



Automatic enrolment: the story so far

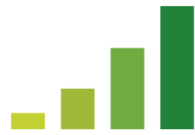
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17 November 2016

Acknowledgements

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What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK

Jonathan Cribb and Carl Emmerson

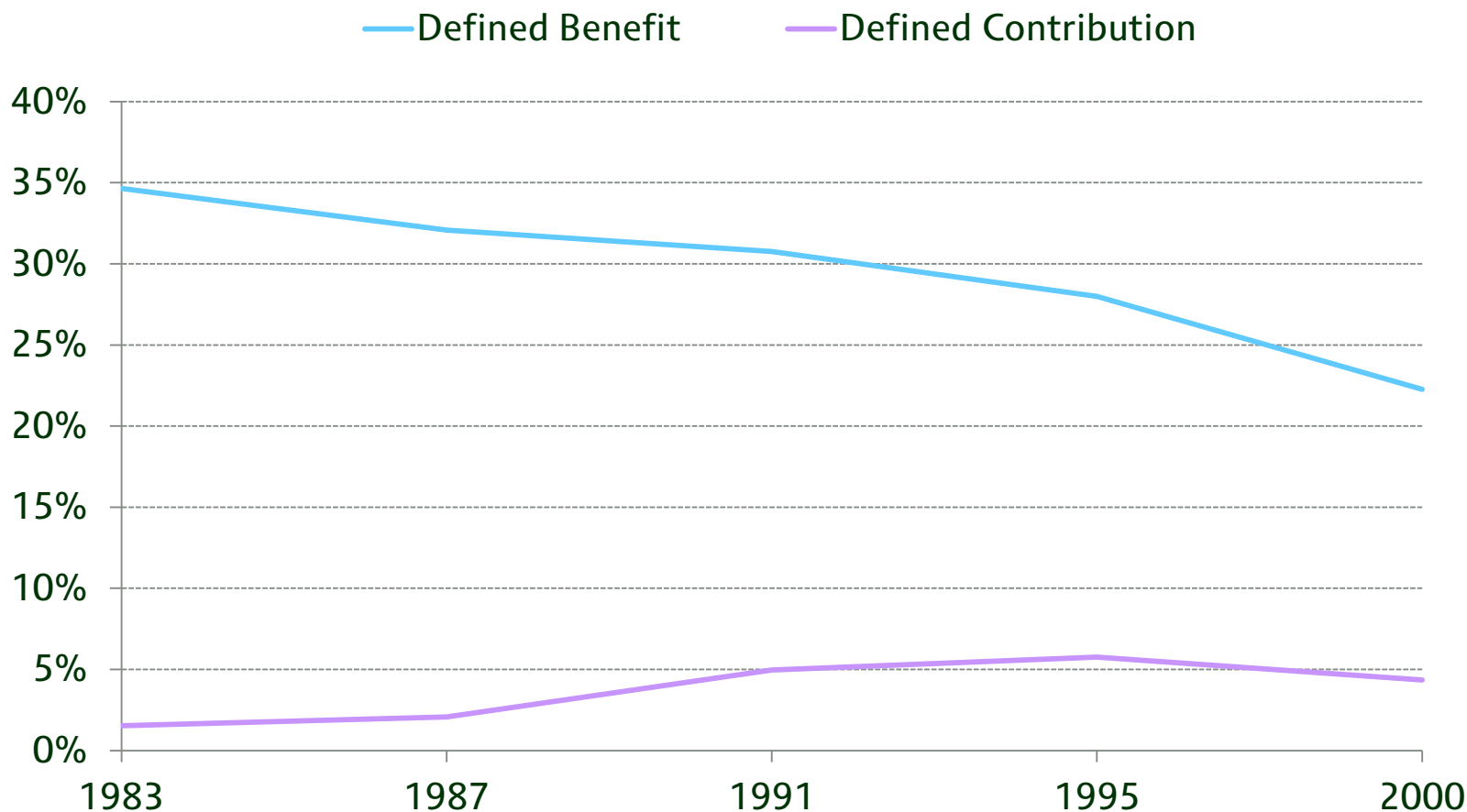
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Introduction

- Pensions Commission (2005) recommended introducing automatic enrolment due to concerns about under-saving for retirement

Concerns about under-saving for retirement

Percentage of Private Sector Employees Participating in Occupational Pension Schemes



Source: Figure 3.26 of the First Report of the Pensions Commission (2004)

Introduction

- Pensions Commission (2005) recommended introducing automatic enrolment due to concerns about under-saving for retirement
- Automatic enrolment was legislated in Pensions Act 2008
- First employers affected in October 2012
 - All employers will be affected by February 2018
- What has effect of automatic enrolment been on saving in a workplace pension by private sector employees?
 - Effect on pension membership, employee & employer contributions
 - How do effects differ for different groups?
 - Are there effects on employees not eligible for auto-enrolment?

Automatic enrolment: policy details

- Eligibility: aged 22 to state pension age, earn over a threshold (£10,000 in 15/16), worked for employer for at least 3 months
- Minimum contributions:
 - Total: 2% of “qualifying earnings” (£5,824 to £42,385 in 15/16)
 - Employer: 1% of “qualifying earnings”
 - Minimum contributions increase in 2018 and 2019
- Each employer is given “staging date”; larger employers given earlier staging dates
 - Employers have to enrol all eligible employees, employees can then choose to leave scheme
 - Employers can postpone automatic enrolment by up to 3 months
 - Employers can delay to Sept 2017 if have open DB scheme

