

The major pension reforms of the 2010s: how have people adjusted?

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The US Social Security Administration

Retirement expectations, attitudes and savings behaviour: how have these changed?

Rowena Crawford, Jonathan Cribb, Carl Emmerson
and Polly Simpson

Motivation

2006 to 2017: a decade of reforms

Increases in state pension ages

First legislation (2007) for increases beyond age 65, first women affected by SPA increases in 2010, policies to accelerate future SPA increases

The new state pension

Policy formation and introduction (2016) of new 'flat-rate' pension

Auto enrolment

Auto enrolment into workplace pensions rolled out 2012 to 2018

“Pension freedoms”

Effective end of requirement to annuitise accumulated DC saving from 2015

Public service pensions

Increases in normal retirement ages, increases in contributions, change to career average calculations, switch to CPI indexation of income

How might these reforms affect individuals?

How might these reforms affect individuals' financial security in retirement?

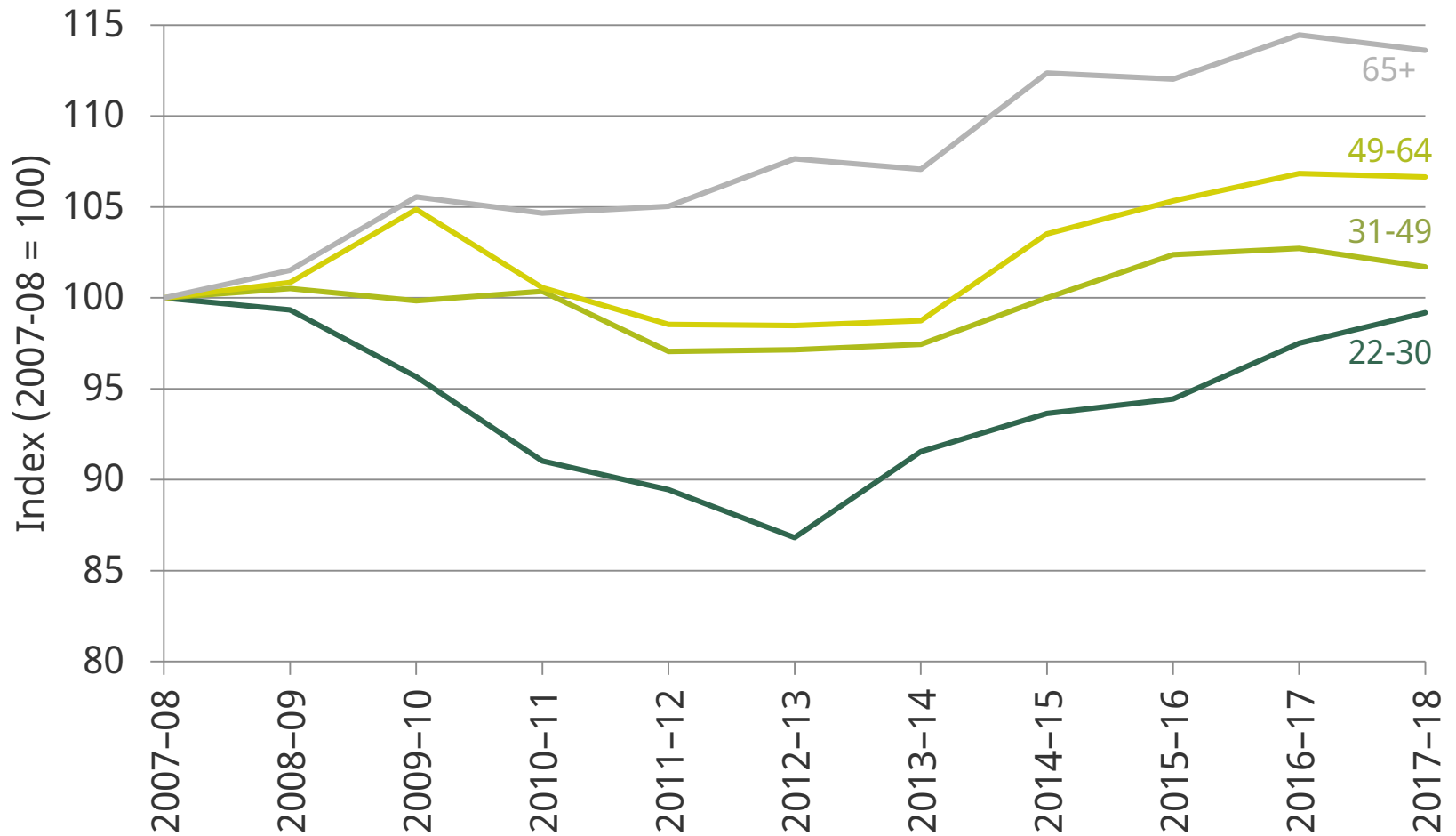
- Many behavioural responses will not be observed for many years

In this research we seek an 'early indication' by examining how attitudes and expectations have changed over the decade:

- Expected retirement ages
- Expected sources of retirement income
- Confidence that retirement income will be adequate
- Self-assessed understanding of pensions
- Preferences for today versus the future
- Self-reported saving behaviour and motivations

Context:

