new set-up, all employers will have to default employees earning more than £5,035 (in 2006–07 terms) who are aged between 22 and the state pension age into a private pension scheme that meets certain minimum standards. One new option, which might be particularly attractive for those employers who currently do not offer their employees the chance to join an employer’s pension scheme, will be to enrol employees into a new Personal Account. Unless individuals choose otherwise, part of their salary – along with an employer contribution – will be paid into their pension scheme.

The objective of this Commentary is to describe who is not currently choosing to save in a private pension – in particular, to look at their earnings and their liquid financial wealth – in order to describe the characteristics of individuals who might be brought into private pensions as a result of these reforms. In addition, this Commentary provides separate analysis of those who are not currently offered the chance to join an employer’s pension scheme and are therefore likely to form part of the group that could be enrolled automatically into the new Personal Accounts. This analysis examines how many individuals fall into this category both in terms of a one-year snapshot and over a longer five-year horizon. This sheds light on the likely size of the Personal Account default group both in its first full year of operation and over a longer time scale. In addition, data on the earnings of individuals in this group are utilised to assess the aggregate amount of default contributions that might flow into Personal Accounts from these individuals and how this will be distributed across accounts.

Chapter 2 describes the reforms to private pensions in more detail and summarises some of the evidence that suggests these reforms might lead to a significant increase in private pension coverage. Chapter 3 looks at recent trends in private pension coverage and the characteristics of those who have chosen to save in a private pension compared with those who have not chosen to save in a private pension. Chapter 4 focuses on the Personal Account target group and examines what the size of the market might be in terms of both number of accounts and the distribution of default contributions. Chapter 5 concludes.

⁴ Throughout this document, we use the phrase ‘private pension’ to mean pensions other than state pensions, the most prevalent being: all occupational pensions; other employer-provided pensions such as Stakeholder Pensions, Group Personal Pensions and the new Personal Accounts; and other individually arranged private pensions such as Personal Pensions.

2. The 2012 private pension reforms

This chapter describes the key features of the radical private pension reforms that were legislated in the Pensions Act 2008: Section 2.1 describes the effect of the reforms once they are fully enacted.⁵ Section 2.2 then goes on to present some of the evidence suggesting that these reforms might have a significant impact on private pension coverage.

2.1 Details of the reforms

The impact of the reforms set out in the 2008 Pensions Act will be that the majority of employees will be covered by 'automatic enrolment' and so will be enrolled by their employer into a private pension scheme, after which they can actively choose to opt out. Thus, the default position for those who do not make an active choice about pension scheme membership will be to be enrolled in a private pension scheme. This is in contrast to the situation that is currently the default for many employees, which is that those who do not make a decision to join a scheme do not become members. The new provisions will apply to all employees who earn above £5,035 (in 2006–07 earnings terms) who are aged between 22 and the state pension age. These provisions potentially affect these employees because they operate through an employer duty to engage with a private pension arrangement – an existing workplace pension, a new workplace arrangement or alternatively the new 'Personal Account'.

All employers will have to default employees earning more than £5,035 (in 2006–07 terms) who are aged between 22 and the state pension age into a private pension scheme that meets certain minimum standards.⁶ One new option, which might be particularly attractive for those employers who currently do not offer their employees the chance to join an employer's pension scheme, will be to enrol employees into a new Personal Account. The minimum default will involve employees paying 4% of their earnings between £5,035 and £33,540 (in 2006–07 earnings terms) into a defined contribution pension account. This will be matched with contributions on the same band of earnings of 3% from their employer and 1% from the government in the form of basic-rate income tax relief on the 4% employee contribution (since a 5% gross employee contribution would attract basic-rate income tax relief of 20%).

In all cases, employees will still be able to choose to leave the scheme, in which case they will be free to choose whether or not to make any additional private provision for their retirement. However, those opting out will be automatically re-enrolled each time they move employer. Individuals may also be automatically re-enrolled periodically (although

⁵ Personal Accounts are expected to begin operating in October 2012, and there will be a phase-in period for some elements of the reforms.

⁶ Compliant schemes are to be defined as follows: (a) contracted-out occupational defined benefit schemes with an accrual rate that is equal to or better than 1/80th (this is the same minimum that allows them to contract out); (b) contracted-in occupational defined benefit schemes with an accrual rate that is equal to or better than 1/120th (the Government Actuary's Department estimates this is equivalent to an 8% contribution to a Personal Account for a median earner; since 95% of defined benefit scheme members are contracted out, this group is not very important); (c) defined contribution schemes have a default fund option (but can also offer choice) and a minimum default contribution for individual scheme members of 8% with a minimum of 3% coming from the employer. Source: Department for Work and Pensions (2006b), but see also Department for Work and Pensions (2006c and 2007a).

not more frequently than once every three years). So the ease with which employees can continue not contributing to a private pension has – as discussed below – been reduced. Employers can, if they wish, choose to provide a more generous match and they are also allowed to default individuals in at a higher rate of employee contribution than 4% (although there will be rules in place to stop employers defaulting individuals in at very large contribution rates with the intention of encouraging individuals to opt out).

Both elements of the reform – that is, the nature of enrolment and the structure of contributions – are potentially extremely important. Together they will shift the UK from a situation where most employees are not defaulted into a private pension to one where the majority are by default enrolled by their employer into a private pension. As some occupational pension schemes already default eligible employees into the scheme, some employees will be largely unaffected by the reform. For example, since January 2007, all teachers aged between 18 and 70 have been automatically enrolled into the Teachers' Pension Scheme (TPS).⁷

Those with funds in Personal Accounts and other defined contribution qualifying schemes will be offered a choice of investment options, and there will be a default investment choice made on the behalf of those not making an active decision to join or about how to invest. Membership of a private pension will not become compulsory: in all cases, employees will be able to choose to leave the scheme that they have been automatically enrolled into.

Employees enrolled into a Personal Account can also choose to contribute more than the default amount, though up to a limit on total contributions of £3,600 a year (in 2005 terms, to be uprated in line with average earnings), and higher employee contributions would not automatically attract higher employer contributions. Similarly, individuals can choose to contribute less than the default amount, but only at the risk of losing some or all of their employer's contribution. If their overall contribution falls below the minimum default, then these individuals will, like those who opt out of Personal Accounts completely, be re-enrolled at the default amount of their employer's scheme when, for example, they move employer. In most cases, individuals will not be allowed – at least until a review planned for 2017 – to transfer money between Personal Accounts and other private pension plans.⁸

Those who are self-employed and those who have previously contributed to a Personal Account will also be able to choose to contribute to a Personal Account if they want. This could be done in addition to, or instead of, membership of any employer's pension scheme, although employees choosing to save in a Personal Account rather than their employer's pension scheme would potentially sacrifice the pension contribution paid by their employer.

Initial Department for Work and Pensions (DWP) estimates suggested that 'personal accounts could have between 6 and 10 million members with private pension saving of around £8 billion a year, of which approximately 60 per cent will be new saving' (Department for Work and Pensions, 2006b, p. 23) and that the additional saving resulting from the introduction of Personal Accounts will, in the longer term, boost the

⁷ Prior to 1 January 2007, while full-time teachers were automatically enrolled, part-time teachers had to make an active decision to join the TPS.

⁸ Source: Chapter 7 of Department for Work and Pensions (2007a). One example of when individuals will be able to transfer funds is on divorce.

gross national product of the UK by 0.2% a year.⁹ More recent DWP estimates suggest a lower range for participation in Personal Accounts of between 4 and 7 million members (Department for Work and Pensions, 2007b) and that ‘these reforms could have a positive social welfare impact equivalent to £40 billion between 2012 and 2050 and could lead to a 0.2 per cent increase in gross national product (GNP) in the long run’ (Department for Work and Pensions, 2008, p. 1). In Chapter 4, we assess the number of individuals likely to be members of Personal Accounts, both at a point in time and over a five-year horizon, and also consider the possible volume of default contributions. Before that, in Section 2.2, we present some evidence that suggests that both the change in the default regarding enrolment and the incentive provided by the employer’s contribution might increase private pension coverage.

2.2 Will pension coverage respond?

The current situation is that the default for most employees if they do not make an active choice about pension scheme membership is for them not to be a member of a scheme. The proposed reforms move to a situation in which individuals who do not make an active choice will be enrolled by their employer in a private pension scheme. Both the Pensions Commission and the government believe that such a move will help to boost retirement provision.

Those employees who are able to join an employer’s pension scheme that meets the prescribed standards, but who are not currently opted in by default, will only experience a change in the default position regarding enrolment and beginning to contribute. This will make it easier for those who want to join the scheme (as they will no longer have to do anything unless they want, and are able, to deviate from the default contribution level and investment choice) and it will make it slightly less easy for those who want to leave the scheme (as they will now have to opt out actively).¹⁰ A standard economic model would suggest that the fact that it is now slightly easier to contribute to a private pension, and slightly less easy not to contribute to one, will boost pension coverage. In addition, behavioural economics suggests there will be a group of individuals who simply do not make a choice – perhaps because they shy away from seemingly complex decisions. People in this group will currently not be members of their employer’s pension scheme, but they will become members once automatic enrolment means that employees (with sufficient earnings) have to make an active choice in order not to be members of their employer’s scheme.

Many of those employees aged between 22 and the state pension age who are not currently able to join an employer’s scheme meeting the prescribed standard will also be potentially affected by the change in default regarding enrolment and beginning to contribute to a pension scheme. Like those described above, they will also be automatically enrolled by their employer into a private pension. But it is likely that many of these employees will see their employers continue to offer the minimum level of provision. In these cases, the government’s reforms are not relying entirely on changing defaults: these individuals will also face a stronger financial incentive to contribute 4% of

⁹ See figure 3.2 on page 32 of Department for Work and Pensions (2006d). A summary of the relevant literature is provided by Hawksworth (2006).

¹⁰ For recent evidence from the UK on the reasons given by individuals for not choosing to join their employer’s scheme, see Hall and Floyd (2009).

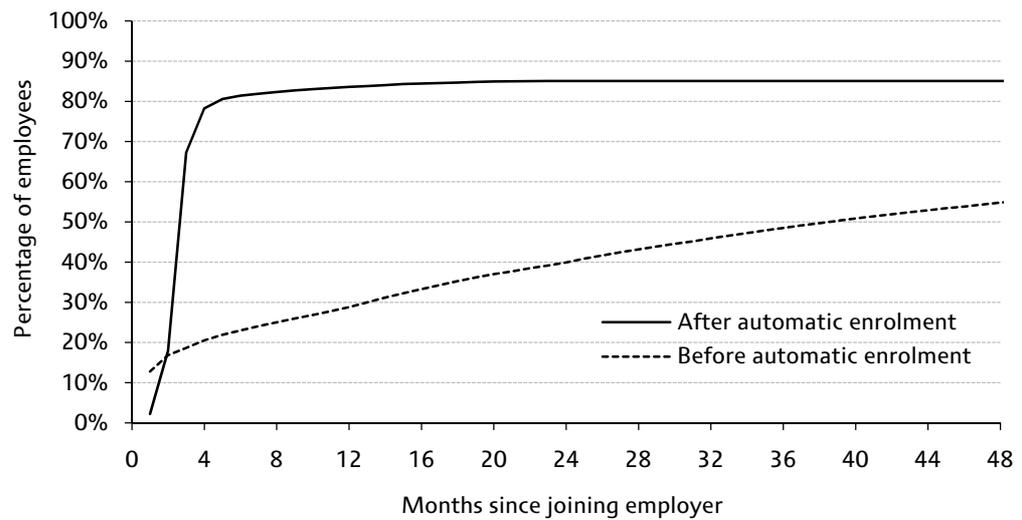
their salary (between £5,035 and £33,540 in 2006–07 terms) to a private pension than they would have faced without the reform. This is because if they contribute 4% of their salary to a Personal Account or other qualifying scheme, then their employer will be obliged to contribute a further 3% of the relevant band of earnings. However, if they choose to contribute less than 4% of the relevant band, they might lose this employer contribution. (There is no new financial incentive for them to contribute more than 4% of their salary.) As a result, the incentive provided by the fact that the employer contribution is only guaranteed for those employees who contribute at least the default minimum should be expected to boost both pension membership and the numbers contributing at least 4% of their (band) earnings to a private pension. The effect of this on pension coverage is in addition to the role of reducing the effort required to begin contributing to a scheme and the possibility that some individuals may simply always go with the default option.

There is no evidence on the impact on pension scheme membership of such a large-scale change in the default for scheme enrolment, either from the UK or from elsewhere. However, there have been some studies from the US looking at the impact of changing pension defaults on both pension coverage levels and pension contribution rates, among certain employers. It should be noted that evidence from a small number of employers who agreed to participate in such schemes in the US might not extrapolate perfectly to all employers in the US, let alone to another country such as the UK where the institutional environment is very different.

Evidence from an experiment from the US on the impact of automatic enrolment on pension coverage levels is presented in Madrian and Shea (2001), with a summary shown in Figure 2.1. This shows that when new employees were enrolled automatically, less than one-fifth of employees chose to opt out, leaving over four-fifths in the scheme. In contrast, when new employees had to choose to join the scheme, coverage levels increased slowly over time, but only reached 50% after 39 months and were still considerably below four-fifths after 48 months. This provides evidence that, as the discussion above suggests, changing the default for enrolment leads to an increase in pension coverage.