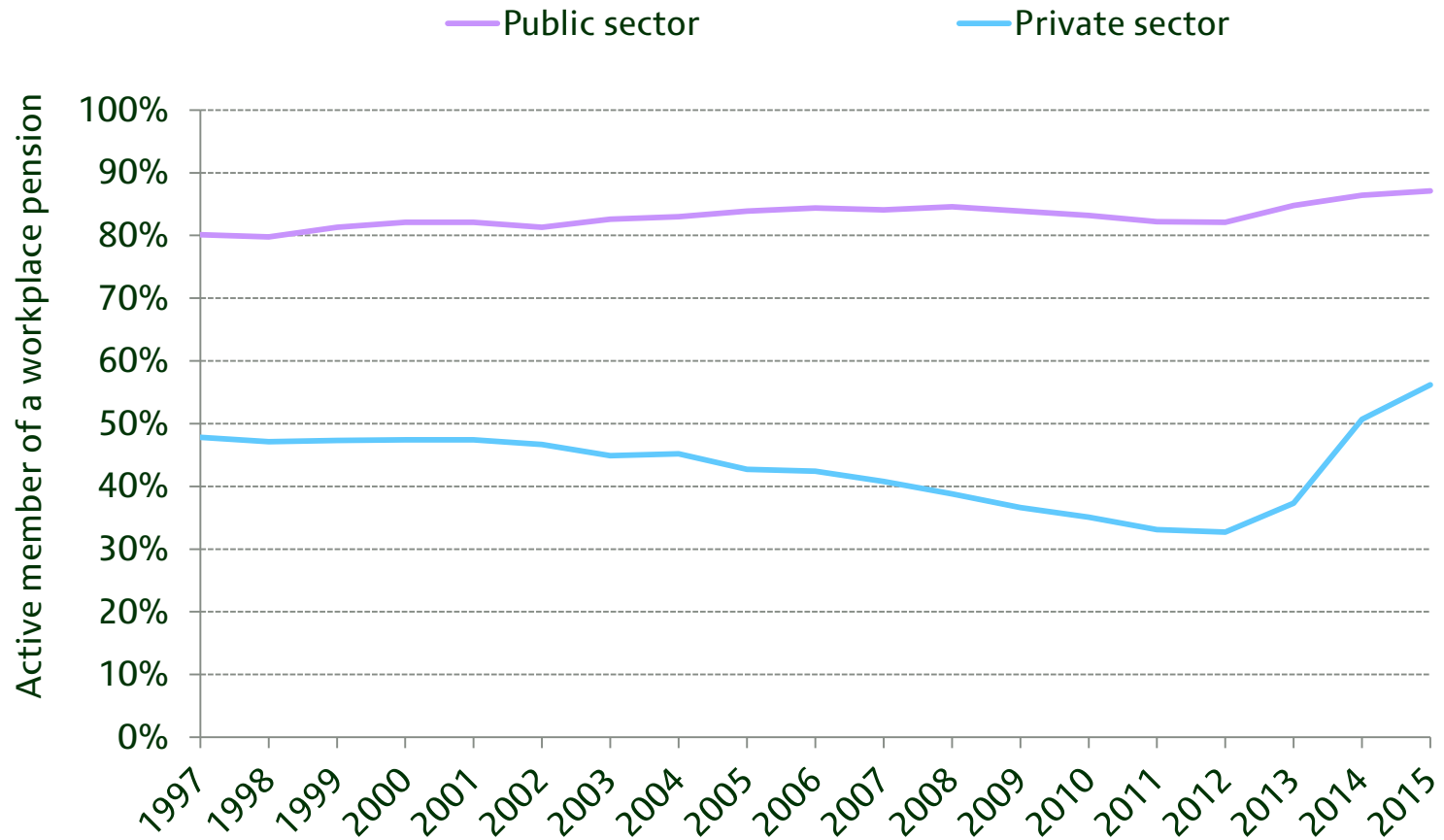
Why might automatic enrolment increase pension membership?

- **Financial incentive** of the employer contribution (for those not offered an employer contribution before)
- **Procrastination** prevents joining a pension scheme pre-reform, prevents leaving pension scheme under automatic enrolment
- Reduced **complexity** of the decision under automatic enrolment
 - Individuals do not **have** to make decision on contribution levels or investment allocation
- Employees see membership and default contributions as an **endorsement** by employer and/or government

Data

- Annual Survey of Hours and Earnings (ASHE)
 - Sample of 1% of employees in the UK
 - Survey completed by employer each April
- Includes information on:
 - Workplace pension membership and contributions
 - Age, earnings, job tenure, sector and employer size
- We use data from ASHE from April 2011 to April 2015
 - By April 2015, all employers with 58 or more employees (in 2012) were obliged to introduce automatic enrolment
 - Represents three quarters of eligible private sector employees
 - Sample size of 457,443 jobs

Recent trends in workplace pension membership



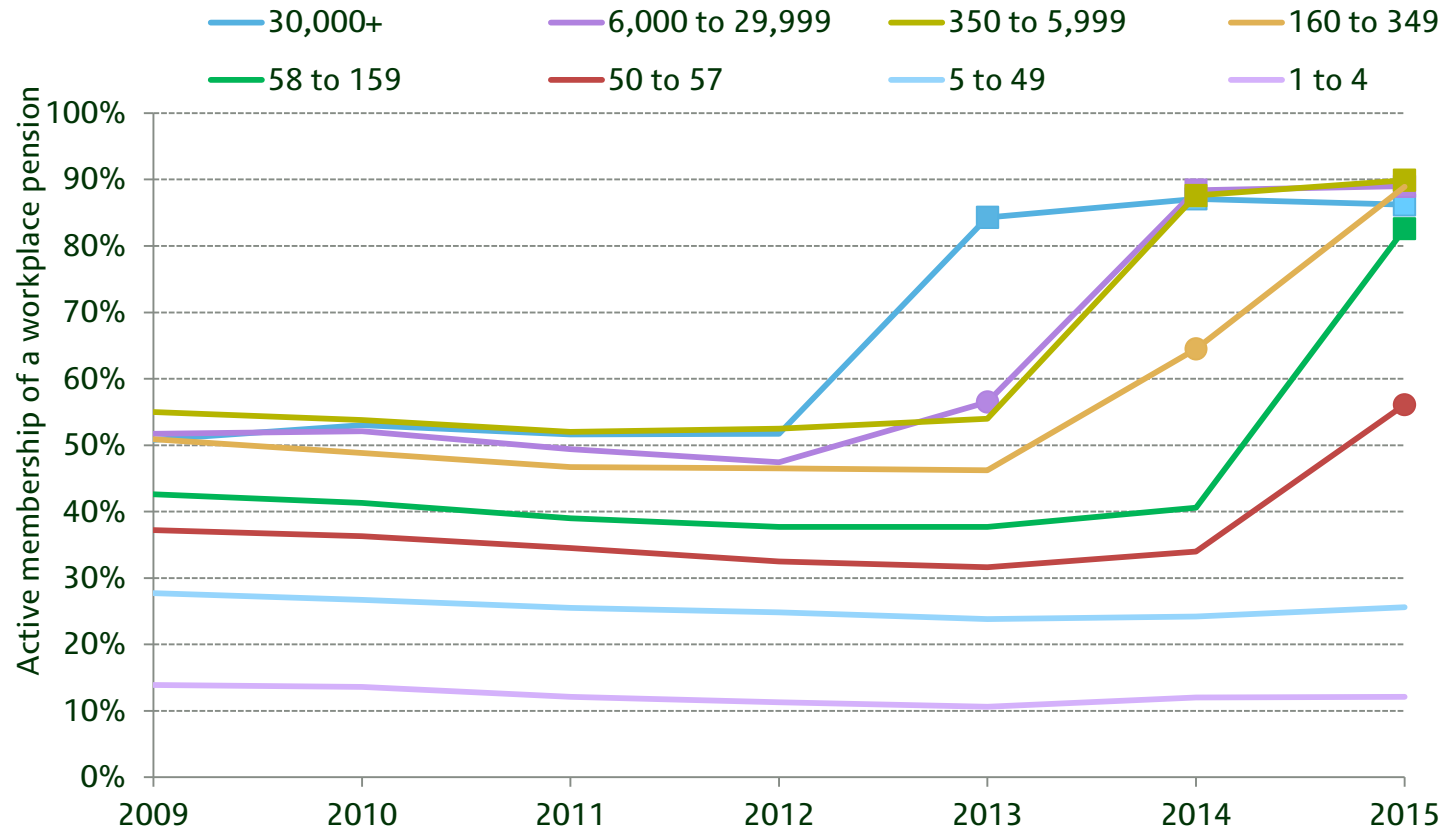
Source: Figure 1 of Cribb and Emmerson (2016).