Real median income, by age



Context: a backdrop of economic uncertainty

UK consumer confidence index



Data and methodology

Data and methodology

Wealth and Assets Survey data

- Household survey of the population of Great Britain
- Available data covers summer 2006 to March 2018
- Over 20,000 individuals per year
- Data on individual demographic characteristics, household composition, detailed wealth, income and pension information, questions on some attitudes and expectations

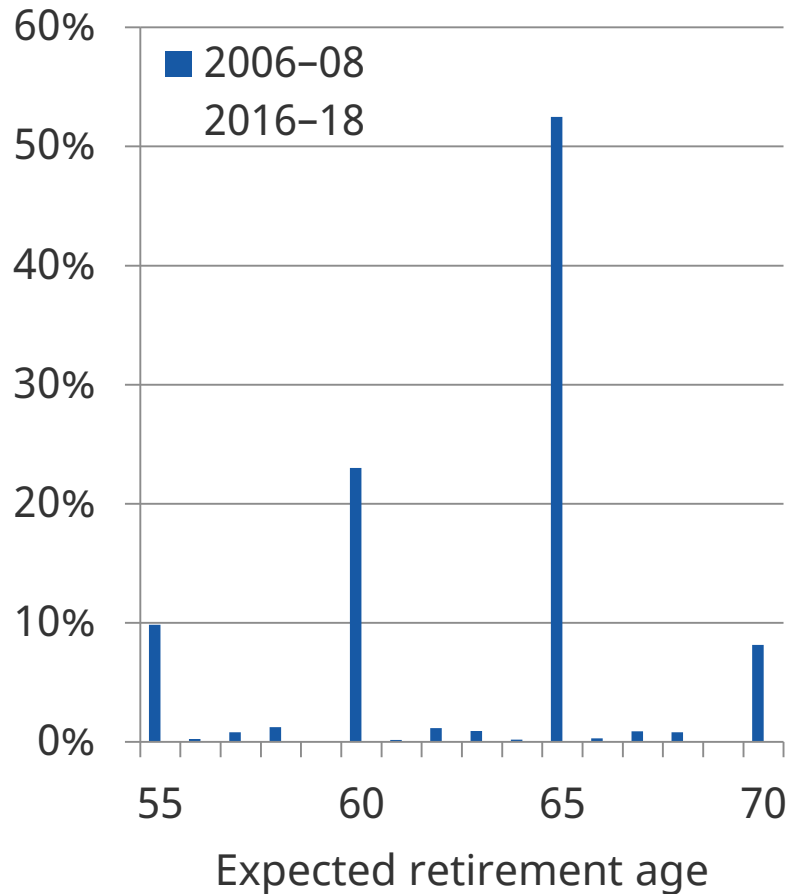
Predominantly descriptive analysis

- Examine differences between different groups to explore drivers of change

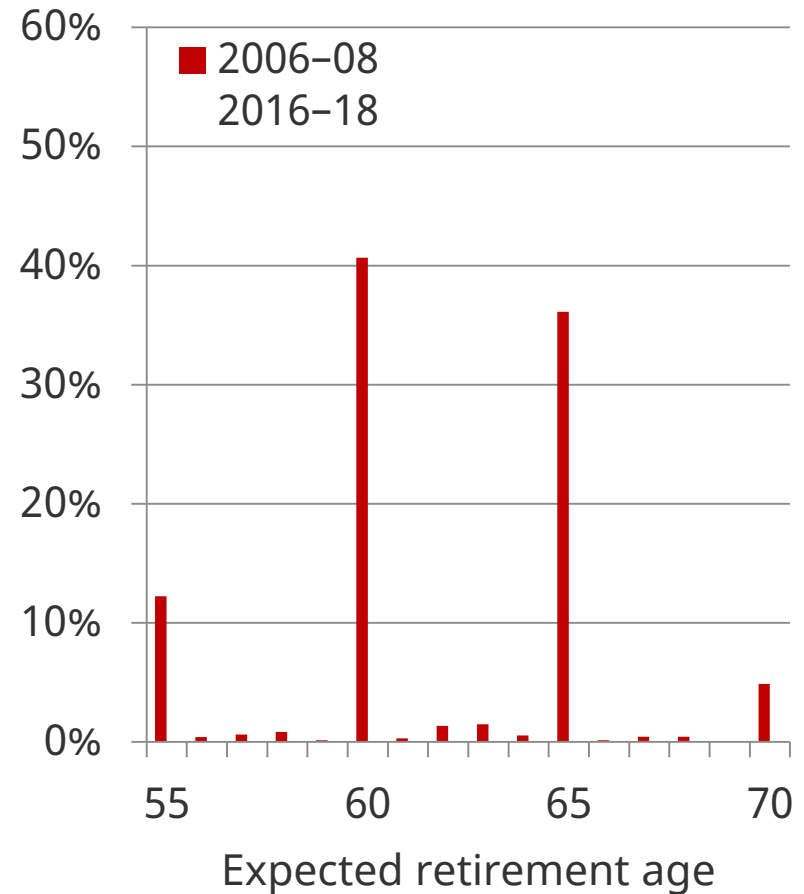
Expected retirement ages

At what age do you expect to retire?