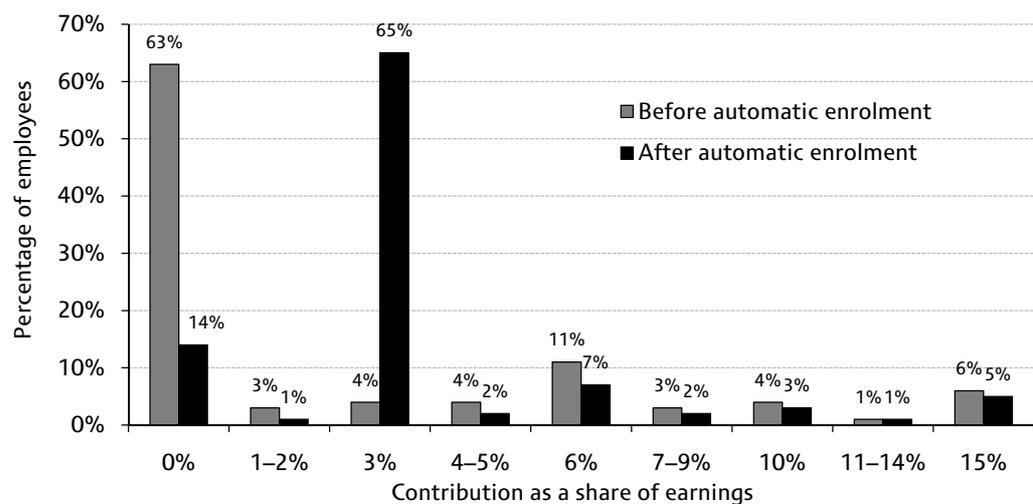
However, an increase in pension coverage levels does not necessarily mean that all individuals are contributing the same or more to a private pension. This is because some now contribute the new default contribution level, which could be lower than the level that they would otherwise have chosen to contribute. Evidence on such a phenomenon is also presented in Madrian and Shea (2001) and is summarised in Figure 2.2. The left-hand bars show the distribution of pension contribution rates before automatic enrolment was in place, while the right-hand bars show the distribution once automatic enrolment had been introduced. As before, it is clear that under automatic enrolment, far fewer employees contribute nothing to their employer's scheme (14% compared with 63%). However, in this example, automatic enrolment involved employees being defaulted in at a rate of 3% of their earnings. This led to 65% of employees contributing at this level and few choosing to make a contribution that was smaller or larger than this. Perhaps most worryingly (given that the rationale for changing defaults is to boost pension saving), before automatic enrolment 29% of employees chose to contribute more than 3% of their earnings, whereas after automatic enrolment was in place this fell to 20%.

Figure 2.1. Evidence from the US on automatic enrolment and pension coverage levels



Source: This graph has been used in presentations by David Laibson (e.g. Laibson, 2008); it draws on and is sourced to Choi et al. (2004), which in turn built on Madrian and Shea (2001).

Figure 2.2. Evidence from the US on automatic enrolment and pension contribution rates

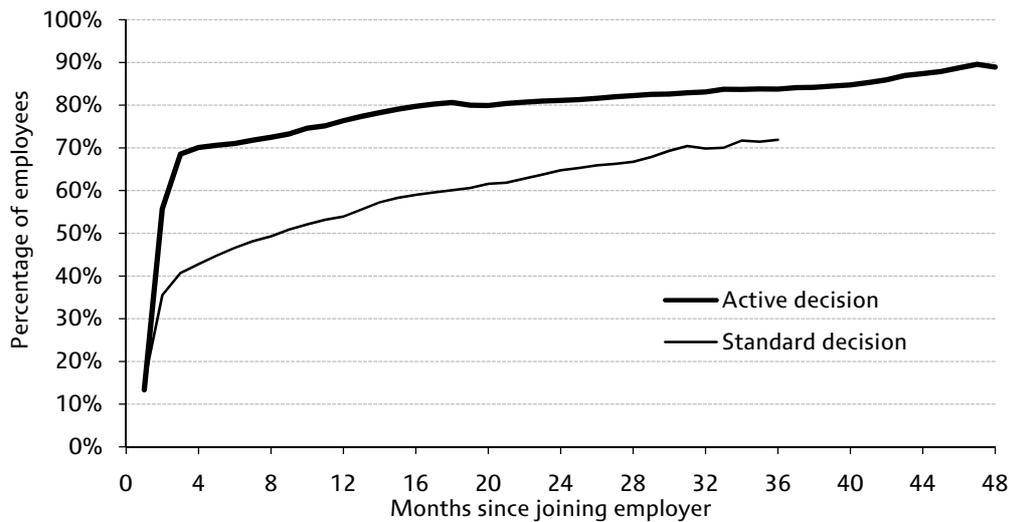


Source: Figure 11c on page 1163 of Madrian and Shea (2001).

So this evidence suggests that automatic enrolment can boost pension coverage but, in some cases, at the expense of a lower contribution rate. Evidence, also from the US, points to a possible third way between automatically enrolling individuals into or out of their employer's pension scheme. This is where individuals are told that they have to make an active decision as to whether or not they wish to be a member of their employer's scheme. In this arrangement, employees were actually defaulted out, in the sense that if they still refused to make an active decision then they would not be enrolled into the scheme. But in contrast to the experiments described above, the emphasis here was on trying to persuade the employee that they had to make a clear decision one way or the other. The results are presented in Choi et al. (2004), with a summary shown in Figure 2.3. They show that use of these 'active decisions' did, at least in this case, lead to a

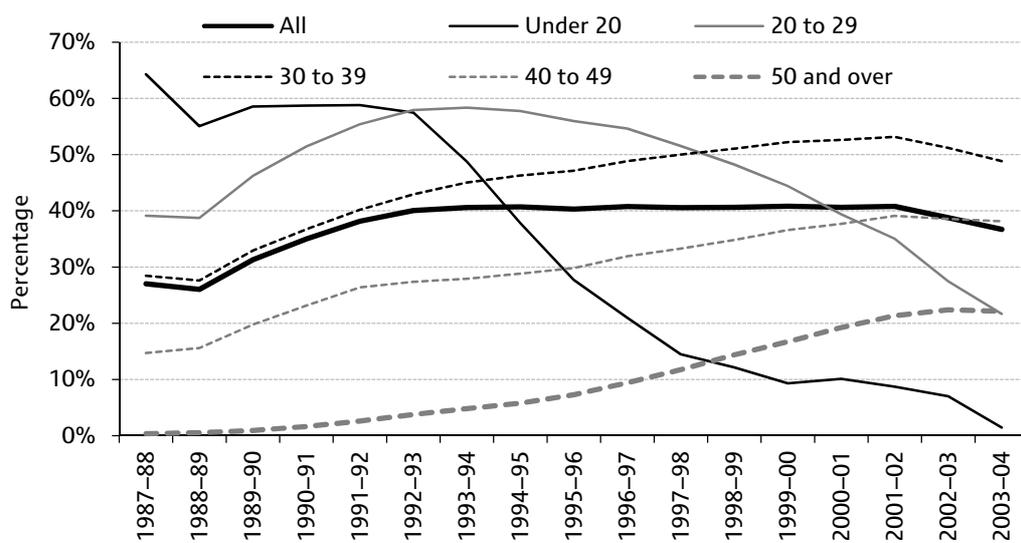
significant increase in pension coverage. While the increase in coverage is not as large as that shown under a shift to automatic enrolment in Figure 2.1, the use of active decisions avoids the potential pitfall of some individuals contributing less to their pension as a result of remaining at the default contribution rate, which could be the underlying reason for the pattern in Figure 2.2. Furthermore, the use of ‘active decisions’ rather than automatic enrolment should reduce the proportion of individuals who end up investing in a default investment fund because they have been enrolled into a private pension without making an active choice about how to invest. A further discussion of these issues can be found in Carroll et al. (2009), Beshears et al. (2007) and Wicks and Horack (2009).

Figure 2.3. Evidence from the US on active decisions and pension coverage levels



Source: Choi et al., 2004.

Figure 2.4. Responsible teenagers? Percentage of employees with second-tier pension coverage choosing to contract out into an Approved Personal Pension or Stakeholder Pension, 1987–88 to 2003–04, by age band



Source: Figure 6 of Disney, Emmerson and Wakefield (2008) using data from the Department for Work and Pensions.

Also mentioned above is the fact that, once the UK reforms have been fully implemented, those employees who are not offered the chance to join an employer's pension scheme will have an increased financial incentive to contribute 4% of their (band) salary to a Personal Account. Specifically, this will enable them to receive a 3% matching contribution from their employer (which they might be reluctant to reject), whereas without the reform they might not have been able to receive this. This increase in incentive to contribute to a private pension might also have a significant impact on coverage.

There is much evidence that incentives to contribute to a private pension affect pension contribution decisions. Indeed, the sole reason many individuals save for retirement in a private pension is that the favourable incentives on offer outweigh the loss of flexibility from having to tie funds up until later life and then purchase an annuity with at least three-quarters of the accumulated fund.¹¹ One powerful example of individuals responding very strongly to such pension incentives is shown in Disney, Emmerson and Wakefield (2008) and reproduced in Figure 2.4. This shows the percentage of employees who chose to contract out of state-provided second-tier pension provision into a Personal Pension or Stakeholder Pension over the period from 1987–88 to 2003–04. Prior to April 1993, the incentive to do this was strong for middle-aged employees and very strong for younger employees. The percentages choosing to contract out in this form match the pattern of incentives. Indeed, over half of employed teenagers chose to contract out in this form despite the fact that any financial benefit to them from doing so would come to them a long way into the future. Once the incentives were made less strong, from April 1993, far fewer younger individuals chose to contract out in this form. The move to age-related rebates from April 1995 increased the incentive for older employees to contract out in this form, and the largest increase in the propensity to contract out into a Personal Pension after this date was indeed observed among those aged 50 and over. In contrast, contracting out into individual private pensions continued to be less common among those aged under 30.

¹¹ The requirement to convert three-quarters of the fund into an income stream by age 75 at the latest covers all but small pension funds.

3. Private pension holding in the UK

Key ingredients for the outcome of the change in pension defaults, and the associated introduction of Personal Accounts, will be the number of individuals potentially brought into private pensions and the amount that they might contribute. Therefore this chapter begins by documenting recent trends in private pension coverage (Section 3.1). It then describes the distribution of earnings (Section 3.2), the distribution of liquid financial wealth (Section 3.3) and other characteristics (Section 3.4) by current pension status. Chapter 4 will say more about the potential size of the market for Personal Accounts.

3.1 Trends in private pension coverage

The complexity of the UK pension system means that individuals can have complicated pension arrangements and that it is difficult to collate figures on 'private pension coverage' using aggregate sources. Therefore here we use data from two different household surveys to examine both the level and the trends in private pension coverage in the UK in recent years. Using these data sources also has the advantage that we can specify exactly the group among which we wish to examine pension coverage and means that we can document, as we do in later sections, differences in other observed characteristics – such as earnings and liquid savings, investments and debts – between those who are and those who are not currently contributing to a private pension.

Two different surveys are used:

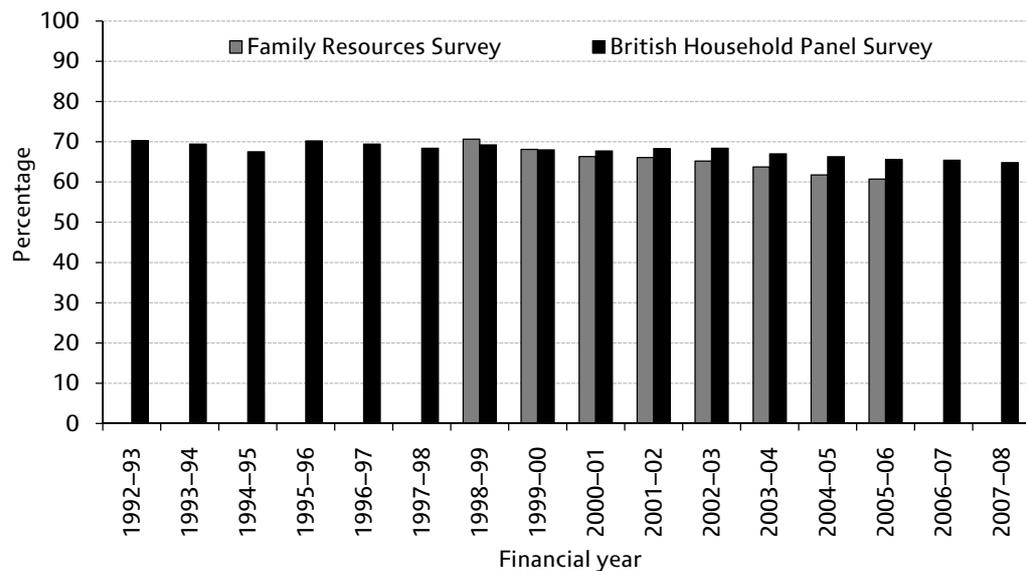
- The Family Resources Survey (FRS) is the annual survey conducted on behalf of the Department for Work and Pensions in order to provide, for example, statistics on the evolution of the distribution of incomes. It surveys different households each year, interviewing all adults in each household face-to-face. Since 1998–99, it has included a (broadly consistent) question asking 'Are you [or your employer] paying contributions to any of the pension arrangements shown on this card?'. In addition to having very good information on income, the FRS is a relatively large sample – for example, in 2006–07, nearly 45,000 individuals were interviewed in nearly 26,000 households.
- The British Household Panel Survey (BHPS), as its name suggests, is a panel study, meaning that it attempts to interview the same individuals each year. It has been running since the autumn of 1991, and again interviews all individuals in a household face-to-face. It collects information on a somewhat different set of topics from the FRS, with less-detailed information on income sources but broader sets of questions on other topics. Regarding pensions, in each year since 1992, individuals have been asked 'Does your present employer run a pension scheme or superannuation scheme for which you are eligible?', and if they reply in the affirmative, they have then been asked 'Do you belong to your employer's pension scheme?'. In addition, individuals are asked 'In the past year, have you paid any contributions or premiums for a private personal pension, or had such contributions paid on your behalf by the Department of Social Security?'. As with the FRS, the responses to these questions allow us to identify separately those who are members of a private pension scheme arranged by their employer and those who are members of a private pension they arranged individually, such as

an individual Personal Pension. In addition, and beyond the information that the FRS provides, the responses allow us to identify those who were offered the chance to join an employer's scheme but did not join it. Another advantage of the BHPS when thinking about pensions and savings is that, in 2005, individuals were asked for details of their liquid financial savings, investments and debts. The BHPS does, though, contain a smaller sample than the FRS: in 2006, just over 26,000 individuals were interviewed in just under 11,500 households.