Methodology

- The roll-out of automatic enrolment means that, at a given point in time, some employers have to enrol their employees automatically, and others do not
- This allows us to estimate what pension membership and contributions would have been in absence of the policy
- Key Assumption: differences in the trend in pension membership that coincide with automatic enrolment applying can be attributed to the policy
 - Patterns from before 2012 support this assumption
- We can also control for any changing characteristics in the workforce, such as age, sex, occupation, industry & job tenure

Trends in pension membership by employer size

Eligible private sector employees 2009 to 2015

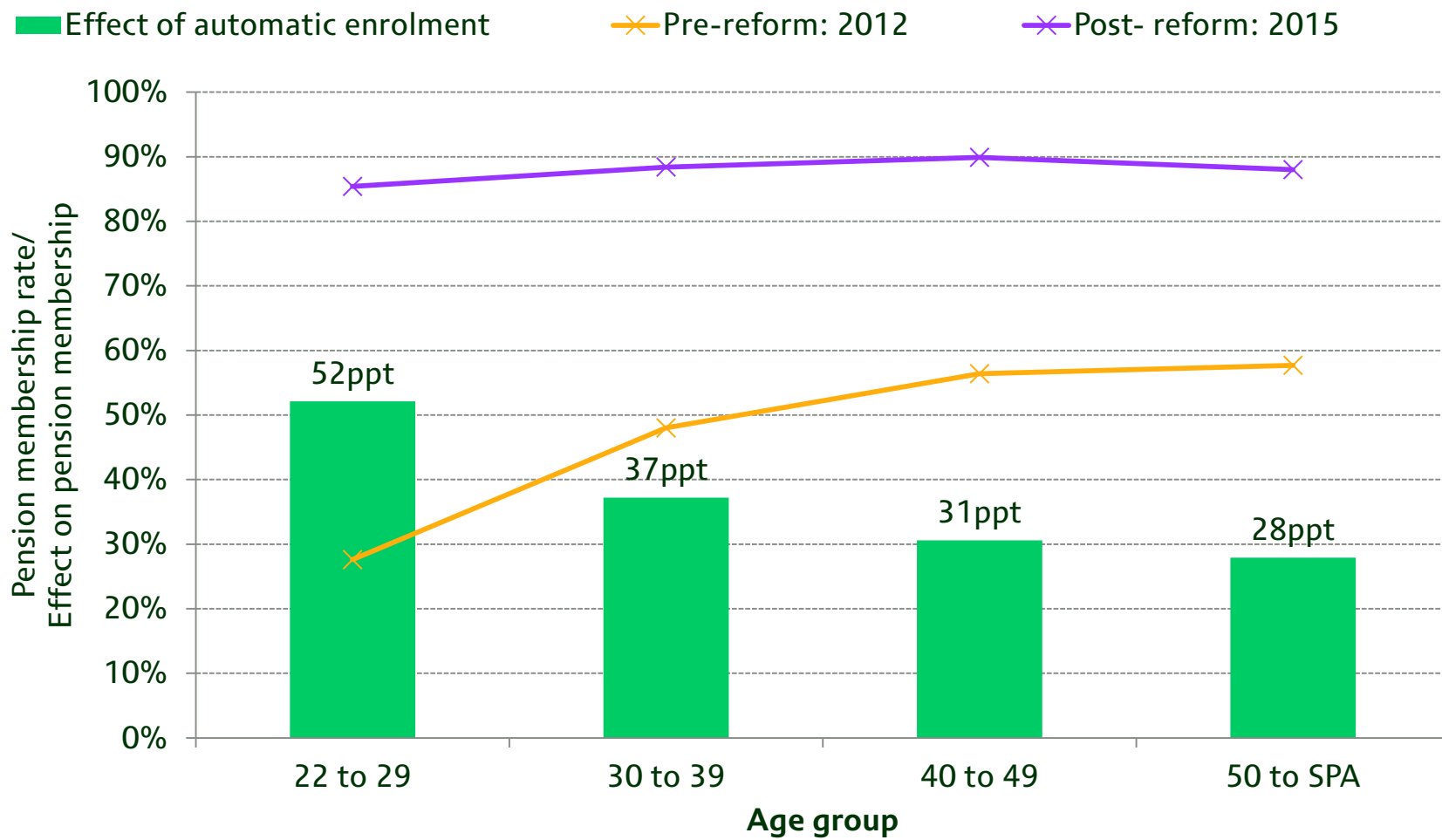


Source: Figure 2 of Cribb and Emmerson (2016).