Men (aged 40-54)



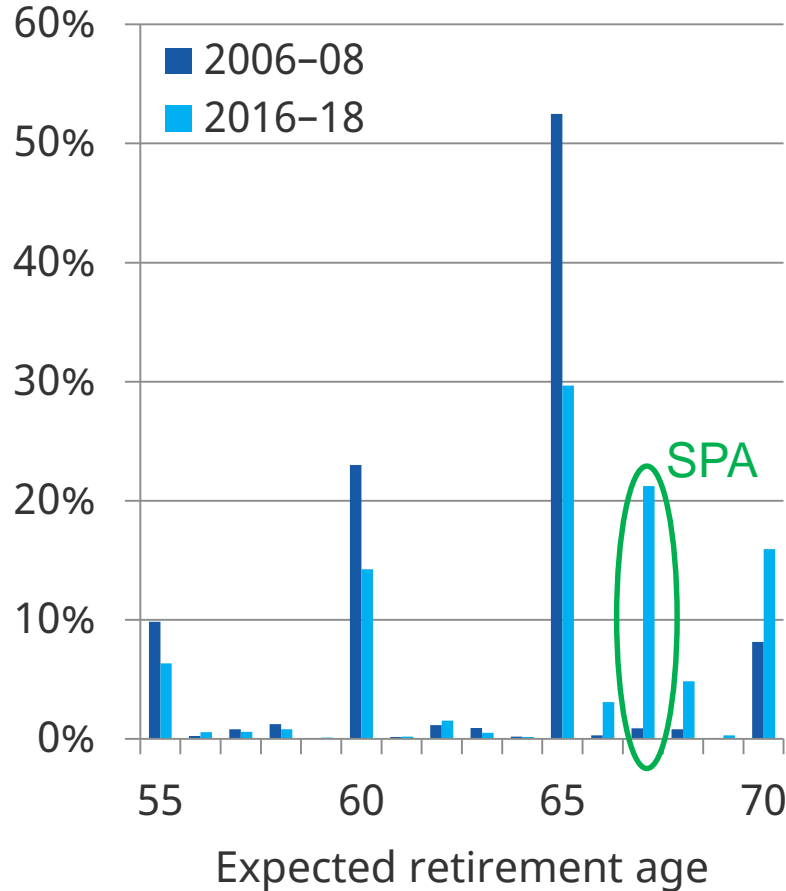
Women (aged 40-54)



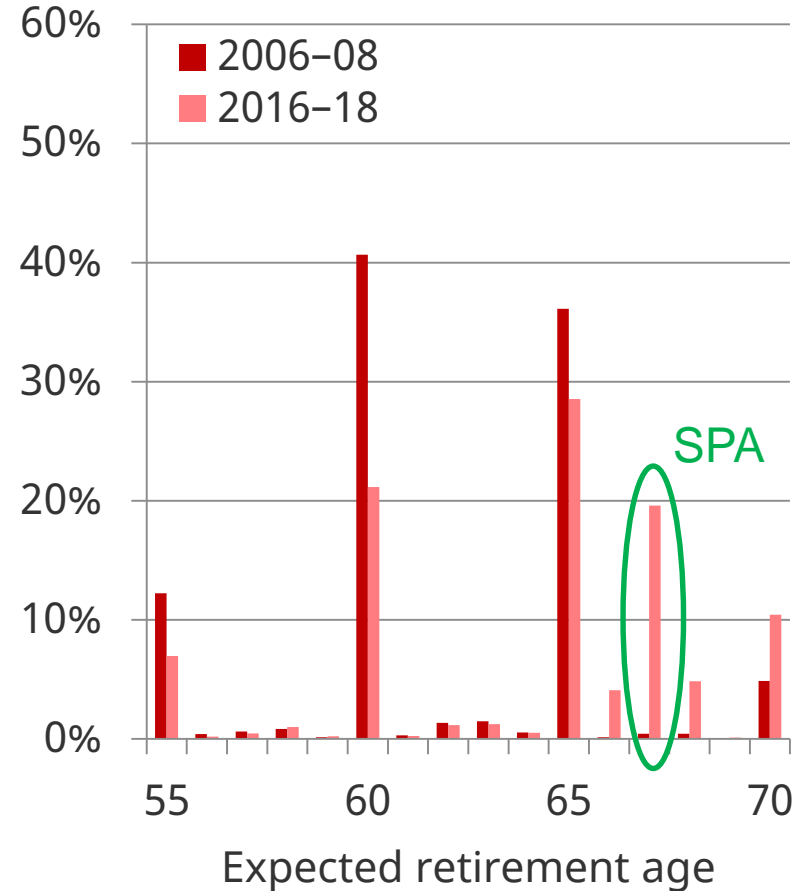
Note: Excludes individuals who reported 'don't know' (and those already retired). "50" includes less than 50, "70" includes greater than 70.

