
PRESS



RELEASE

The Institute for Fiscal Studies

THE INSTITUTE FOR FISCAL STUDIES

7 RIDGMOUNT STREET, LONDON, WC1E 7AE

TEL 020 7291 4800

www.ifs.org.uk

Are middle-earners saving in Stakeholder Pensions?

The Government's Stakeholder Pension reform has improved incentives for some groups to save in private pensions, and this has offset a general downwards trend in private pension coverage. The largest impact seems to have been on those with low earnings, rather than the middle earners who were the primary target group for the policy. These are the main findings of

new IFS research, financed by the Economic and Social Research Council, which will be presented at the Royal Economic Society Conference in Nottingham on Tuesday March 22nd.

Stakeholder Pensions were launched in April 2001 to widen the availability of low-cost and relatively easy to understand private pension accounts. Their existence also ensures that many employees have access to pension saving through their workplace: employers employing 5 or more people and who do not offer an occupational or personal pension arrangement to their employees have to nominate a stakeholder provider into which they will channel part of the wages of any employee who wishes to contribute to the scheme. The design of Stakeholder Pensions was intended to make them appealing to 'middle earners' earning between around £10,000 and £20,000 per year.

At the same time that Stakeholder Pensions were introduced, reform was also made to the annual limits on maximum contributions to defined contribution pensions. Before April 2001, individuals could only contribute up to a certain (age dependent) proportion of their earnings to a personal pension. Since April 2001 any individual has been allowed to contribute at least £3,600 a year to a pension scheme, even if they have low or zero earnings. This change to contribution limits had the largest impact on those with zero or low earnings, rather than on individuals in the middle earning stakeholder pension target group.

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Contacts:

The Institute for Fiscal Studies
press office,
telephone 020 7291 4800

The new research looks at the how many individuals are saving in private pensions, and how this varies with characteristics such as the age, education and earnings of an individual and, where applicable, the earnings of their partner. During the four-year period including two years before and two years after the introduction of Stakeholder Pensions, there has been a slight downward trend in the proportion of people saving in private pensions. However, there are marked differences between different earnings groups with increased coverage among those earning less than £10,000 partially offsetting a decline amongst middle and higher earners. Further investigation indicates that the new pension savers have mainly been individuals who enjoyed an increase in the limit on the amount that they could save in a private pension, and suggests that in some cases the resources to save have come from higher earning partners.

Author Matthew Wakefield argues that ‘While we find no evidence that the Stakeholder Pension reform led to an increase in coverage of private pensions among middle earners, we do find that lower earners are now relatively more likely to contribute to a private pension. This may be due to the increases in the maximum limits on amounts that low- or non-earning individuals can contribute to a private pension. Our results also suggest that in order to save, at least some low earning individuals are receiving resources from higher-earning spouses.’

Notes to Editors

1. “Public policy and saving for retirement: evidence from the introduction of stakeholder pensions in the U.K.”, by Woojin Chung, Richard Disney, Carl Emmerson and Matthew Wakefield will be presented on Tuesday March 22nd at the Royal Economic Society Conference in Nottingham.
2. Further details of Stakeholder Pensions can be obtained from the Pension Service via:
<http://www.thepensionsservice.gov.uk/atoz/atozdetailed/stakeholder.asp>
3. This research was funded by the Economic and Social Research Council through the Centre for the Microeconomic Analysis of Public Policy at IFS (grant number M535255111).

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