Effect on pension membership

- We find that automatic enrolment has increased pension membership by 37 percentage points
- By April 2015, 88% of eligible private sector employees were a member of a workplace pension
- Essentially all of the increase came from increases in membership of Defined Contribution schemes (35 percentage point increase)
- Between 2012 and 2015: number of private sector employees in a workplace pension increased by 4.6 million
 - Our results suggest 4.4 million was the result of automatic enrolment

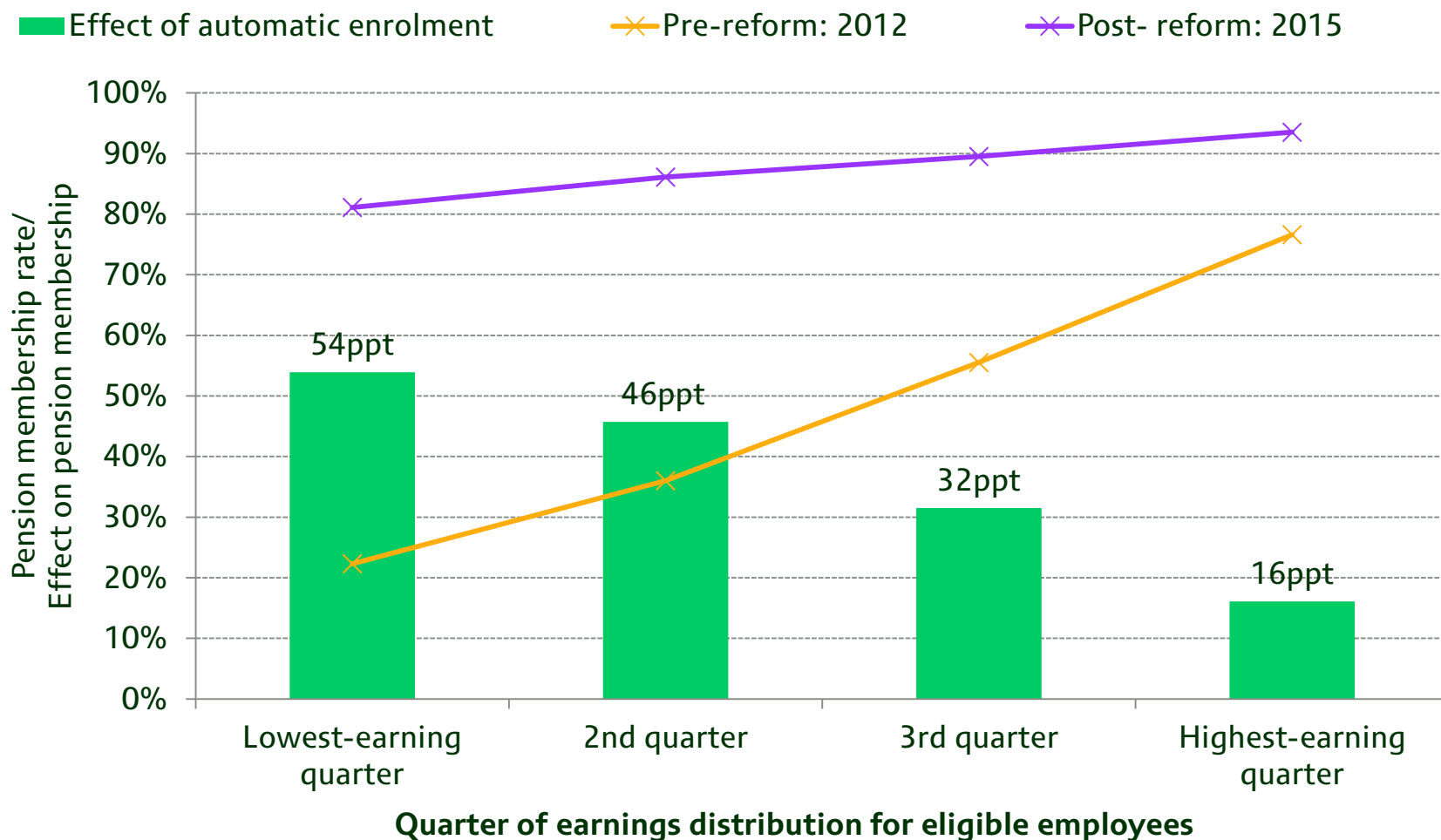
Effect on pension membership by age



Notes: Effects are all significant at 1% significance level.

Source: Table 5 of Cribb and Emmerson (2016).

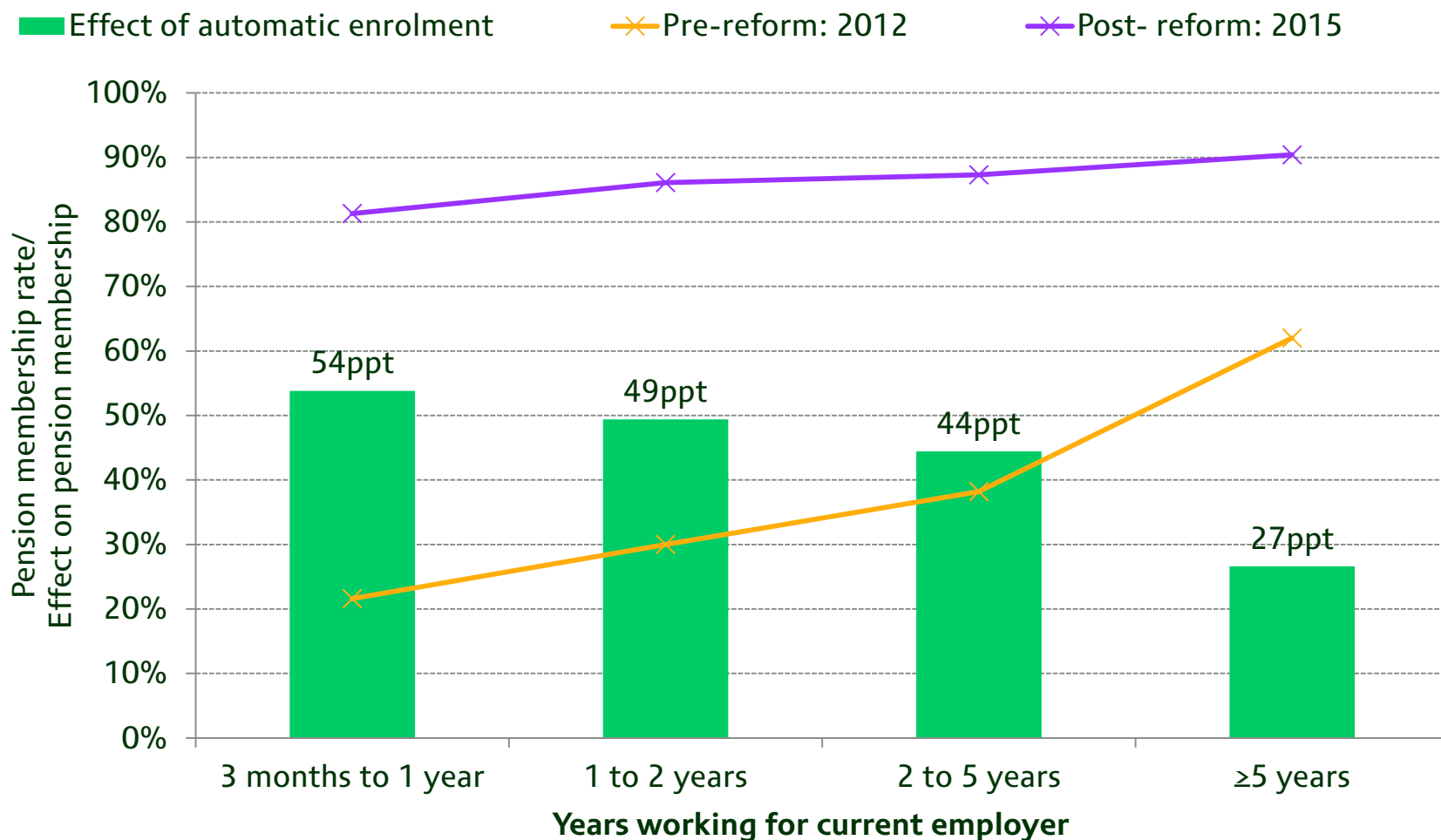
Effect on pension membership by earnings