In most of the analysis in this chapter and Chapter 4, we take employees aged between 22 and the state pension age earning above £5,035 (in 2006–07 earnings terms). This is because these are the individuals who will be covered by automatic enrolment into a new Personal Account or their employer's compliant pension scheme. This potential target group consisted of an estimated 20.2 million individuals in the UK in 2005.¹²

Estimated private pension coverage for the BHPS since 1992–93, and for the FRS since 1998–99, is shown in Figure 3.1. By a 'private pension', we mean all occupational and Personal Pensions and (since 2001) also Stakeholder Pensions. The FRS suggests that private pension coverage was at 71% in 1998–99 and has fallen to 61% in 2005–06. Over the same period, the BHPS suggests that private pension coverage began at a similar level but then declined by less, reaching 65% in 2006–07. Looking further back, the BHPS suggests that private pension coverage was relatively stable between 1992–93 and 1998–99.

Figure 3.1. Recent trends in private pension coverage



Notes: Base is employees aged 22 to the state pension age with earnings above £5,035 (in 2006–07 earnings terms). This base is an estimated 20,173,000 individuals in the UK in 2005. Questions on private pension provision in the FRS were changed from 2006–07. Problems were identified by DWP analysts, with some respondents reporting dormant (closed) pension scheme memberships as if they were live memberships. It has not been possible to identify and exclude all the dormant memberships on a consistent basis. As a result, FRS data for 2006–07 and 2007–08 overstate private pension participation rates compared with other sources, and will mean that this data source does not accurately reflect trends in participation over these years.

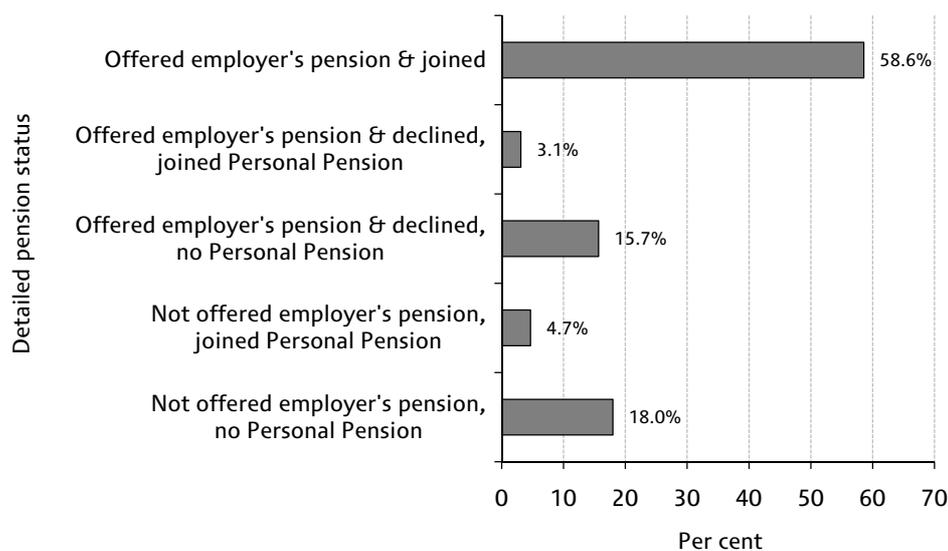
Source: Authors' calculations using data from the FRS and the BHPS.

¹² Out of the UK adult population of 46,310,000, there are 36,137,000 aged under the state pension age, of whom 32,182,000 are aged 22 or over, of whom 24,747,000 are in paid work, of whom 21,795,000 are not self-employed, of whom 20,173,000 have earnings above £5,035 (in 2006–07 earnings terms).

This suggests that, with the well-documented sharp decline in the number of private sector defined benefit pensions remaining open to new members,¹³ overall private pension coverage, at least among this group, has only fallen back somewhat in recent years, with around two-thirds of these employees still covered by private pensions. That the decline has not been sharper will be due to a combination of more private sector employers now offering defined contribution arrangements (which typically might be expected to be less generous than the defined benefit schemes they replaced, especially if reducing expected future employer pension costs was a motivation for the change), increases in public sector employment (where occupational pension coverage is higher, as shown in Section 3.4) and increases in individually arranged pensions such as Personal Pensions and, since April 2001, Stakeholder Pensions.¹⁴

As described above, the BHPS allows a more detailed examination of individuals' pension status. Specifically, it allows individuals to be classified according to whether or not they were offered the chance to join an employer's pension scheme, whether or not they accepted that opportunity and whether or not they took out an individual pension arrangement such as a Personal Pension or Stakeholder Pension. Of those employees aged between 22 and the state pension age who earned more than £5,035 (in 2006–07 earnings terms) in 2005, two-thirds were found to be contributing to a private pension and one-third not. A breakdown of this coverage into each of five detailed pension status categories is shown in Figure 3.2. Of this group, 77% were offered the chance to join their

Figure 3.2. Detailed private pension status, 2005



Note: Base is employees aged 22 to the state pension age with earnings above £5,035 (in 2006–07 earnings terms, which is equivalent to £4,895 in 2005, the year of the sample). This base is an estimated 20,173,000 individuals in the UK in 2005.

Source: Authors' calculations using data from the BHPS.

¹³ For details of how membership of private sector occupational pensions, split by defined benefit and defined contribution, has changed over time, see figure 3A.5 on page 118 of Pensions Commission (2004).

¹⁴ Pensions Policy Institute (2008) points out that public sector employees are more than twice as likely to be members of an employer-sponsored pension scheme as private sector employees: around 85% of public sector employees are members of a scheme, compared with only 40% of private sector employees. Most of the members of public sector schemes have a defined benefit scheme, but only around 15% of private sector employees are active members of a defined benefit scheme. The impact of the introduction of Stakeholder Pensions on private pension coverage, and the associated increase in pension contribution limits for zero and low earners, is assessed in Disney, Emmerson and Wakefield (forthcoming).

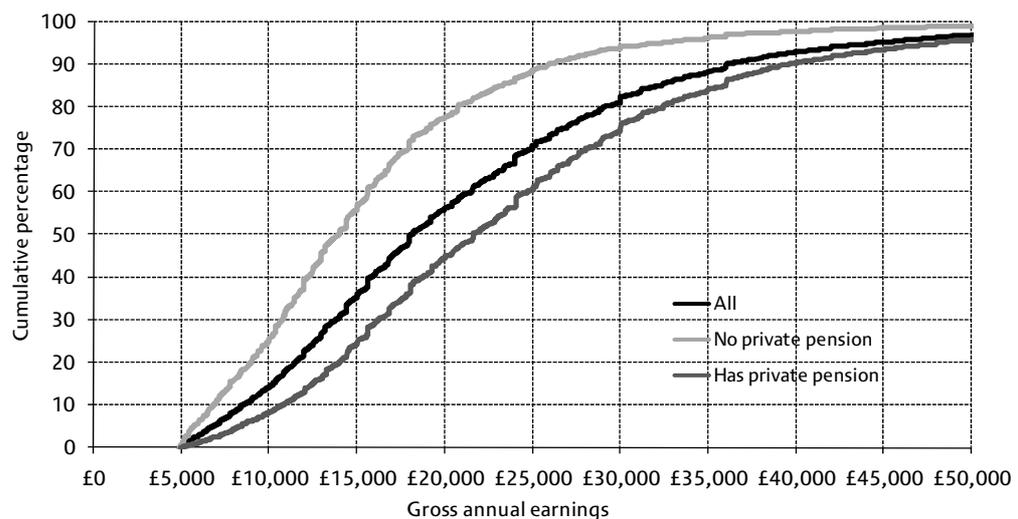
employer's pension scheme: 59% chose to join the scheme, 3% did not choose to join their employer's scheme but took out an individual private pension, and 16% did not choose to join their employer's scheme and did not make any alternative arrangement. Just under one-quarter (23%) were not offered the chance to join an employer's pension scheme, with 5% not being offered the chance to join an employer's scheme and instead taking out an individual private pension, and 18% not being offered the chance to join an employer's pension scheme and not taking out an individual private pension.

3.2 Pension coverage and earnings

The cumulative distribution of gross annual earnings, taken from the BHPS in 2005, is presented in Figure 3.3. It is shown for all employees aged 22 to the state pension age who earn above £5,035 (in 2006–07 earnings terms) and split by the two-thirds of these individuals who are currently contributing to a private pension and the one-third of them who are not. The observed distribution of earnings among those who do not currently contribute to a private pension is to the left of – i.e. lower than – that of individuals who do currently contribute to a private pension. For example, median¹⁵ earnings overall are £18,000, but they are just £14,000 among those not currently contributing to a private pension (and £21,600 among those who are). Three-quarters of those not contributing to a private pension in 2005 had earnings of less than £19,100, whereas only four-in-ten of those contributing to a private pension had earnings below this level.

A very clear pattern of detailed pension status by earnings band is shown in Figure 3.4. Those with higher earnings are both more likely to be offered the chance to join an employer's pension and, conditional on being offered, more likely to choose to join the scheme. Higher earners not offered the chance to join an employer's pension scheme are more likely to make alternative private pension arrangements than lower earners not offered the chance to join an employer's pension scheme.

Figure 3.3. Cumulative distribution of earnings by pension coverage, 2005

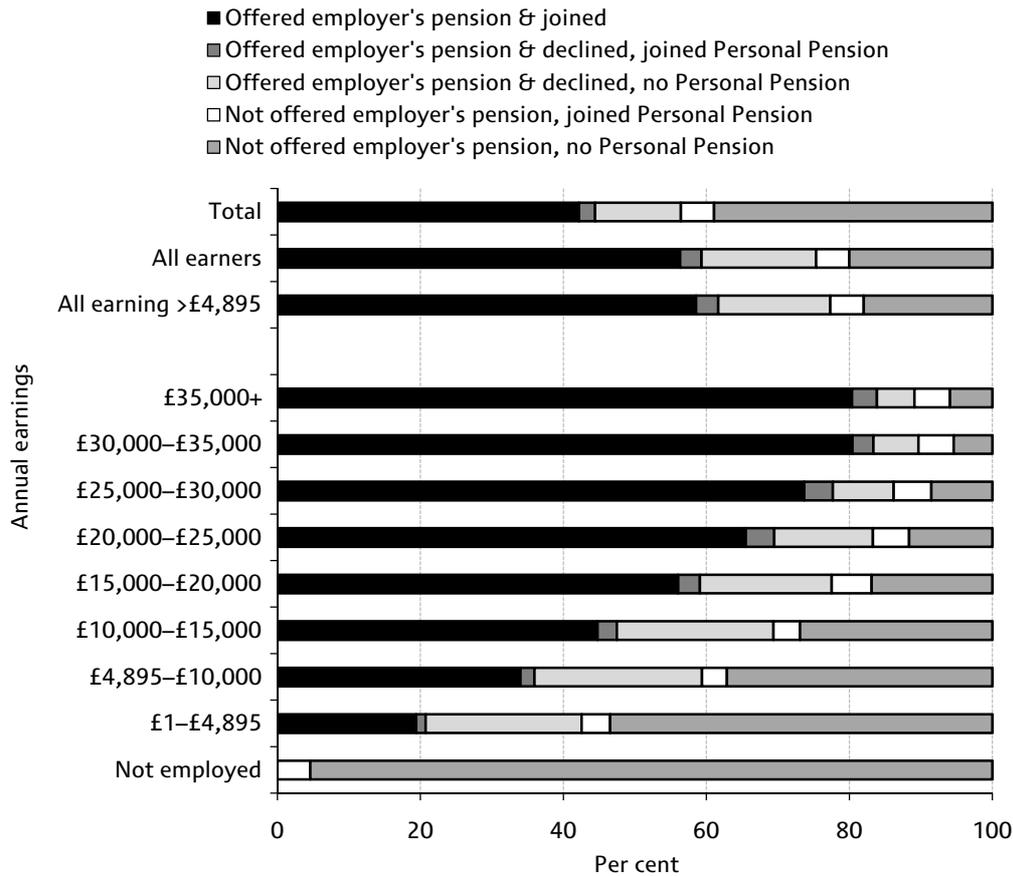


Note: As Figure 3.2.

Source: Authors' calculations using data from the BHPS.

¹⁵ The median is the value for which half the sample has less and half the sample has more. When looking at skewed distributions, it might be considered a more appropriate measure of the average than the mean.

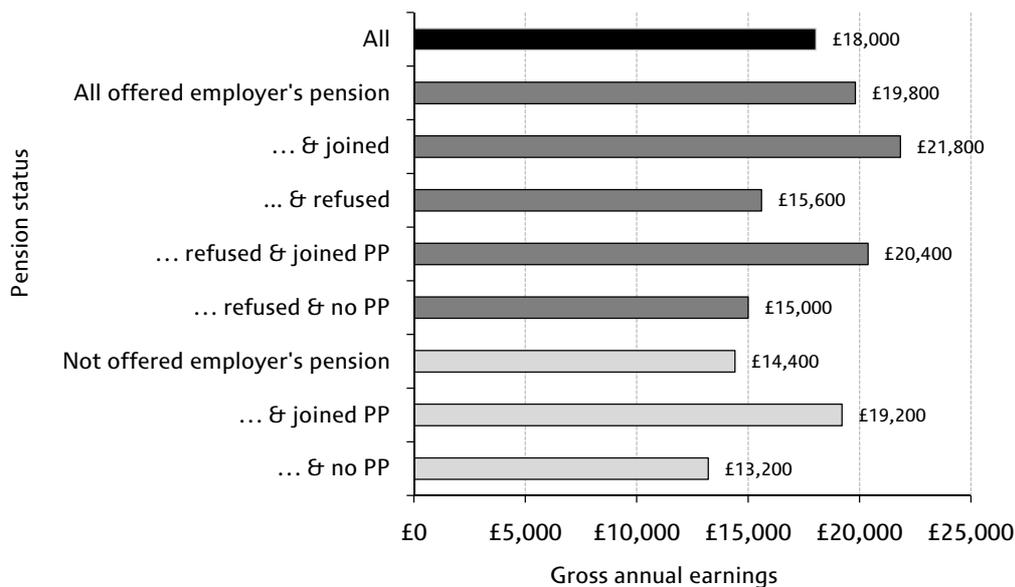
Figure 3.4. Detailed private pension status by current earnings, 2005



Note: Base is all individuals aged 22 to the state pension age. This base is an estimated 32,182,000 individuals in the UK in 2005.

