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Press Release

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Reforms to boost pension coverage, but many accounts may have small amounts

The government recently legislated radical private pension reforms that will lead to the majority of employees being enrolled automatically by their employer into a private pension and in some cases into a new ‘Personal Account’. The shift to automatic enrolment and increased requirements on employers to make contributions, should both boost pension coverage. A report published today by IFS researchers presents new evidence on the individuals at which the Government’s reforms are targeted. Within this group:

- In 2005 there were around 4.7 million employees who were not offered the chance to join an employer’s pension scheme. These individuals might be particularly likely to be enrolled by their employer into a Personal Account rather than into another compliant pension scheme.

- Looking over the five-year horizon from 2001 to 2005 there were 8.6 million individuals who were in this situation in at least one year. This suggests that the number of Personal Accounts could grow rapidly over time as individuals’ circumstances change.

- Of these 8.6 million employees nearly half saved in a private pension at least once over this five-year period. This suggests that some contributions brought into Personal Accounts or other workplace pensions as a result of the reform might, without the reform, have been placed into a pension such as a personal pension (either in that year or a different year).

- Default pension contributions from the 4.7 million employees not offered the chance to join an employer’s pension in 2005 would have totalled £4.2 billion. But many individuals would accumulate relatively small amounts: over the five years from 2001 to 2005 half of these 4.7 million employees would, by default, have made total contributions of less than £2,170.

Matthew Wakefield, senior research economist at the Institute for Fiscal Studies and one of the authors of the report said “In 2005 half of employees not contributing to a private pension earned less than £14,000, and more than half had no net savings. Getting such individuals into pension saving might be seen as a success of the policy, but any increase in pension saving is, at least in absolute terms, likely to be small. While many of these individuals have little scope to finance new pension saving by reshuffling existing assets, some could pay down existing debts less quickly, which would still mean that new pension saving was not new saving overall.”

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Notes to Editors:

1. For embargoed copies of the report "Amounts and Accounts: Reforming Private Pension Enrolment" by Carl Emmerson and Matthew Wakefield, or any other queries, contact: Bonnie Brimstone at IFS: 020 7291 4800, bonnie_b@ifs.org.uk;

2. The report will be launched on the morning of Monday 15th June 2009. Please contact Bonnie Brimstone (020 7291 4800, bonnie_b@ifs.org.uk) for details if you would like to register to attend.

3. The authors are very grateful for financial support from the IFS Retirement Consortium for funding this project. The Consortium comprises Association of British Insurers, Bank of England, Barclays, Chartered Institute of Personnel and Development, Department for Work and Pensions, Financial Services Authority, HM Revenue and Customs, HM Treasury, Investment Management Association, Pensions Regulator, Personal Accounts Delivery Authority, Scottish Widows and The Actuarial Profession. Further details of the research being carried out by this funding can be found at http://www.ifs.org.uk/projects/303. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number M535255111) is also very gratefully acknowledged.

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