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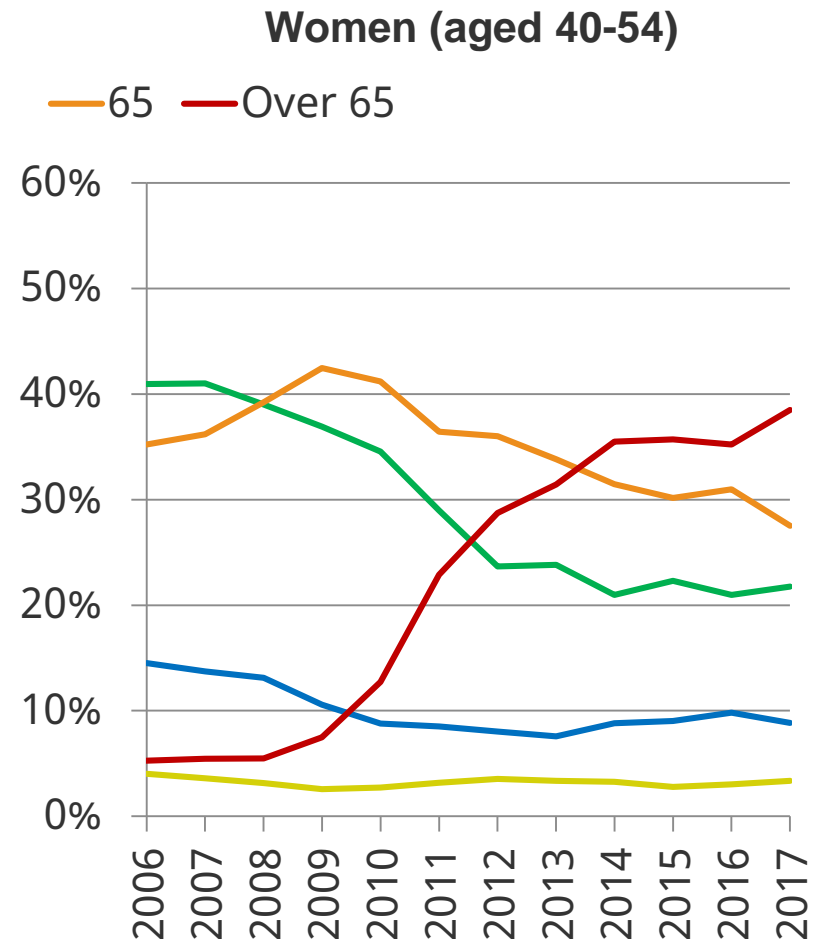
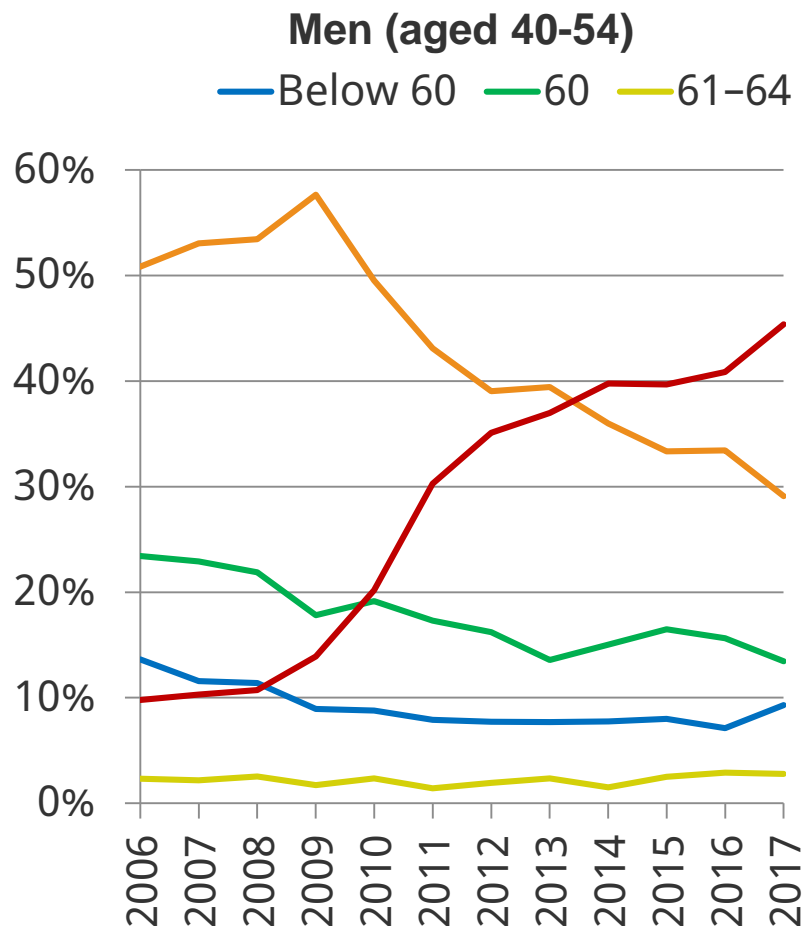


Women (aged 40-54)



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Proportion reporting different expected retirement ages over time



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Average expected retirement ages