Notes: Effects are all significant at 1% significance level.

Source: Table 5 of Cribb and Emmerson (2016).

Effect on pension membership by job tenure



Notes: Effects are all significant at 1% significance level.

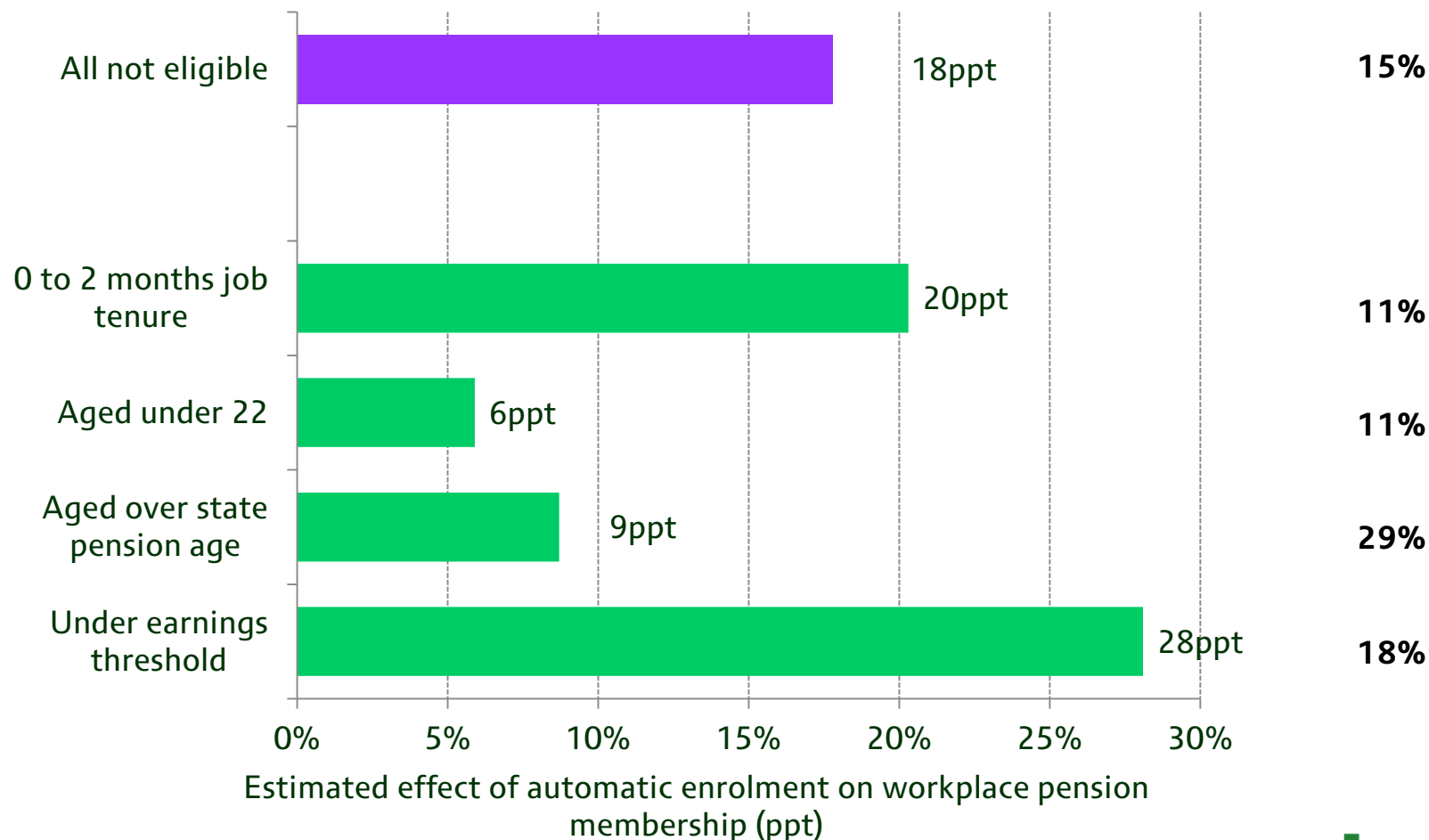
Source: Table 5 of Cribb and Emmerson (2016).