Source: Authors' calculations using data from the BHPS.

Figure 3.5. Median earnings by detailed pension status, 2005



Notes: 'PP' refers to an individually arranged Personal Pension or Stakeholder Pension. Base is employees aged 22 to the state pension age with earnings above £5,035 (in 2006-07 earnings terms, which is equivalent to £4,895 in 2005, the year of the sample). This base is an estimated 20,173,000 individuals in the UK in 2005.

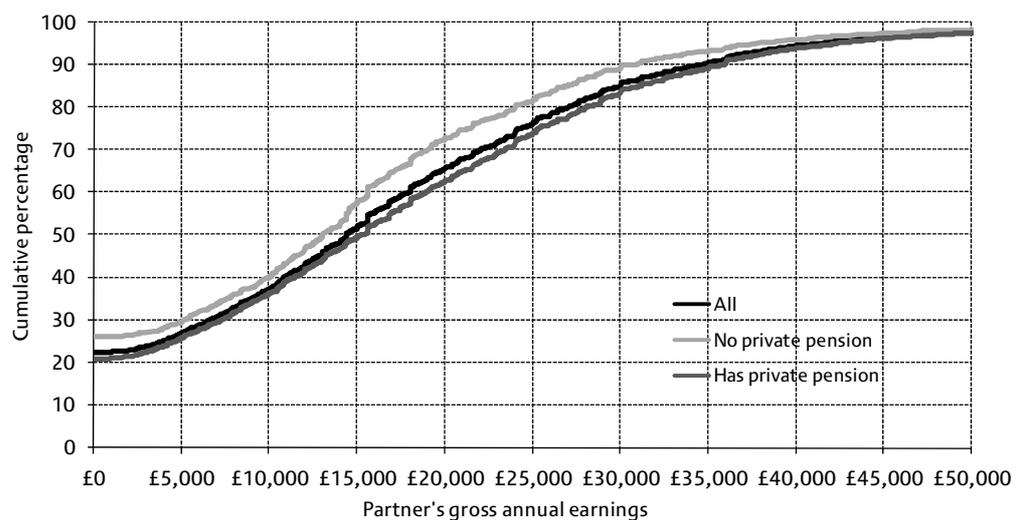
Source: Authors' calculations using data from the BHPS.

For those employees earning above £5,035 in 2006–07, the average (median) level of earnings by detailed pension status is shown in Figure 3.5. This confirms that average earnings are higher among those offered the chance to join an employer's pension scheme than among those not offered the chance (£19,800 compared with £14,400). Among those offered the chance to join, average earnings are higher among those choosing to join than among those not choosing to join (£21,800 compared with £15,600). In addition, the graph shows that among those not choosing to join their employer's scheme, average earnings are higher among those who take out an alternative private pension arrangement than among those who do not (£20,400 compared with £15,000).

Pension coverage and partners' earnings

The final comparison of earnings that we make is to examine the partners' earnings of those who do, and do not, currently contribute to a private pension. (Note that this analysis is about how individuals' pension choices relate to their partners' earnings, i.e. it does not consider the pension status of their partners. Some analysis of how pension status of one individual in a couple co-varies with that of their partner is provided in Section 3.4.) For those employees aged 22 to the state pension age in 2005 with earnings above £5,035 (in 2006–07 earnings terms) who are in couples, Figure 3.6 presents the cumulative distribution of partners' earnings, split by whether or not the individual is currently contributing to a private pension. This shows that the distribution of partners' earnings of those not contributing to a private pension is to the left of – i.e. lower than – that of those who do currently contribute to a private pension. Within couples, two-thirds of those not currently contributing to a private pension have a partner who earns less than £18,000 while two-thirds of those who are currently contributing to a private pension have a partner who earns less than £21,800.

Figure 3.6. Cumulative distribution of partners' earnings by pension coverage: those in couples only, 2005



Note: Base is employees aged 22 to the state pension age with earnings above £5,035 (in 2006–07 earnings terms, which is equivalent to £4,895 in 2005, the year of the sample) who are in couples in 2005.

Source: Authors' calculations using data from the BHPS.

This section has shown that those who are not currently contributing to a private pension typically have much lower earnings than those who are currently contributing to a private pension. In addition, among those in couples, those who are currently contributing to a private pension also, on average, have higher-earning partners than those who are not currently contributing to a private pension.

3.3 Pension coverage and liquid financial wealth

In this section, we examine the liquid financial assets of individuals in 2005. This is potentially important for two reasons. First, the appropriateness of pension saving might depend on whether or not individuals have already built up some liquid financial assets – or have access to credit – on which they could draw if they were unable to finance spending needs out of their income in the near term. Second, individuals who already have liquid financial assets – or have access to credit – might decide to finance any new pension contributions from reshuffling these existing assets rather than reducing their expenditure. In contrast, any increase in pension saving among those who do not have any liquid financial assets, and who do not have access to credit, is more likely to represent an increase in overall saving.

Again, the focus is on employees who are aged between 22 and the state pension age who are earning more than £5,035 (in 2006–07 earnings terms). The BHPS contains questions aimed at measuring individuals' gross savings, their gross investments and their gross debts. Broadly, savings can be thought of as funds held in cash savings accounts and in Individual Savings Accounts (ISAs); investments are other non-pension financial assets that households may have, including products invested in stocks and bonds (either directly held or in a trust or mutual fund) and products such as premium bonds and national savings certificates; and debts are outstanding balances on non-mortgage loans.¹⁶ Here we mainly focus on 'net liquid financial wealth', which we define as gross savings plus gross investments less gross debts.

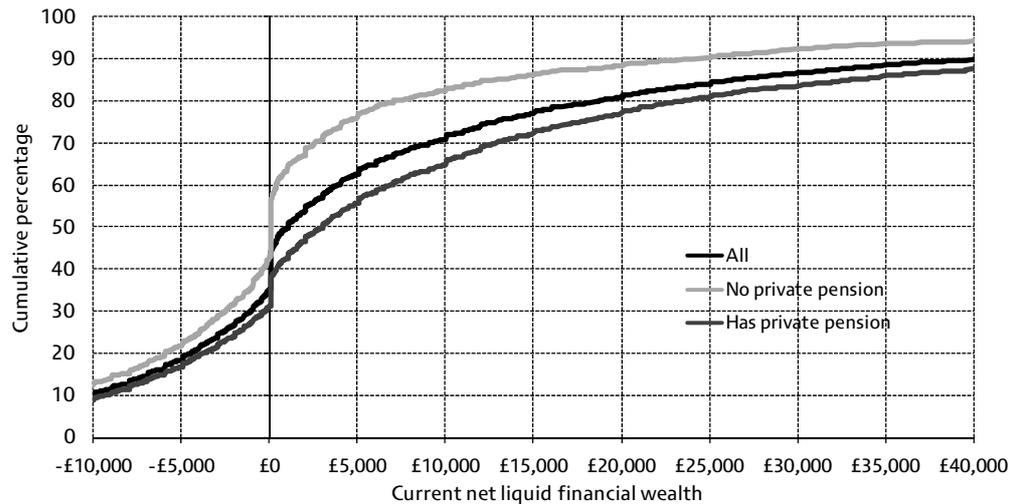
The cumulative distribution of net liquid financial wealth, split by whether or not the individual is currently contributing to a private pension, is shown in Figure 3.7. Most individuals report very low values of their net liquid financial wealth: half of individuals report having less than £1,000 (35% have net debts, a further 8% have zero and a further 7% report they have between £0 and £1,000), while one-third report having more than £6,600. The distribution of net liquid financial wealth among those who are not currently contributing to a private pension is to the left of – i.e. lower than – that among those who are currently contributing. Among those not currently contributing to a private pension, two-thirds have less than £1,500 of net liquid financial wealth, with 55% not having positive net liquid financial wealth. In contrast, 55% of those who are currently contributing to a private pension have net liquid financial wealth worth more than £1,500, with one-third having more than £10,700.

The variation in average (median) net liquid financial wealth by more detailed pension status is shown in Figure 3.8. Across the three groups of individuals who are members of a private pension – those who chose to join their employer's scheme, those who did not choose to join their employer's scheme but took out an individual private pension, and

¹⁶ Banks, Smith and Wakefield (2002) discuss the BHPS wealth data from the 1995 and 2000 survey waves. Apart from reflecting institutional changes, the 2005 questions were structured in the same way as the questions for the 2000 survey.

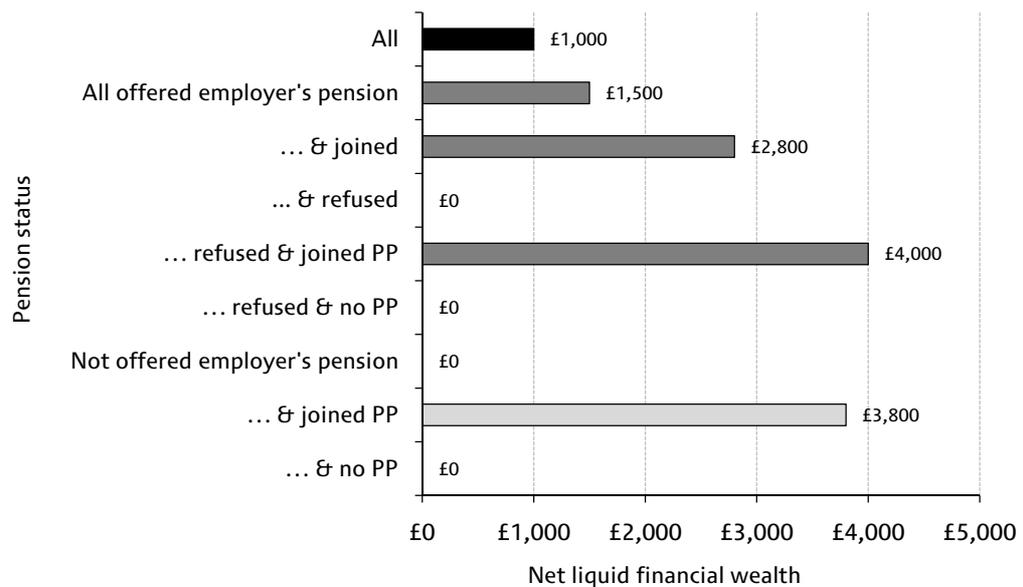
those who were not offered the chance to join an employer's scheme but took out an individual private pension – average net liquid financial wealth is £2,800, £4,000 and £3,800 respectively. It is interesting that the highest value is for the group who did not choose to join their employer's scheme but instead took out an individual private pension, especially since, as was shown in Figure 3.5, average earnings are lower among this group than among those who did choose to take up the offer of an employer's pension scheme. Among the two groups who were not members of a private pension, median net liquid financial wealth is £0.

Figure 3.7. Cumulative distribution of net liquid financial wealth at the family level by individual pension coverage, 2005



Note: As Figure 3.2.
Source: Authors' calculations using data from the BHPS.

Figure 3.8. Median net liquid financial wealth at the family level by detailed individual pension status, 2005

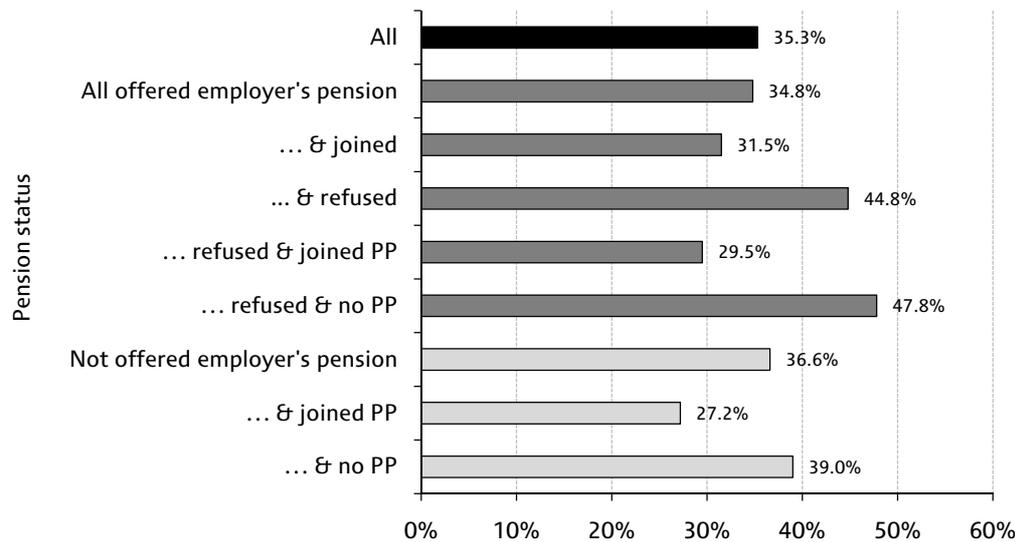


Note: As Figure 3.5.
Source: Authors' calculations using data from the BHPS.

Pension coverage and debt

We have shown that the majority of individuals who are not currently contributing to a private pension also do not have positive net liquid financial wealth. We now turn to consider the extent to which this is due to individuals having negative net liquid financial wealth. This is shown in Figure 3.9, split by detailed pension status. Overall, 35% of individuals have gross debts that exceed the combined value of their gross savings and their gross investments. This percentage is lowest among the three groups who are currently contributing to a private pension and is highest among those who are not currently contributing to a private pension. Indeed, among those who did not choose to join their employer's pension scheme and who did not take out an individual private pension nearly half of individuals (47.8%) have negative net liquid financial assets. In contrast, among those not offered the chance to join an employer's pension scheme but who did choose to take out an individual private pension, just over one-quarter (27.2%) had negative net liquid financial assets.