Average expected retirement ages increased 2006 to 2017

- By 2.1 yrs for men and 2.4 yrs for women

Increases are greater than the increases in the SPA

- Av. SPA increased by 1.5 yrs for men and 1.8 yrs for women

Women still expect to retire on average around 1 yr earlier than men

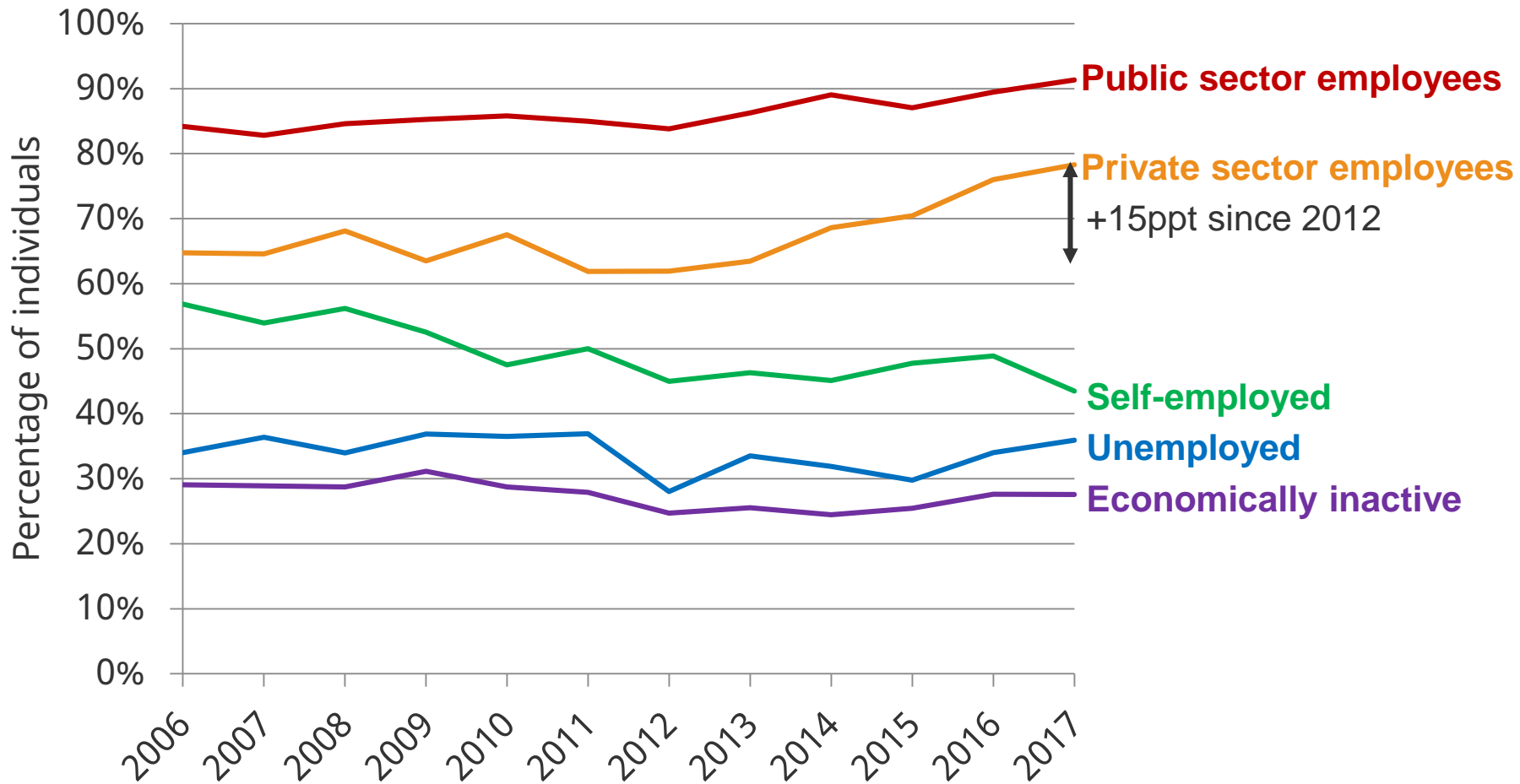
Trends over the last decade strikingly similar for many groups

- By education, private pension membership, self-reported health, employment status