Effects on employee not automatically eligible

- Automatic enrolment might effect those who are not eligible
 - Too young, too old, earn below £10,000 per year, job tenure too short
- Three reasons why there might be an impact on their membership:
 1. Those earning over the Lower Earnings Limit (£5,824 per year) can ask to be enrolled in a pension (with at least min. employer contributions)
 2. Employers could enrol workers when they are eligible and they do not leave the scheme once they have become “ineligible”
 3. Employers can decide to enrol employees who were not eligible

Effect on pension membership on those not automatically eligible

Membership rate of eligible employees in 2012



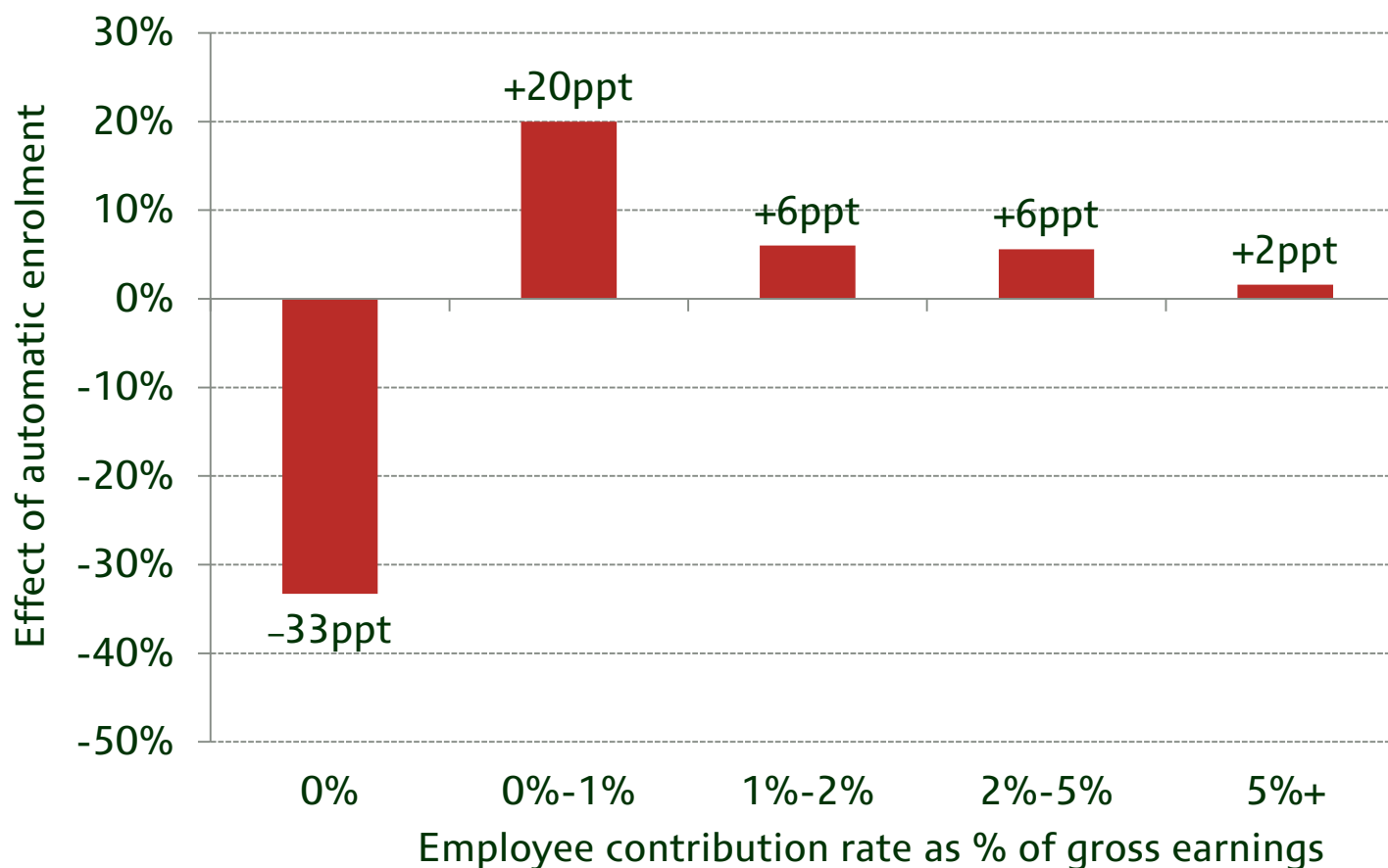
Notes: All effects are significantly different from zero at the 1% level.

Source: Table 13 of Cribb and Emmerson (2016).

Effect of automatic enrolment on pension contributions

- Automatic enrolment may only boost pension saving slightly if all increase in membership is at very low contribution rates
- Also potential risk that automatic enrolment leads to some reducing their contributions towards the minimum
- In 2012, mean total pension contribution rate was 7.0% of earnings among those who would be affected by April 2015
 - mean contribution rate of 14.4% among members of a scheme
- We find automatic enrolment increased the mean total contribution rate by 1.05% of earnings
 - 0.45% of earnings increase in employee contributions
 - 0.60% of earnings increase in employer contributions