Figure 3.9. Percentage of individuals in families with negative net liquid financial wealth (i.e. net debts) by detailed individual pension status, 2005

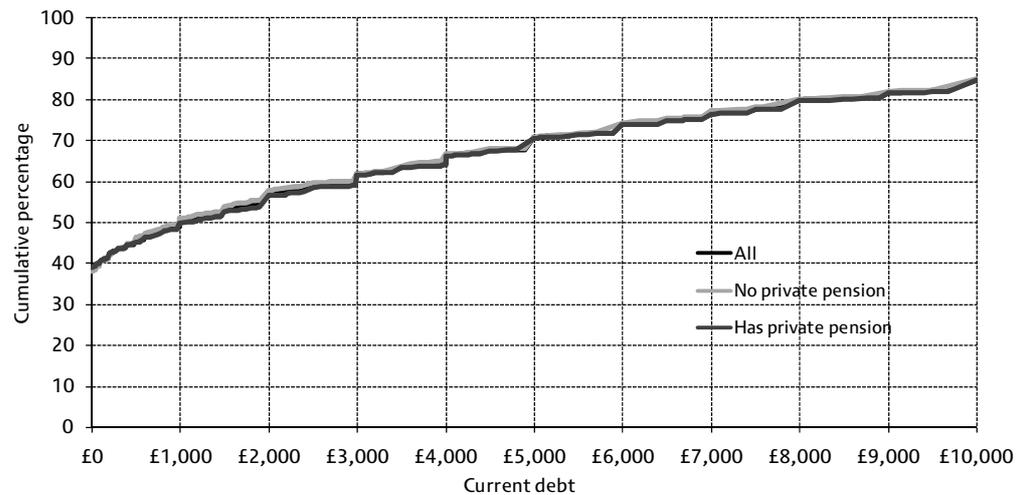


Note: As Figure 3.5.

Source: Authors' calculations using data from the BHPS.

The prevalence of having negative net liquid financial wealth varies strongly by pension coverage, with those who do not currently contribute to a private pension being more likely to have net debts than those who are currently contributing to a private pension, as one might expect. However, a slightly different picture emerges if the focus is instead on gross debts. Figure 3.10 shows the cumulative distribution of gross debts, both overall and split by whether or not the individual is currently contributing to a private pension. The interception with the vertical axis shows the percentage who do not have any gross debts, which is around 39% of individuals overall. Around 30% of individuals are found to have more than £5,000 of gross debts. However, there is no visible difference between the distribution of gross debts among those who are currently contributing to a private pension and that among those who are not currently contributing to a private pension. This means that the differences between the distribution of net liquid financial wealth by

Figure 3.10. Cumulative distribution of liquid gross financial debt by pension coverage, 2005



Note: As Figure 3.2.

Source: Authors' calculations using data from the BHPS.

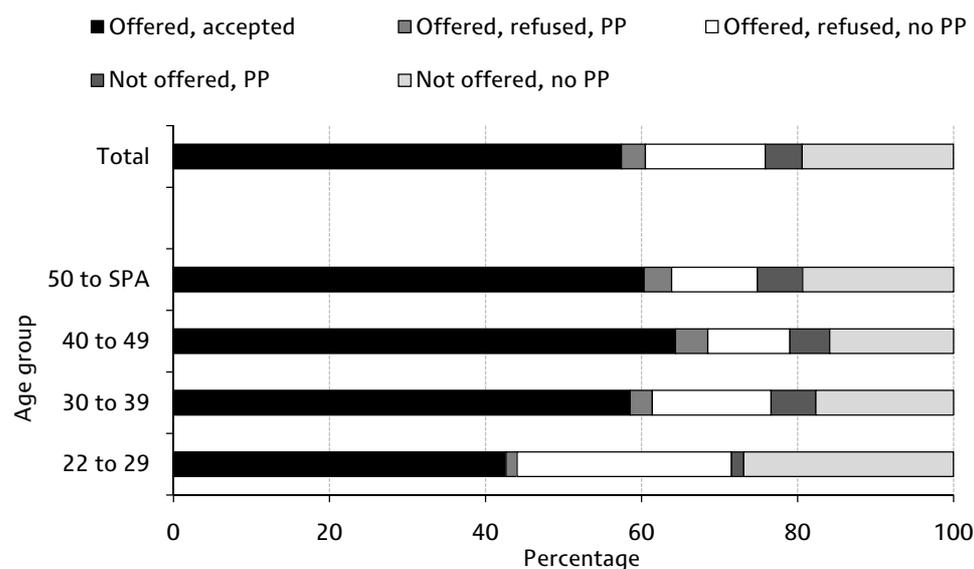
pension status presented in Figures 3.8 and 3.9 were not driven by differences in the distribution of the gross amount owed by individuals. Rather, it was driven by the extent to which those individuals with gross debts had gross savings and investments to offset those debts, either partially or entirely.

3.4 Pension coverage and other characteristics

So far, we have documented how earnings and liquid financial wealth vary by both private pension coverage and a more detailed measure of pension status. This section turns to examine how other observed characteristics vary by whether or not an individual is currently contributing to a private pension. Figure 3.11 shows that private pension coverage is lower among those aged 22 to 29 than it is among older age groups, with those in this younger age group being somewhat less likely to be offered the chance to join an employer's pension scheme, much less likely to choose to join a scheme if offered and much less likely to take out an individual pension arrangement. There is also evidence that older individuals – at least up to age 50 – are more likely to be offered the opportunity to join an employer's pension scheme than younger individuals.

A summary of a wider set of characteristics observed in the BHPS, split by whether or not the individual is currently contributing to a private pension, is provided in Table 3.1. Again, the base for this analysis is employees who are aged between 22 and the state pension age earning more than £5,035 (in 2006–07 earnings terms), with two-thirds currently contributing to a private pension and one-third not. Those who are currently contributing to a private pension are more likely to be male, older and in couples than those not currently contributing to a private pension. Almost one-half of those currently contributing to a private pension are working in the public sector (49.4%) compared with just one-sixth (16.0%) of those not currently contributing to a private pension.

Figure 3.11. Detailed private pension status by age, 2005



Note: As Figure 3.5.

Source: Authors' calculations using data from the BHPS.

Table 3.1. Characteristics by pension coverage, 2005

	No private pension (34%)	With a private pension (66%)	All (100%)
Male (%)	48.8	51.2	50.4
Age (mean, years)	37.3	41.6	40.1
Couple (%)	68.4	77.9	74.7
<i>Employment</i>			
Public sector (%)	16.0	49.4	37.9
Full-time (%)	79.2	86.7	84.1
Annual pay (median, £)	14,000	21,600	18,000
<i>Education</i>			
Higher (%)	46.8	64.4	58.4
Middle (%)	14.9	12.5	13.3
Lower (%)	38.3	23.2	28.3
<i>Assets and saving</i>			
Regularly saves (%)	38.0	59.0	51.8
Net financial wealth (median, £)	0	3,000	1,000
Owner-occupier (%)	71.7	89.0	83.0
Sample size	2,163	4,116	6,279

Notes: Individuals aged between 22 and the state pension age earning more than £5,035 in 2006–07 earnings terms (which is equivalent to £4,895 in 2005, the year of the sample). This base is an estimated 20,173,000 individuals in the UK in 2005. Lower education means less than A-level; middle education means A-level or equivalent (or nursing qualification); and higher education is qualifications at a level considered more advanced than A-level, including university degrees.

Source: Authors' calculations from the BHPS.

Unsurprisingly, there is a higher prevalence of full-time workers among those contributing to a private pension than among those who are not currently contributing to a private pension. As was shown in Section 3.2, earnings are, on average, higher among those contributing to a private pension than among those not contributing to a private pension. Those with private pensions also have, on average, higher levels of education than those not currently contributing to a pension, with 64% of those in the former group having a high level of education compared with just 47% of the latter group. Finally, in addition to having on average greater levels of net liquid financial wealth, those who are currently contributing to a private pension are more likely to be owner-occupiers and also much more likely to report that they regularly save.

Multivariate analysis of the characteristics associated with private pension coverage is presented in Table 3.2. This shows the association between different characteristics and pension coverage once the role of other observed characteristics is taken into account. Even after controlling for other factors, older individuals are found to be more likely to be members of private pensions than those aged between 22 and 29, with those aged between 40 and 49 having pension coverage levels that are 21.0 percentage points higher than those in the 22–29 age group. Public sector workers are 25.8 percentage points more likely to be members of a private pension arrangement than private sector workers, holding all other factors constant. Higher earnings are again found to be associated with higher levels of private pension coverage. Those who report regularly saving, those with more than £1,000 of net liquid financial wealth and owner-occupiers are also all found to be more likely to be contributing to a private pension. However, conditional on these

Table 3.2. Multivariate analysis of pension coverage, 2005

	Marginal effect (estimated at median characteristics)	Standard error of marginal effect
Male	–0.013	(0.016)
Aged 30 to 39	+0.131***	(0.017)
Aged 40 to 49	+0.210***	(0.022)
Aged 50 to state pension age	+0.149***	(0.018)
Couple	+0.019	(0.018)
Public sector worker	+0.258***	(0.018)
Full-time worker	–0.023	(0.022)
(Log) annual pay	+0.347***	(0.022)
Degree	+0.020	(0.016)
A level	+0.028	(0.021)
Regularly saves	+0.117***	(0.015)
Net financial wealth £0 to £1,000	–0.020	(0.021)
Net financial wealth £1,000 to £10,000	+0.036*	(0.018)
Net financial wealth £10,000 plus	+0.072***	(0.018)
Owner-occupier	+0.140***	(0.020)

Notes: Sample size = 6,134. Individuals aged between 22 and the state pension age earning more than £5,035 (in 2006–07 earnings terms, which is equivalent to £4,895 in 2005, the year of the sample). Marginal effects calculated at the median characteristics – a man in a couple aged 40 to 49, working full-time in the private sector, earning £18,200, with a degree, regularly saving, having liquid financial wealth worth between £0 and £1,000 and who is an owner-occupier. Statistical significance at the 1%, 5% and 10% levels is denoted by ***, ** and * respectively. Controls for missing data on whether working part-time or full-time, and on whether or not regularly saving, are also included.

Source: Authors' calculations from the BHPS.

characteristics, there are no statistically significant differences in pension coverage between those in full-time and those in part-time paid work, or between individuals of different education levels, or between men and women.

Further details of the characteristics of individuals by more detailed pension status are provided in Table 3.3. This helps to shed light on the extent to which the differences in pension coverage shown in Table 3.2 are due to different associations between observed characteristics and the likelihood of being offered the opportunity to join an employer's pension scheme, or due to differences between individuals who choose to join a scheme and individuals who do not choose to join a scheme that is offered. Similarly, for those not offered the chance to join an employer's scheme, the table shows the differences in observed characteristics between those who do decide to make an alternative individual

Table 3.3. Characteristics by detailed pension status, 2005

	All	Offered employer's pension			Not offered employer's pension		
		All	Accept	Refuse	All	With PP	No PP
Male (%)	50.4	49.0	48.6	50.2	54.9	70.0	51.2
Age (mean, years)	40.1	40.4	41.4	37.5	39.5	43.2	38.5
Couple (%)	74.7	75.6	77.2	70.4	72.6	83.8	69.9
<i>Employment</i>							
Public sector (%)	37.9	46.7	54.8	21.4	9.7	6.2	10.7
Full-time (%)	84.1	85.5	86.4	83.0	79.4	87.2	77.4
Annual pay (median, £)	18,000	19,800	21,800	15,600	14,400	19,200	13,200
<i>Education</i>							
Higher (%)	58.4	62.7	65.6	53.6	44.6	51.9	42.5
Middle (%)	13.3	12.9	12.5	14.3	14.5	13.9	14.7
Lower (%)	28.3	24.4	21.9	32.2	40.9	34.1	42.8
<i>Health</i>							
Health limits ability to work (%)	7.7	7.3	7.4	6.8	8.9	8.3	9.1
<i>Assets and saving</i>							
Regularly saves (%)	51.8	55.2	59.7	41.5	41.1	53.8	38.1
Debts (median, £)	1,000	1,360	1,200	1,550	500	550	500
Invest. (median, £)	0	0	5	0	0	0	0
Savings (median, £)	1,700	2,000	3,000	600	700	3,000	400
Net financial wealth (median, £)	1,000	1,500	2,800	0	1	3,800	0
Owner-occupier (%)	83.0	85.5	89.2	74.0	75.2	88.2	71.9
Owns outright (%)	16.0	15.8	16.2	14.6	17.0	15.9	17.3
Owns, mortgage (%)	67.0	69.7	73.0	59.3	58.2	72.3	54.7
Sample size	6,279	4,807	3,633	1,167	1,415	290	1,116

Notes: As Table 3.1. Sample sizes do not quite sum due to missing data.

Source: Authors' calculations from the BHPS.

private pension arrangement and those who do not. For example, there is very little difference, on average, between the ages of those offered the chance to join an employer's scheme and those not offered the chance to join such a scheme. However, among both these groups, it is, on average, older individuals who are more likely to choose to join a private pension scheme (either the one offered by their employer or, for those not offered the chance to join an employer's scheme, an individual private pension arrangement). Similarly, those in couples are only slightly more likely to be offered the chance to join an employer's scheme, but among those who are offered the chance to join an employer's scheme, individuals who are in couples are more likely to take up the offer. Similarly, among those who are not offered the chance to join an employer's pension scheme, individuals in couples are relatively more likely to enter into an individual private pension arrangement.