Expectations of retirement incomes

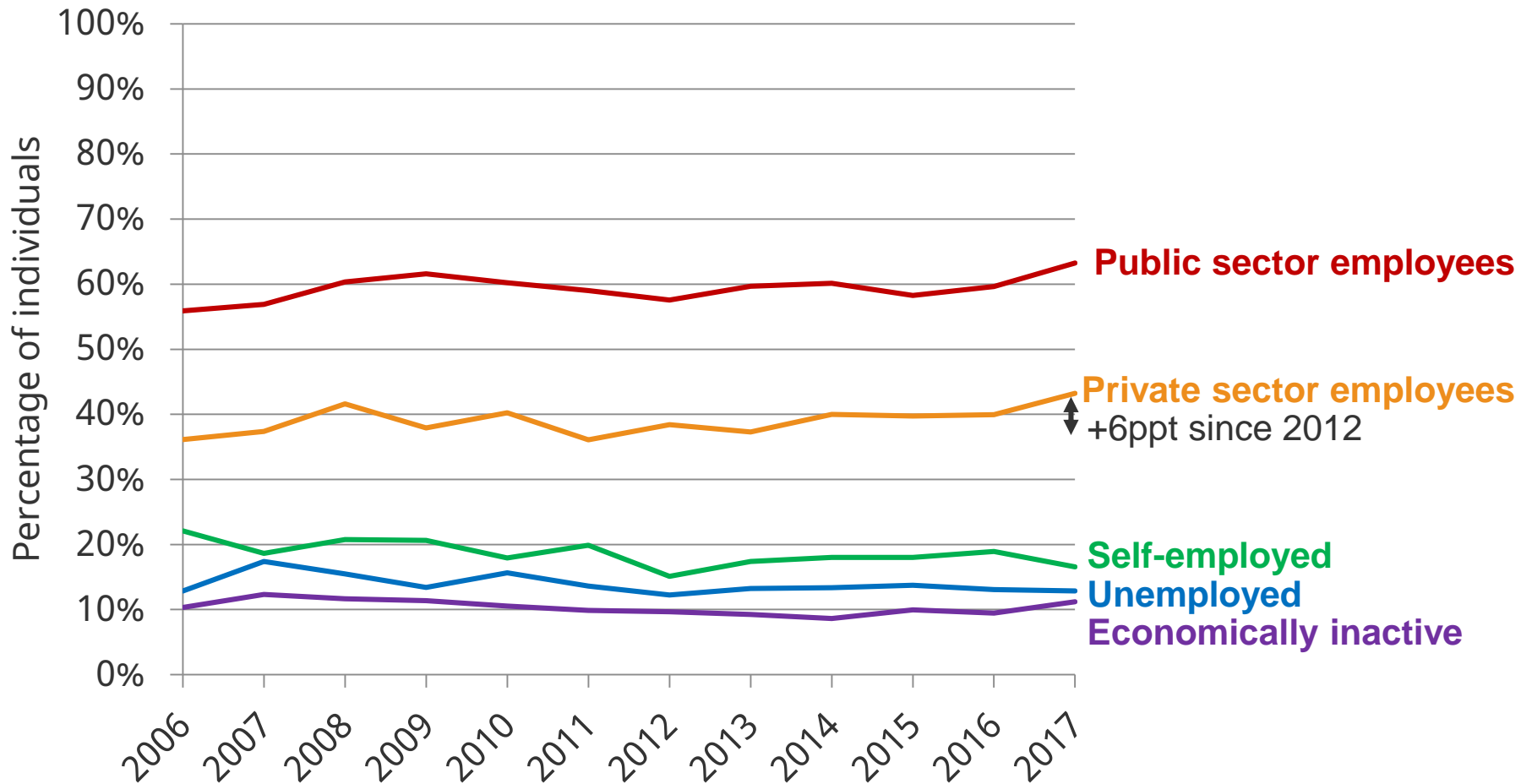
Expect to use private pension in retirement

(a) To provide any income



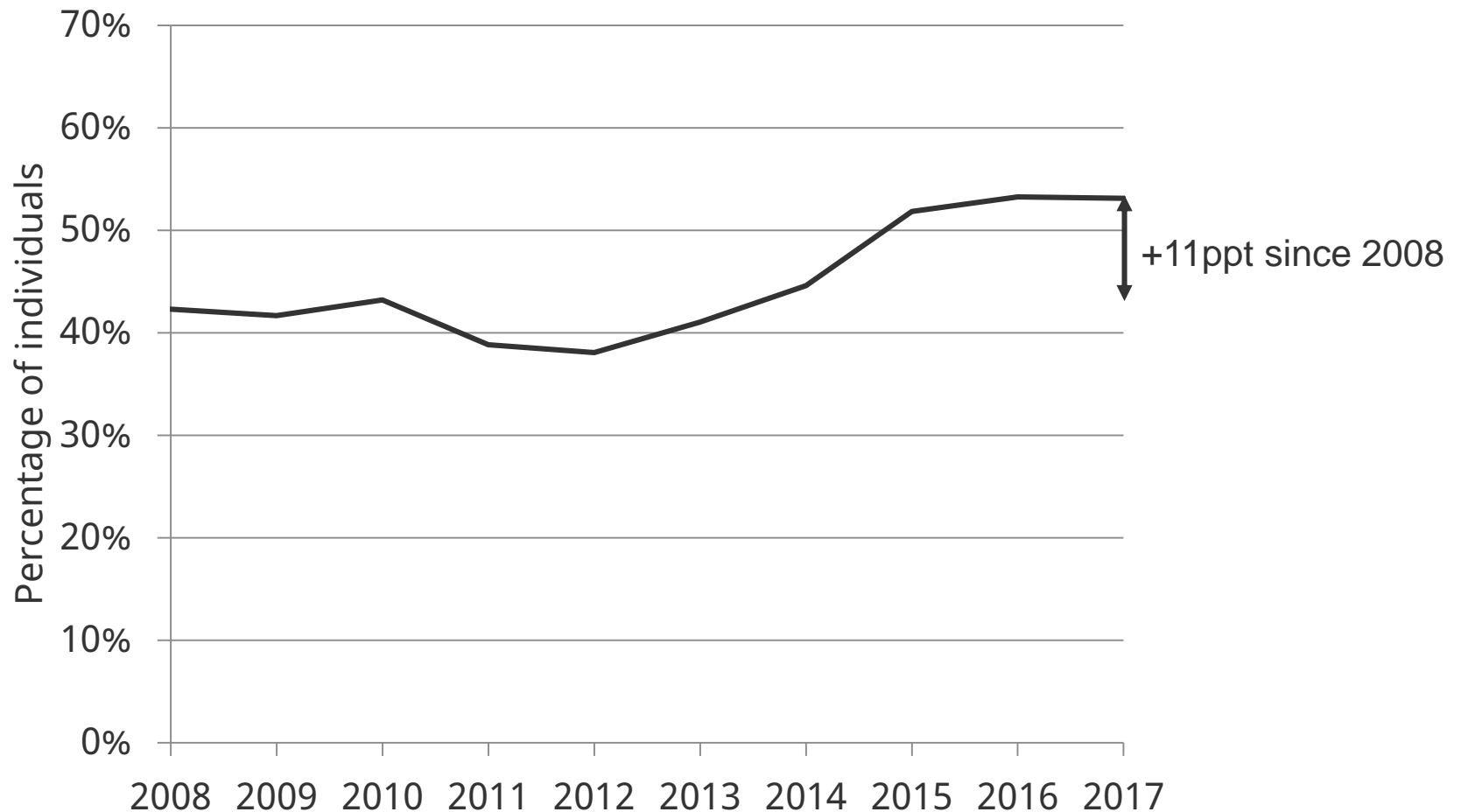
Expect to use private pension in retirement