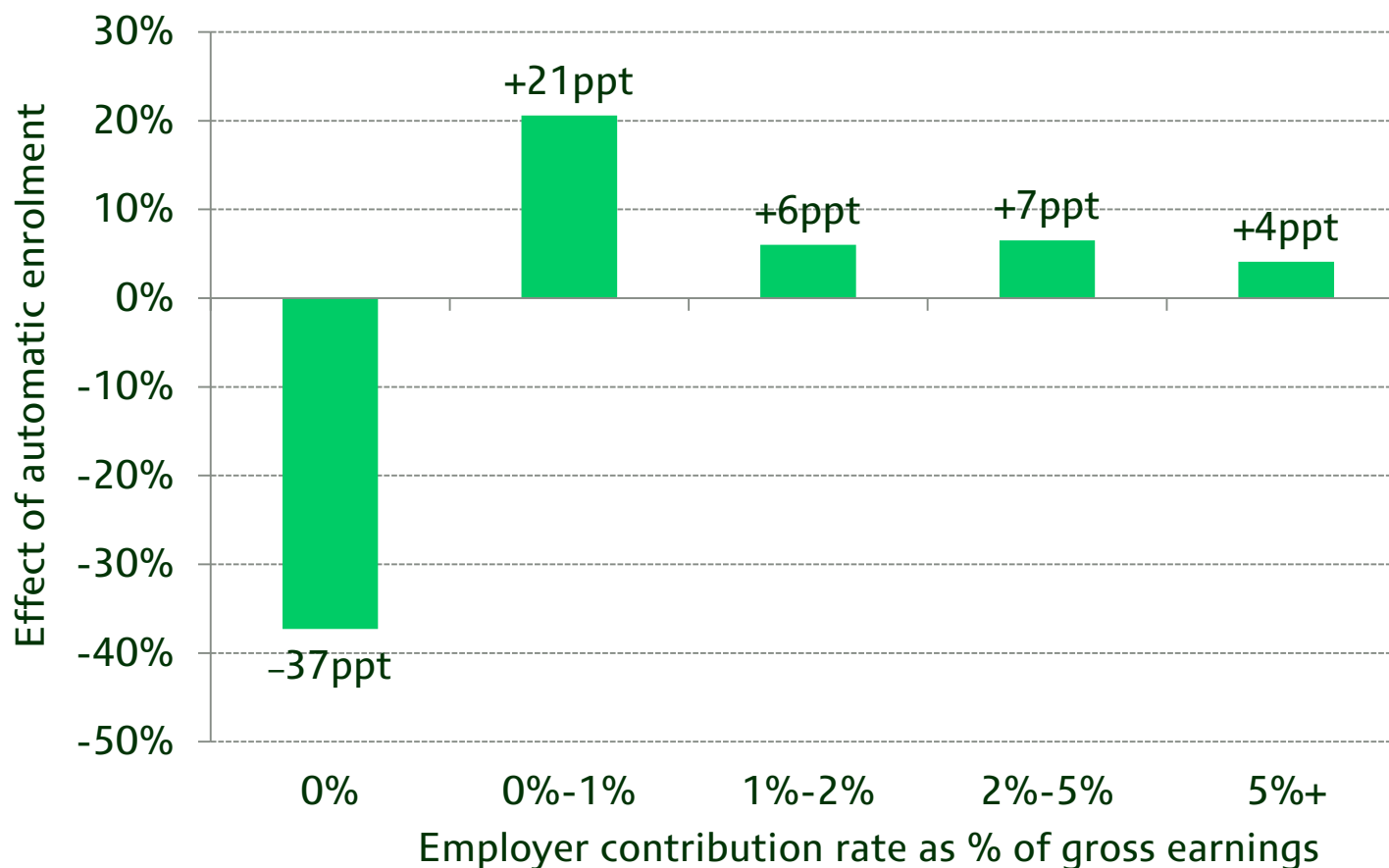
Effect on **employee** pension contribution rate



Notes: Effects are all significant at 1% significance level, except effect on probability of employee contribution of 5%+ , which is significant at the 10% level.

Source: Table 7 of Cribb and Emmerson (2016).

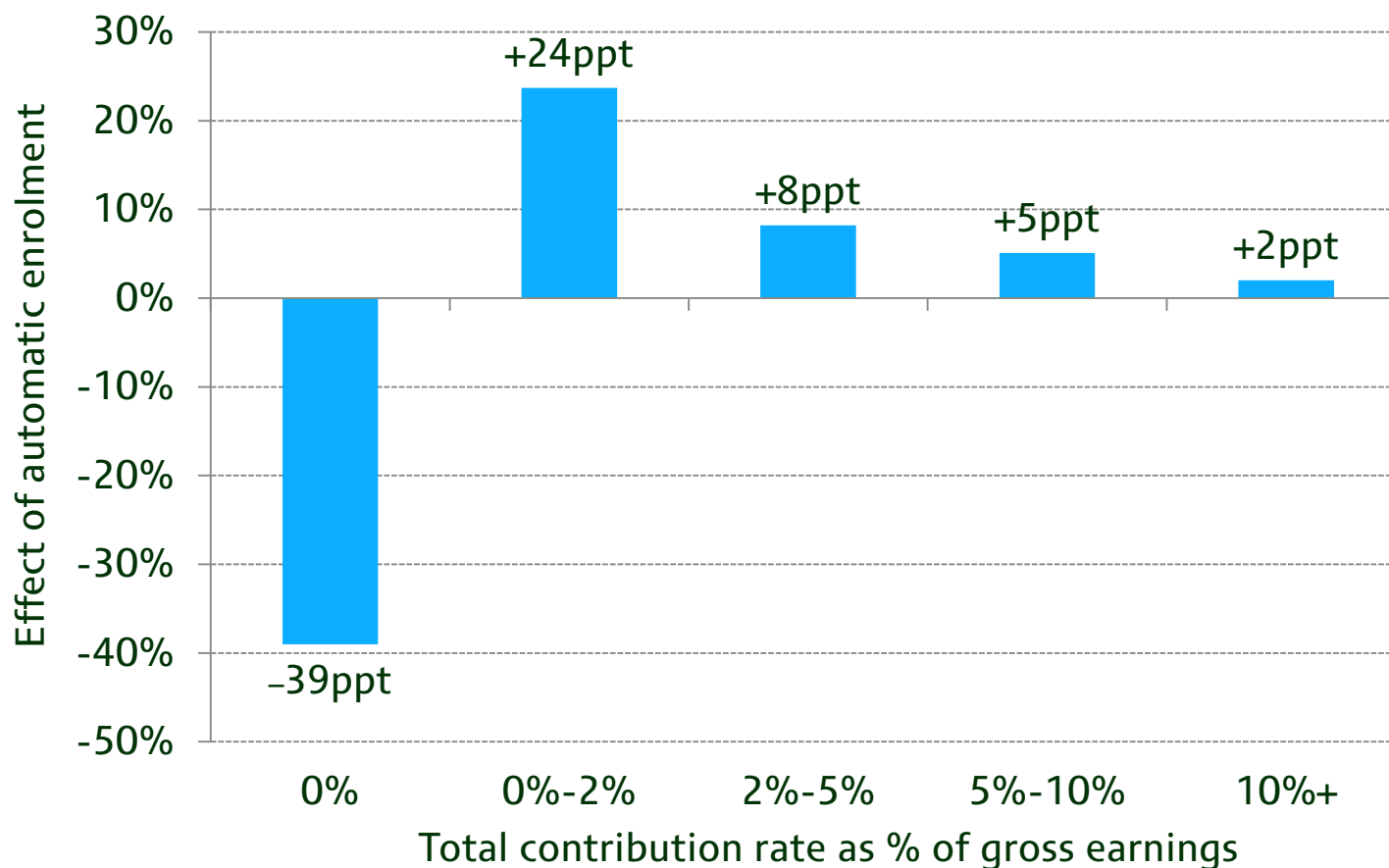
Effect on employer pension contribution rate



Notes: Effects are all significant at 1% significance level.

Source: Table 7 of Cribb and Emmerson (2016).