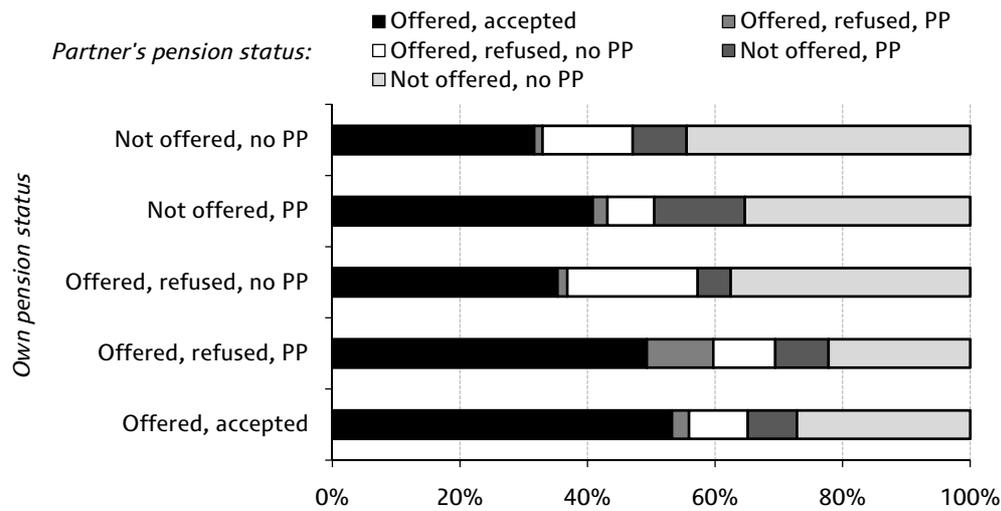
Public sector workers are much more likely to be offered the opportunity to join an employer's scheme than private sector workers and, in addition, are more likely to choose to join that scheme (public sector workers comprise 46.7% of those offered the chance to join an employer's pension scheme compared with just 9.7% of those not offered the chance, and they comprise 54.8% of those who do choose to join an employer's scheme). Those who report that they regularly save, and those who are owner-occupiers, are also both more likely to be offered the chance to join an employer's pension scheme and more likely to choose to take up the offer.

Multivariate analysis of the association between observed characteristics and this detailed pension status is provided in Table A.1 in the appendix. Specifically, the table shows the differences in characteristics of those offered, and those not offered, the chance to join an employer's pension scheme. Among those offered the chance to join an employer's scheme, it shows the differences in characteristics between those taking up and those not taking up the offer. For those not offered the chance to join an employer's scheme, it shows the differences in characteristics between those who took out an individual private pension arrangement and those who did not. The analysis shows that among employees aged between 22 and the state pension age and earning over £5,035 (in 2006–07 earnings terms):

- women, public sector workers, those with higher levels of education qualifications, higher earners, those who regularly save and owner-occupiers are all found to be more likely to be offered the chance to join an employer's pension scheme;
- among those offered the chance to join an employer's scheme, those not aged 22 to 29, those working in the public sector, those earning more, those who regularly save and owner-occupiers are more likely to join the scheme;
- among those not offered the chance to join an employer's scheme, it is men, those not aged 22 to 29, higher earners, those who regularly save and owner-occupiers who are more likely to take out an individual private pension.

Finally, Figure 3.12 describes how the detailed pension status of one member of a couple co-varies with the pension choices of their partner. There is a positive association between an individual being in any one of the five different pension statuses and their partner being in the same status. This is shown by the fact that each partner's pension status is most common when the individual also has that pension status. For example, having a partner who did not choose to take up the chance to join an employer's pension scheme and also did not make an individual private pension arrangement (the middle category) is most common among individuals who did the same. Despite this association,

Figure 3.12. Detailed private pension status by partner’s pension status: those in couples only, 2005



Notes: Individuals in couples aged between 22 and the state pension age earning more than £5,035 in 2006–07 earnings terms (which is £4,895 in 2005, the year of the sample). Sample size: 4,149 individuals. Source: Authors’ calculations from the BHPS.

there is still a large group of individuals who are not currently contributing to a private pension who have a partner who is. For example, among those who were not offered the chance to join an employer’s pension scheme who did not take out an individual private pension, 31.6% have a partner who chose to join an employer’s scheme and a further 9.8% have a partner who did not join an employer’s pension scheme but did make an individual private pension arrangement.

4. The market for Personal Accounts

This chapter turns to the issue of the possible size of the market for Personal Accounts. It starts in Section 4.1 by looking at what the upfront cost to individuals who are not currently contributing to a private pension would be, once the impact of the incentives in the tax, tax credit and benefit system are taken into account. Then, in Section 4.2, it turns to consider how many individuals might contribute to a Personal Account both in any one year and at any point over a five-year period. Finally, Section 4.3 examines what the distribution of contributions to Personal Accounts might be, again considering both a one-year and a five-year perspective.

4.1 Upfront incentives to save in a private pension

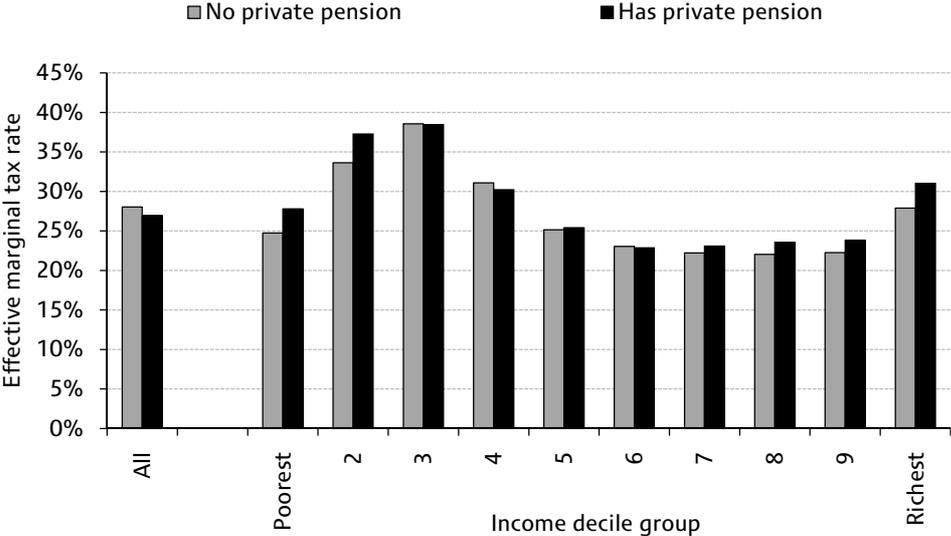
The operation of the tax, tax credit and benefit system means that the upfront cost to an individual of placing an extra £1 into a private pension will be less than £1, and for some individuals substantially so. At the very least, an individual will get relief equivalent to the basic rate of income tax at a rate of 20% (even if they are not an income tax payer). Higher-rate taxpayers are able to claim greater upfront relief, as can those who are eligible to be on the taper rates of tax credits and benefits. For example, those on the taper rate of the Working Tax Credit (WTC) will face at least a 59% withdrawal rate (20p of income tax and 39% from the WTC, assuming that they are not also on the taper rate of Housing Benefit and/or Council Tax Benefit) and therefore an extra £1 placed in a private pension will reduce their net income by at most 41p.¹⁷ Moreover, there are more individuals eligible to receive relief at this rate than there are individuals eligible for relief at the higher rate of income tax (see table 3.3 of Blundell, Emmerson and Wakefield (2006)).

Figure 4.1 shows how the upfront incentive to place an additional £1 into a private pension varies both across the income distribution and by whether or not the individual is currently contributing to a private pension. This is presented for an individual pension contribution; were the contribution made by an employer (for example, via a salary sacrifice arrangement), the upfront relief would, for employees earning more than the primary earnings threshold, be greater as they could also receive relief from National Insurance contributions (both employee and employer). Overall, an extra £1 contributed to a private pension would see a fall in net income of 73p among those who are currently contributing to a private pension and of 72p among those who are not currently contributing to a private pension (as they face an effective marginal tax rate of 27% and 28% respectively).

Turning to the pattern across the income distribution, upfront relief on an additional £1 of private pension contribution is highest in the 2nd and 3rd income deciles, as individuals in these households are more likely to be on the taper rates of Housing Benefit, Council Tax Benefit and the WTC. It is lowest across the 6th to 9th income deciles, as individuals in these households are more likely to have incomes that are too great to be on the taper rates of Housing Benefit, Council Tax Benefit and the WTC. The upfront relief then rises

¹⁷ This is discussed in more detail in Blundell, Emmerson and Wakefield (2006), while Wakefield (2009) quantifies how the upfront tax relief combines with the tax on asset returns and the tax at the time income is drawn from savings, to create 'effective tax rates' that differ between assets.

Figure 4.1. Private pension coverage and upfront incentive to contribute to a private pension



Notes: Includes all individuals aged between 22 and the state pension age. Upfront incentive is calculated as the reduction in net income that would arise from a £1 individual contribution to a private pension. Income decile groups are derived by dividing all families into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest, and so on up to decile group 10, which contains the richest tenth.

Source: Authors’ calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on the 2006–07 FRS using the 2009–10 tax, tax credit and benefit system. Thanks to James Browne for help with TAXBEN. To check robustness to a slight change in the FRS survey, the results were recreated using the 2005–06 FRS, and proved to be virtually indistinguishable from those displayed here.

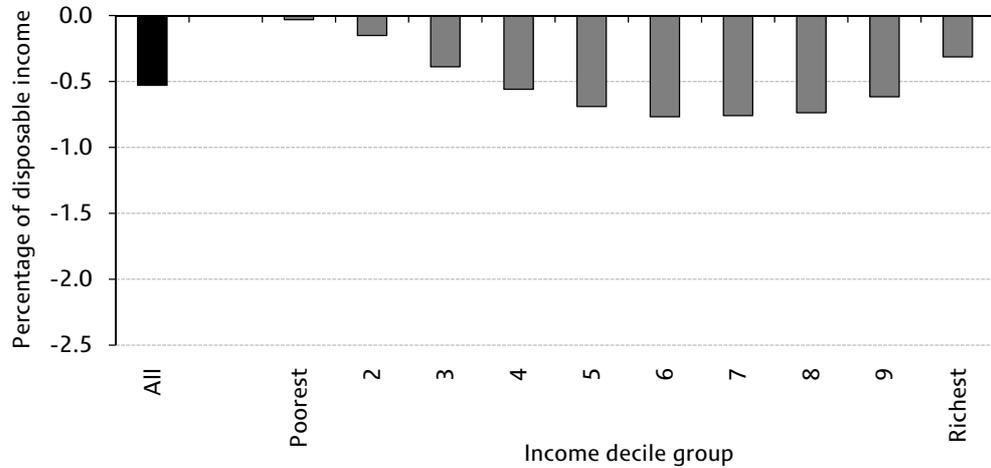
again in the richest income decile, as individuals in these households are more likely to be higher-rate taxpayers. In all but the 3rd, 4th and 6th income decile groups, on average, the upfront incentive to contribute more to a private pension is slightly higher among those who do contribute to a private pension than it is among those who do not.

Using the information on individuals’ upfront incentive to save in a private pension, whether or not they currently contribute to a private pension, and their current earnings, we can model a possible maximum reduction in current net incomes arising from the introduction of Personal Accounts and associated reforms. This calculation assumes that all employees aged 22 to the state pension age who are not currently contributing to a private pension place 5% of their gross salary between £5,035 and £33,540 (in 2006–07 terms) into a private pension. So this would involve all of those not currently contributing to a private pension contributing this amount to a scheme. The calculation also assumes that the reforms – including the 3% employer contribution – do not affect these individuals (either directly or via their employers) in any other way.

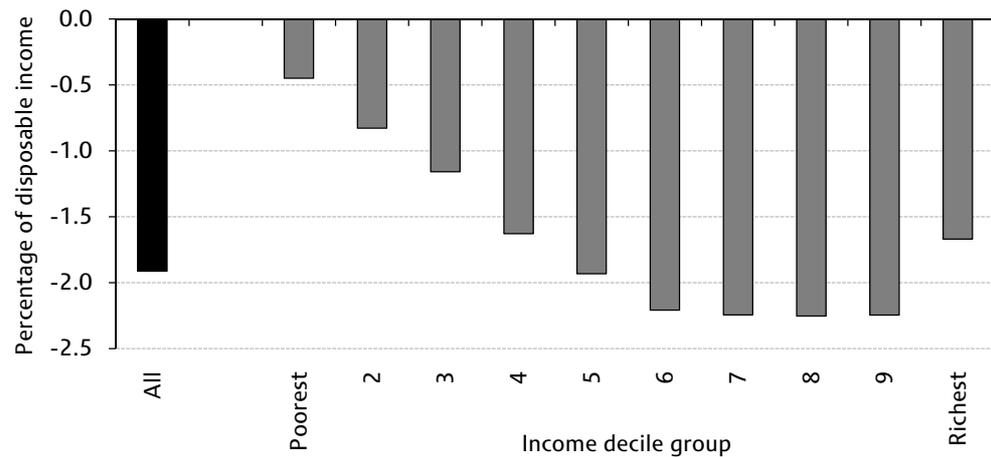
The results are shown in Figure 4.2. Panel (a) shows contributions as a percentage of disposable income averaged across the whole population (or the whole of each decile group). Panel (b) shows percentages just across families who are affected in the sense that they contain an adult who earns more than £5,035 and who is not currently contributing to a pension.

Figure 4.2. Reduction in net income arising from a contribution of 5% of gross earnings between £5,035 and £33,540 from all employees not currently contributing to a private pension

(a) Across whole population (or whole decile group)



(b) Across families containing an affected individual



Notes: As Figure 4.1.
Source: As Figure 4.1.

Considering the figures for the whole population first, overall disposable incomes would fall by 0.5%. It should be noted that this does not imply that spending would fall by this amount: at least some individuals would fund their pension contributions from existing assets or from saving that they would have done in other assets in the absence of the reform. Such 'reshuffling' would be particularly likely to occur among higher-income individuals. The 0.5% number is much smaller than 5%, for four reasons. First, many individuals are already contributing to a private pension and therefore are assumed to be unaffected by this reform. Second, the contribution is 5% of band earnings, not 5% of all earnings. Third, income not from earnings is unaffected by the reform. Fourth, some individuals qualify for more generous relief than that provided from basic-rate income tax, as described above. The maximum reduction in net income for a single individual is 3.4% of gross income, which would be for an individual with earnings of £33,540 with no

other income who receives relief equivalent to the 20% basic rate of income tax and pays National Insurance at the contracted-in rate. As a proportion of disposable (or net) income (the metric used in Figure 4.2), the maximum reduction would be 4.6% if we suppose that the individual pays National Insurance at the contracted-in rate and does not receive any benefits or tax credits.¹⁸

The reduction in net income is lowest for the lowest income decile, because relatively few individuals in this decile will have earnings above £5,035. It peaks around the middle of the income distribution, at just under 0.8% of net income across the 6th income decile. In higher income deciles, and particularly the top decile, the reduction in net income is lower as these individuals are relatively more likely to already be contributing to a private pension and therefore are more likely to be unaffected by the reform. In addition, in the richest income decile, those individuals who are affected are more likely to have earnings in excess of £33,540, which are not subject to the 5% pension contribution. The effect of contributions coming only from a band of earnings can also be seen in panel (b), which is drawn only for those who are affected by the reform. This graph has a similar shape to the one in panel (a), but the levels of the bars are different, with the average reduction in net income being 1.9%. The average reduction is low in the lowest income deciles because those affected in this part of the income distribution tend to have relatively little earnings above £5,035 and so contribute 5% of just a small band of earnings. The reduction in disposable income peaks at around 2¼% in deciles 6 to 9 and falls in the top decile, where relatively more employees have earnings above £33,540.