(a) To provide be the main source of income



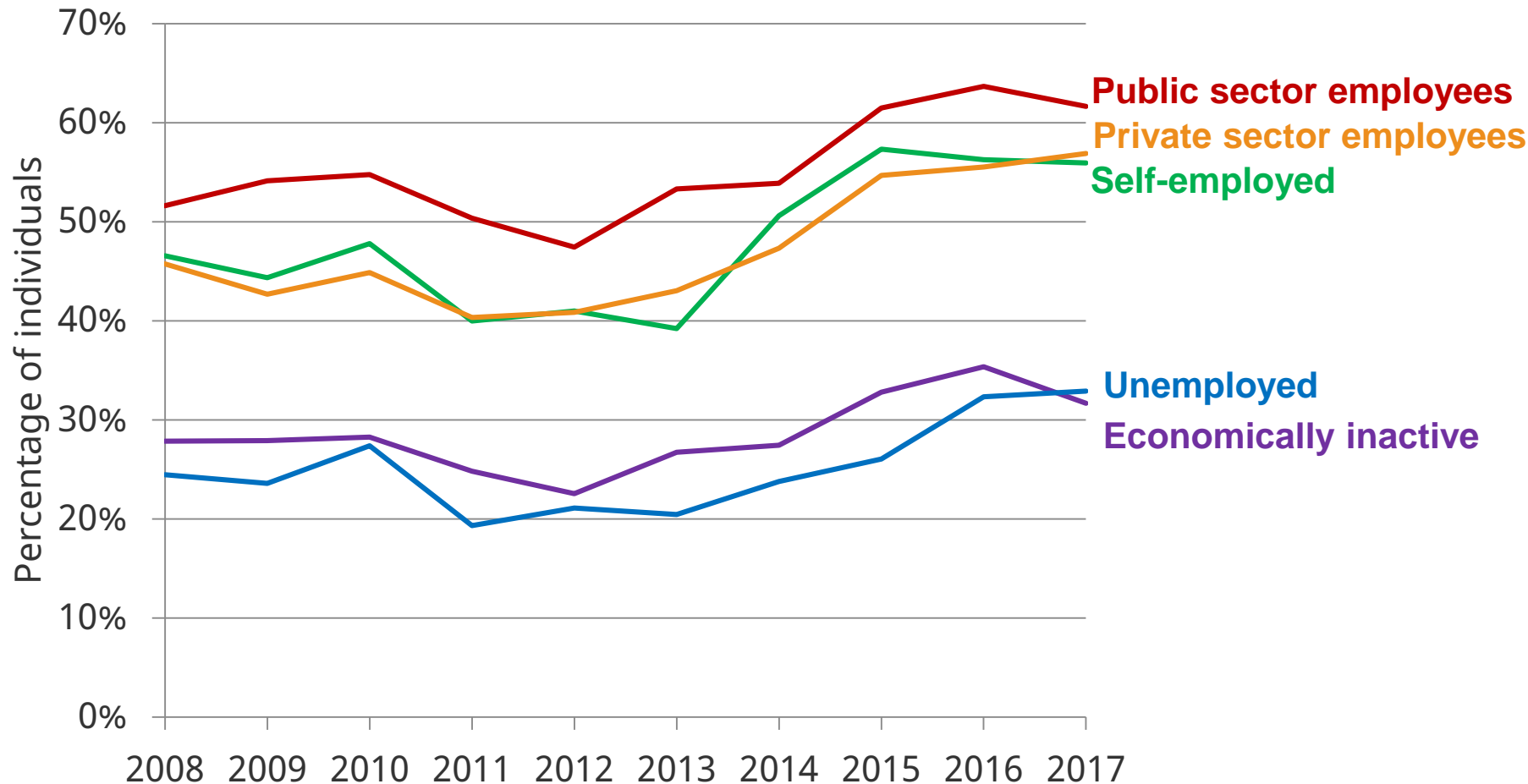
Confidence in adequacy of retirement income

Very/fairly confident income in retirement will give the standard of living hoped for



Confidence in adequacy of retirement income

Very/fairly confident income in retirement will give the standard of living hoped for



Summary

Over the last decade...

Expected retirement ages are getting later

- Likely driven in large part by increases in the state pension age

More individuals are expecting private pension income in retirement

- Suggests auto enrolment increasing “lifetime” pension membership

Increase in confidence in adequacy of retirement incomes

- Likely driven by rising real incomes and consumer confidence

Little evidence of big changes in:

- Self-reported “understand enough about pensions to make decisions”
- Preferences for total versus the future

Suggests signals and defaults play a big role in determining retirement behaviour...