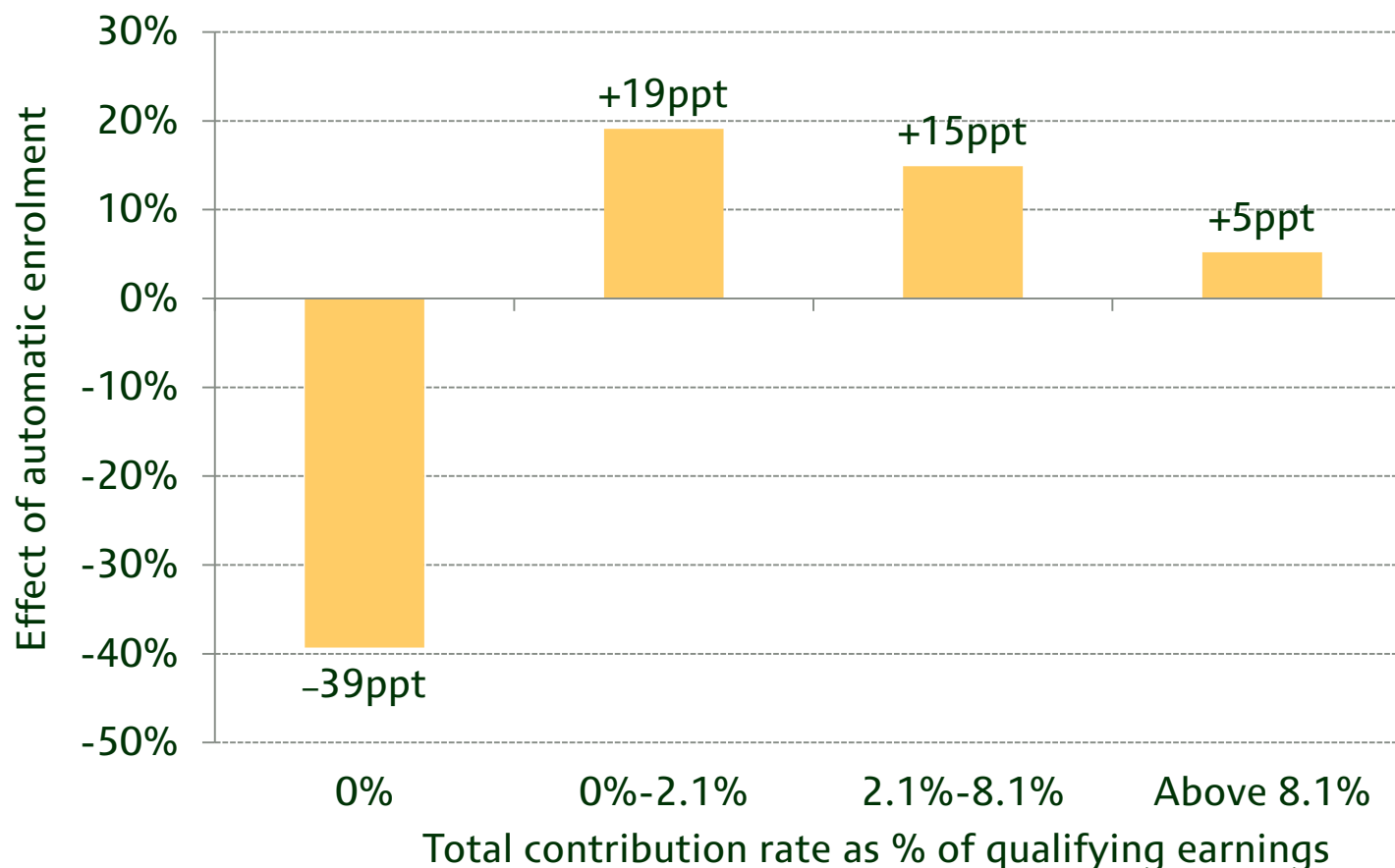
Effect on **total** pension contribution rate



Notes: Effects are all significant at 1% significance level.

Source: Table 7 of Cribb and Emmerson (2016).

Effect on **total** pension contribution rate (as a % of qualifying earnings)



Notes: Effects are all significant at 1% significance level.

Source: Table 8 of Cribb and Emmerson (2016).

Evidence of reductions in employer pension contributions (“levelling down”)?

- Our analysis does **not** rule out that there has been levelling down
 - but, if it is occurring, it is more than outweighed by those being brought into pensions with contributions well above the minimum
- Did employers lower offers of pension contributions to:
 - newly hired employees
 - existing members of workplace pension schemes
- No evidence of reduced employer contributions to either group

Effect on aggregate pension contributions

- We have estimated the impact of auto-enrolment on average pension contributions (in £ per week)
- Implies that auto-enrolment increased workplace pension saving by eligible private sector employees by £2.3 billion p.a. by April 2015
 - half of which from employee contributions, half from employer
 - further £0.1 billion increase due to increased contributions for non-eligible private sector employees
- Total £2.5 billion p.a. boost to private sector workplace pension saving by April 2015
 - highly likely to increase substantially as more employers brought into automatic enrolment and minimum contributions rise

Summary

- Automatic enrolment increased workplace pension membership among eligible private sector employees by 37ppt
 - bringing the membership rate among this group up to 88% in 2015
 - larger impacts for groups with lower pre-reform membership rates
 - substantial increase among those outside the main target group
 - of the 4.6 million increase in workplace pension membership between 2012 and 2015 4.4 million was due to automatic enrolment
- Increased mean pension saving rate by 1% of earnings from 7.0% of earnings baseline in 2012
- Increased proportion with employee and employer contributions above the minimum levels
 - no evidence of any levelling down
- Raised private sector workplace pension saving by £2.5 billion p.a. by April 2015

Further thoughts

- Automatic enrolment still being extended to smaller employers and then minimum contribution rates will rise
 - will we see a different impact on pension membership and saving?
- Other key questions remain unanswered
 - where does the employer contribution come from?
 - does increased workplace pension saving reduce other saving?
- Should the 2017 review recommend changes to:
 - treatment of self-employed or those with multiple jobs
 - target group (22 to SPA, \geq £10k, \geq 3 months)
 - qualifying earnings (currently LEL to UEL)
 - minimum total contribution (level and structure)
 - minimum employer contribution (level and structure)



Automatic enrolment: the story so far

Richard Harrington MP

Parliamentary Under Secretary of State,
Department for Work and Pensions

17 November 2016



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