4.2 How many Personal Account defaultees?

We now turn to consider how many individuals might be enrolled automatically by their employer into a Personal Account. To do this, we examine one group of individuals who may have been enrolled automatically by their employer into Personal Accounts had they been in place in the past: those who were not offered the chance to join an employer's pension scheme. This excludes those who may be brought into Personal Accounts because their employer chooses to use Personal Accounts for those who were previously offered access to a different employer scheme. It also assumes that all employers who did not offer their employees the chance to join a scheme would have chosen to enrol their employees into a Personal Account rather than another compliant scheme (see Section 2.1). In addition, it assumes that both earnings and employment would have been unaffected by the reform.¹⁹ Furthermore, trends over time in earnings, employment and the number of employers offering compliant pension schemes will also affect the size of the eventual Personal Account default group.

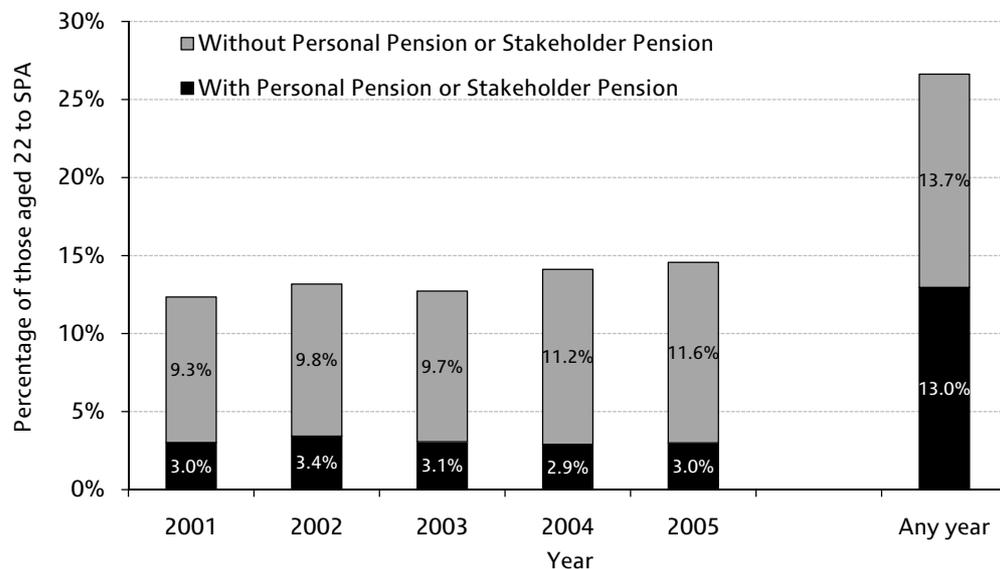
With these important caveats in mind, Figure 4.3 shows the percentage of those aged 22 to the state pension age who were earning more than £5,035 (in 2006–07 earnings terms) but not offered the chance to join an employer's pension scheme between 2001 and 2005. This was the case for 14.6% of individuals aged 22 to the state pension age in

¹⁸ The figures cited here are calculated as follows: the gross contribution would be $5\% \times (£33,540 - £5,035) = £1,425.25$. With basic-rate income tax relief at 20%, the individual's reduction in income would be $£1,140.20 (= 0.8 \times £1,425.25)$. This reduction is 3.4% of their gross income. On the basis of basic-rate income tax paid at 20% and employee National Insurance contributions paid at 11.5% on all income between £5,035 and £33,540, this would represent a 4.6% fall in their net income (from £24,560.93 to £23,420.73, assuming that no benefits or tax credits are received).

¹⁹ For qualitative and quantitative evidence on how employers report that they will respond to the reforms, see, respectively, Tredwell and Thomas (2008) and Grant et al. (2008).

2005. As there are 32.2 million individuals aged between 22 and the state pension age, this would imply that 4.7 million individuals would have been enrolled into a Personal Account; hereafter, for want of a better term, we will refer to the individuals in this group as ‘Personal Account defaultees’. This number is lower than the DWP’s initial estimate of 6–10 million individuals (Department for Work and Pensions, 2006b). Moreover, a more recent DWP estimate suggests a lower range for participation in Personal Accounts of between 4 and 7 million members (Department for Work and Pensions, 2007b). To the extent that employers offer pension schemes that are not compliant, our 4.7 million figure would represent an underestimate. There is also some evidence that this group is growing over time. Figure 4.3 shows that in 2001 only 12.3% of those aged between 22 and the state pension age were earning more than £5,035 (in 2006–07 earnings terms) and not offered the chance to join an employer’s pension scheme.

Figure 4.3. Personal Account defaultees? Percentage of those aged 22 to state pension age earning more than £5,035 (in 2006–07 earnings terms) and not offered the chance to join an employer’s pension scheme, 2001 to 2005



Note: Base is individuals aged 22 to the state pension age. This base is an estimated 32,182,000 individuals in the UK in 2005.

Source: Authors’ calculations using data from the BHPS.

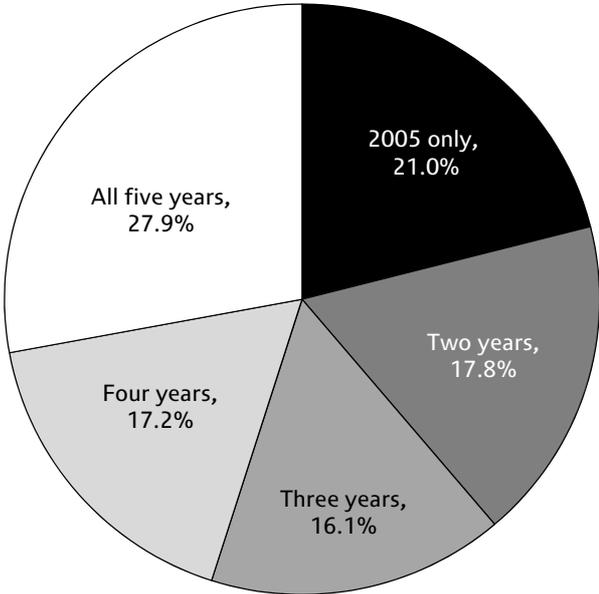
The potential number of Personal Account defaultees shown in Figure 4.3 is split by whether or not they have taken out an individual private pension. In 2005, the 14.6% of individuals aged between 22 and the state pension age deemed to be potential Personal Account defaultees splits into 3.0% who had taken out a Personal Pension or Stakeholder Pension anyway and 11.6% who had not made an alternative arrangement. In other words, of the 4.7 million individuals who might have been defaulted into a Personal Account in 2005, 1.0 million contributed to a Personal Pension or Stakeholder Pension and 3.7 million had no private pension.

Over time, some individuals will move into and out of the potential Personal Account default group. For example, they may move into or out of paid employment or they may move to an employer who does or does not default them into a compliant pension arrangement that is not a Personal Account. The right-most bar in Figure 4.3 shows the

percentage of those aged between 22 and the state pension age in 2005 that these estimates suggest would have been defaulted into a Personal Account in at least one year over the period from 2001 to 2005. This is true of one-quarter of individuals (26.7%), or 8.6 million individuals. This suggests that the number of individuals who might be defaulted by their employer into a Personal Account over a five-year period is about 80% larger than the number who would be defaulted into a Personal Account in any one year. Moreover – as is also shown in Figure 4.3 – almost half of these individuals (4.2 million) contributed to a private pension in at least one of these five years. This suggests that while in any one year the vast majority of those potentially defaulted into a Personal Account would not have made an alternative pension arrangement in that year, this is not true over a longer time scale.

An important issue for the size of Personal Account funds (discussed in the next section) will be how long those defaulted into Personal Accounts remain defaulted in. An indication of this is provided in Figure 4.4. This shows, for the 14.6% of those aged between 22 and the state pension age who might have been likely to be defaulted into a Personal Account in 2005 (shown in Figure 4.3), how many years from 2001 to 2005 they might also have been defaulted in for. Overall, 27.9% of these individuals – a total of 1.3 million people – would have been defaulted into a Personal Account in all five years. At the other end of the scale, 21.0% – 1.0 million individuals – will have been defaulted in in 2005 for the first time over this five-year period. On average, individuals likely to be defaulted into a Personal Account in 2005 could have been defaulted in for 2.1 of the four previous years, or 3.1 years out of the total five-year period.

Figure 4.4. Possible persistence of being in the Personal Account default group



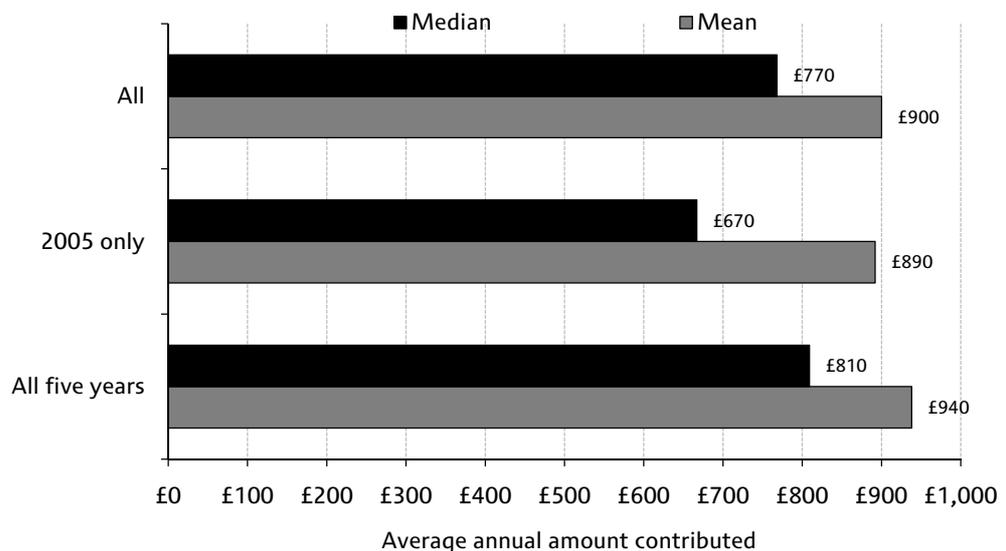
Note: Base is those aged between 22 and the state pension age who earned more than £5,035 (in 2006–07 earnings terms) and were not offered the chance to join an employer’s pension scheme in 2005. This base is an estimated 4.7 million individuals in the UK in 2005. Source: Authors’ calculations using data from the BHPS.

4.3 Assessing the value of Personal Account contributions

This section turns to examine the issue of what the distribution of contributions to Personal Accounts might look like, both in any one year and over time, and what the aggregate value of Personal Account contributions might be. Default contributions in any one year will depend solely on the distribution of earnings between £5,035 and £33,540 (in 2006–07 terms) among those who are defaulted by their employer into a Personal Account rather than a different compliant scheme. Actual contributions will be much harder to assess as they will depend on the earnings of those individuals who choose not to opt out of Personal Accounts and on the extent to which individuals who remain in Personal Accounts choose to contribute more or less than the default amount.²⁰ Here we focus solely on default contributions. As in the previous section, we examine what would have happened in 2005 assuming that both earnings and employment would have been unaffected by the reform, that all employers who offered their employees the chance to join an employer’s pension scheme would have defaulted those employees into a scheme other than a Personal Account that meets the new minimum standards for compliant schemes (see Section 2.1) and that all employers who did not offer their employees the chance to join an employer’s pension would have chosen to enrol their employees into a Personal Account (rather than another compliant scheme).

Figure 4.5 shows the mean and median levels of default contributions in 2005. The top two bars show these for all individuals who might have been defaulted into Personal Accounts in that year – the 14.6% of those aged between 22 and the state pension age presented in Figure 4.3. Median contributions would have been £770. So, at least in the first year after the reforms have been fully implemented, it is clear that many Personal

Figure 4.5. Average Personal Account default contributions in 2005?



Note: As Figure 4.4.

Source: Authors’ calculations using data from the BHPS.

²⁰ For qualitative and quantitative evidence on how individuals report that they will respond to the reforms, see, respectively, Gray, Harvey and Lancaster (2008) and Webb et al. (2008).

Accounts are likely to have relatively small amounts contributed. Mean contributions – at £900 – are somewhat higher, because the distribution of relevant earnings (earnings between £5,035 and £33,540) is skewed so that a relatively small number of higher earners pull up the mean. For comparison, the maximum default contribution would be £2,280.40 per year (i.e. 8% of earnings between £5,035 and £33,540).

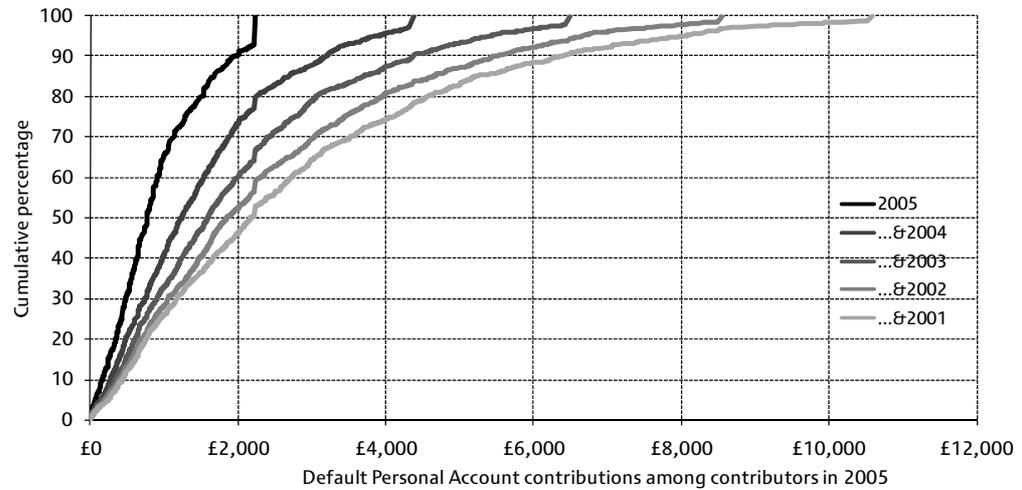
A total of 4.7 million individuals with mean contributions of £900 would suggest that aggregate contributions to Personal Accounts might be around £4.2 billion a year. This is less than the £8 billion a year initial estimate from the Department for Work and Pensions (2006b). Our estimate of mean contributions of £900 is, however, consistent with DWP's initial estimate of 6–10 million accounts leading to aggregate contributions of £8 billion a year.

The bottom two sets of horizontal bars in Figure 4.5 show the average default Personal Account contribution in 2005 split by whether 2005 was the only year out of the period since 2001 that the individual would have been defaulted into a Personal Account or whether they would have been defaulted in in all five of those years. These are the 21.0% and the 27.9% of Personal Account defaultees in 2005, respectively, that were shown in Figure 4.4. On average – at both the median and the mean – those who would have been defaulted into Personal Accounts in all five years would have had a higher level of default contribution in 2005 than those who would only have been defaulted into Personal Accounts in that year. This suggests that there will be a relatively wide distribution of default contributions to Personal Accounts over a five-year period, with some individuals not only being defaulted in for all five years but also, on average, contributing more each year. Conversely, some will be defaulted in only very infrequently, and when they are defaulted into a Personal Account will also, on average, be defaulted in at a lower level of contribution. It is likely that some of the individuals who might become infrequent contributors to Personal Accounts would, in the absence of the policy, have done very little pension saving. Getting such individuals into pension saving might be seen as a success of the policy.

The distribution of cumulative default Personal Account contributions over time is shown in Figure 4.6. The line to the left – marked 2005 – is the distribution of default contributions among those defaulted into a Personal Account in 2005. Median contributions in this year are £770, as was shown in Figure 4.5. The next line to the right shows the cumulative distribution of default contributions in both 2004 and 2005 of all those who were defaulted into a Personal Account in 2005. Moving further right shows how the distribution of cumulative contributions for those with a Personal Account in 2005 would have evolved over past years. For example, 46% of those defaulted into a Personal Account in 2005 will have had total default contributions over the period from 2001 to 2005 (inclusive) of less than £2,000 and only 20% will have had total contributions of more than £4,550.

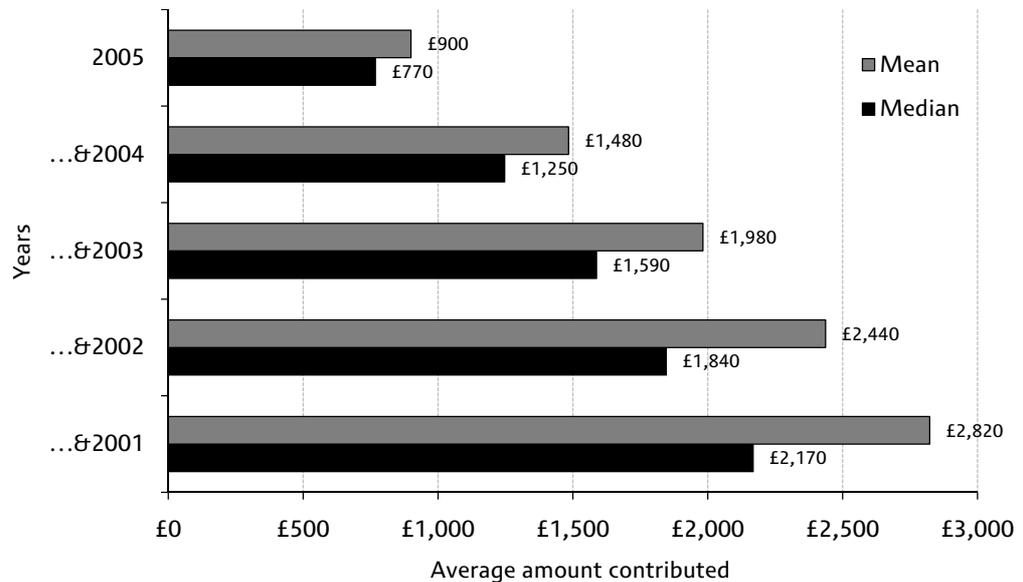
The data in Figure 4.6 can also be used to read off how default contributions would change if segments of the 2005 Personal Accounts default group were to opt out of Personal Accounts differentially. For example, were opt-out rates to be relatively high at, say, 50%, then under the extreme assumption that these comprised the lower-earning half of individuals defaulted in, the 75th percentile of the default contributions line would become the median level of actual contributions. Under this scenario, in 2005 median actual contributions would be £1,270 (compared with £770 if no one opted out) and over the five years they would be £4,070 (compared with £2,170).

Figure 4.6. Distribution of Personal Account default contributions over time, 2001 to 2005, among those defaulted into a Personal Account in 2005



Note: As Figure 4.4.
Source: Authors' calculations using data from the BHPS.

Figure 4.7. Mean and median default Personal Account contributions over time, 2001 to 2005, among those defaulted into a Personal Account in 2005



Note: As Figure 4.4.
Source: Authors' calculations using data from the BHPS.

A summary of the data presented in Figure 4.6 is provided in Figure 4.7. This shows the mean and median amounts of default contributions among those defaulted into a Personal Account in 2005 over just 2005, and then extending back for each year to 2001. So, for example, over the period from 2001 to 2005, median total default contributions among those who are defaulted into a Personal Account in 2005 would be £2,170. Mean contributions among this group would be higher, at £2,820. This suggests that if there are 4.7 million Personal Account defaultees in 2005, then the total default contributions to

these accounts over a five-year period would be £13.3 billion, with nearly one-third of that being contributed in 2005. If, instead, the recent DWP estimate is correct and there would be 4–7 million accounts in one year (Department for Work and Pensions, 2007b), then these numbers suggest that the total amount contributed to these accounts over a five-year period would be between £11 billion and £20 billion (with again almost one-third being contributed in 2005).

Multivariate analysis of the BHPS data also sheds light on which individuals are more likely to remain in the Personal Account default group and which individuals are more likely to move into and out of this group. Of those who were defaulted into a Personal Account in 2005, those who are older, in a couple and not highly educated were found to be more likely to have been defaulted into the accounts for more years over the period since 2001. No other observed characteristics – including earnings in 2005 – were found to be statistically significantly associated with lower or greater persistency in the Personal Account default group.²¹

²¹ Detailed results from this analysis are available from the authors on request.

5. Conclusions

The government's recent reforms to private pensions are very radical: they will lead to the majority of employees being automatically enrolled by their employer into a private pension scheme, which in some cases will be a new Personal Account. Automatic enrolment did increase private pension coverage very significantly in trials among some employers in the US, although one should be cautious in extrapolating these findings to a national roll-out in a different country. In addition to the change in the default for enrolment, employees will also face a strong financial incentive to remain in the scheme that their employer automatically enrolls them into (and contribute 4% of a band of their earnings to their account), since otherwise they may forgo their employer's pension contribution. Therefore we might expect private pension coverage to increase as a result of these reforms.

This Commentary has presented new evidence on individuals' pension status and the characteristics of those who do, and do not, contribute to a private pension. The reforms will lead to all employees aged between 22 and the state pension age who earn above £5,035 (in 2006–07 earnings terms) being automatically enrolled by their employer into a private pension. Among this group, two-thirds are already members of a private pension. Those who are not typically have lower earnings than those who are. This suggests that the increase in pension saving, and therefore overall saving, brought about by the reform is likely to be relatively small.

It is also possible that employees would offset any increase in pension saving with lower liquid financial wealth. However, among those who are not currently contributing to a private pension, median net liquid financial assets (savings plus investments less debts) are zero, compared with £3,000 among those who are currently contributing to a private pension. This suggests limited scope for those not contributing to a private pension to reduce their savings or their investments if they begin to contribute. However, we also find that there is no difference in the distribution of gross debts among those not currently contributing to a private pension and those who are. (Those not contributing were less likely to have sufficient savings and investments to offset those debts, and therefore were more likely to have negative net financial assets, than those who were.) Therefore it is possible that those brought into a private pension as a result of this reform might increase these debts (or reduce them less quickly than they would otherwise have done).

If all individuals not currently contributing to a private pension placed 5% of their gross earnings between £5,035 and £33,540 into a private pension, then overall net incomes would fall by 0.5%. This is considerably lower than 5% for the following reasons: many individuals are already contributing to a private pension; earnings below £5,035 or above £33,540 and unearned income are not subject to the 5% pension contribution; and the impact on net incomes is mitigated by the impact of income tax relief and, in some cases, increased receipt of means-tested benefits and tax credits. The biggest drop in net incomes on average would be among those on middle and upper-middle incomes. Depending on how behaviour regarding other assets and debts reacts to the new accounts, the reductions in disposable income need not translate one-for-one into lower spending.

Turning to those most likely to be automatically enrolled into Personal Accounts, in 2005, we found that 4.7 million employees were aged between 22 and the state pension age, earned above £5,035 (in 2006–07 earnings terms) and were not offered the chance to join an employer’s pension scheme. If these individuals had all contributed 8% of band earnings in 2005, the median contribution that year would have been £770. Of the 4.7 million, 1.0 million decided to contribute to an individual private pension, which presumably they might not have done had they been defaulted into a Personal Account with an employer’s contribution.

Extending the time scale to the five-year period from 2001 to 2005, we find that a total of 8.6 million employees were in the situation of earning above £5,035 (in 2006–07 earnings terms) and not being offered the chance to join an employer’s scheme at least once. This is 80% larger than the number in this situation in any one year and suggests that the number of individuals defaulted into a Personal Account at some point might increase very quickly over time. Of these 8.6 million employees, 4.2 million contributed to a private pension in at least one year over this period. This suggests that not all default contributions to private pensions will be new pension saving: even some of those who, in the absence of the reform, would not have saved in a private pension in that year might have placed the funds in a private pension in a subsequent year. There might therefore be considerable competition between Personal Accounts and existing pension providers for new funds.

In addition, default contributions were typically lower among those most likely to be moving into and out of the Personal Account default group than among those who remained in the group throughout. This suggests that there will be a large number of accounts with relatively small default contributions. Among those who would have been most likely to be defaulted into a Personal Account in 2005, the median total default contribution between 2001 and 2005 would have been £2,170. It is likely that some of the individuals who might become infrequent contributors to Personal Accounts would, in the absence of the policy, have done very little pension saving. Getting such individuals into pension saving might be seen as a success of the policy.

Appendix

Table A.1. Multivariate analysis of detailed pension status, 2005

	Offered v not offered employer's pension (all) (1)	Join v not join employer's pension (offered employer's pension only) (2)	Join v not join individual private pension (not offered employer's pension only) (3)
Male	-0.064*** (0.014)	-0.032* (0.020)	+0.021** (0.010)
Aged 30 to 39	+0.007 (0.019)	+0.106*** (0.023)	+0.180*** (0.031)
Aged 40 to 49	+0.008 (0.020)	+0.138*** (0.023)	+0.194*** (0.034)
Aged 50 to state pension age	-0.002 (0.022)	+0.146*** (0.025)	+0.207*** (0.036)
Couple	+0.014 (0.016)	+0.007 (0.021)	+0.019* (0.011)
Public sector worker	+0.230*** (0.016)	+0.256*** (0.018)	-0.014 (0.015)
Full-time worker	+0.033 (0.022)	-0.072*** (0.027)	+0.003 (0.015)
(Log) annual pay	+0.204*** (0.019)	+0.313*** (0.022)	+0.064*** (0.018)
Degree	+0.048*** (0.016)	-0.014 (0.020)	+0.018 (0.013)
O level	+0.032* (0.019)	+0.017 (0.027)	+0.015 (0.017)
Health limits ability to work	-0.018 (0.025)	+0.047 (0.031)	-0.004 (0.015)
Regularly saves	+0.062*** (0.014)	+0.113*** (0.018)	+0.039** (0.015)
Investments	-0.000 (0.000)	+0.000 (0.000)	+0.000 (0.000)
Saving	-0.000 (0.000)	-0.000 (0.000)	+0.000 (0.000)
Debts	-0.001* (0.000)	-0.000 (0.001)	-0.000 (0.000)
Owner occupier – outright	+0.041* (0.021)	+0.121*** (0.026)	+0.041 (0.028)
Owner occupier – mortgage	+0.066*** (0.019)	+0.156*** (0.025)	+0.034*** (0.012)
Sample size	6,079	4,699	1,364

Notes: Individuals aged between 22 and the state pension age earning more than £5,035 in 2006–07 earnings terms. Marginal effects calculated at the median characteristics among the group in question. For column 1, this is a man in a couple aged 20 to 29, working full-time in the private sector, earning £18,952, with a degree, for whom health does not limit ability to work and who regularly saves, has £1,900 of savings, £0 of investments and £1,000 of debts, and is an owner-occupier with a mortgage. For column 2, it is the same as for column 1 except that it is a woman rather than a man, earning £20,806, with savings of £2,000 and debts of £1,300. For column 3, it is the same as for column 1 except that earnings are £14,991 and the individual has a lower level of education, does not save regularly, and has savings of £800 and debts of £500. Standard errors reported in parentheses. Statistical significance at the 1%, 5% and 10% levels denoted by ***, ** and * respectively. Controls for missing whether working part-time or full-time, and missing whether or not regularly saving, also included.

Source: Authors' calculations from the BHPS.

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