Who leaves their pension scheme after being automatically enrolled?

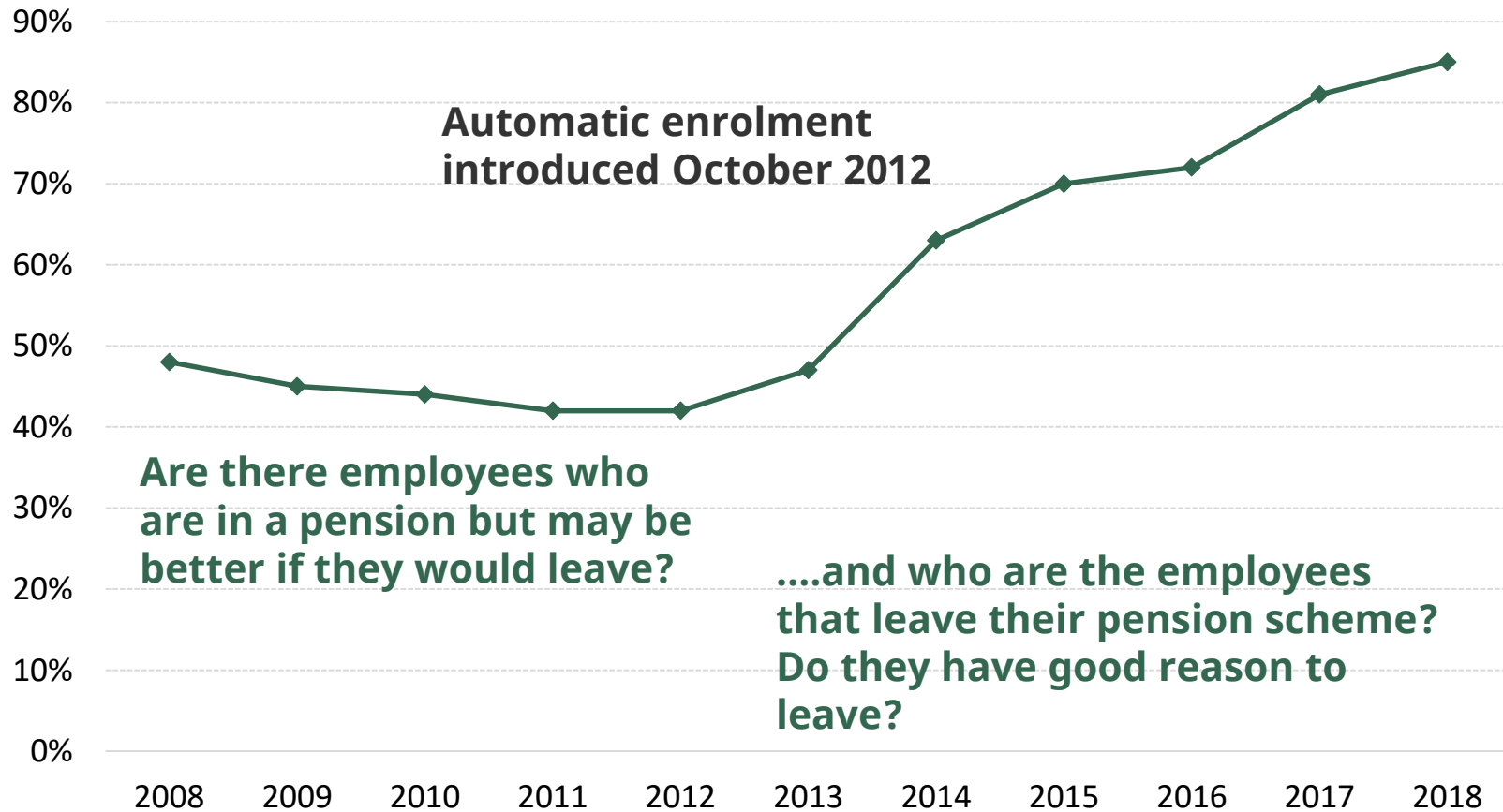
Pascale Bourquin, Jonathan Cribb & Carl Emmerson

This presentation

- Background
- Data and methodology
- **For whom and how does automatic enrolment boost workplace pension membership?**
- **Are the "right" people staying in/ leaving their pension scheme?**
- Summary

Background

Workplace pension membership amongst eligible private-sector employees, 2007 to 2018



Source: DWP estimates derived from the ONS ASHE, GB, 2007 to 2017

Data and methodology

Family Resources Survey (FRS)

- Cross-sectional survey of around 20,000 households per year
- Detailed information on income, housing tenure, health, financial circumstances and living standards
- Information on employment, workplace pension provision and employer's size (since 2011-12)

Groups of interest

1. Automatically enrolled employees: **“AE sample”**

2. Prior to AE, eligible employees offered a pension:

“Pre-AE offered”

- Eligible employees observed before October 2012
- ... *who were offered to join a pension scheme*

3. Prior to AE, all eligible employees : **“Pre-AE all”**

- Eligible employees observed before October 2012
- ...*irrespective of whether offered a scheme or not*

**“default
mechanism”**

**“more offered
mechanism”**

Workplace pension participation rates:

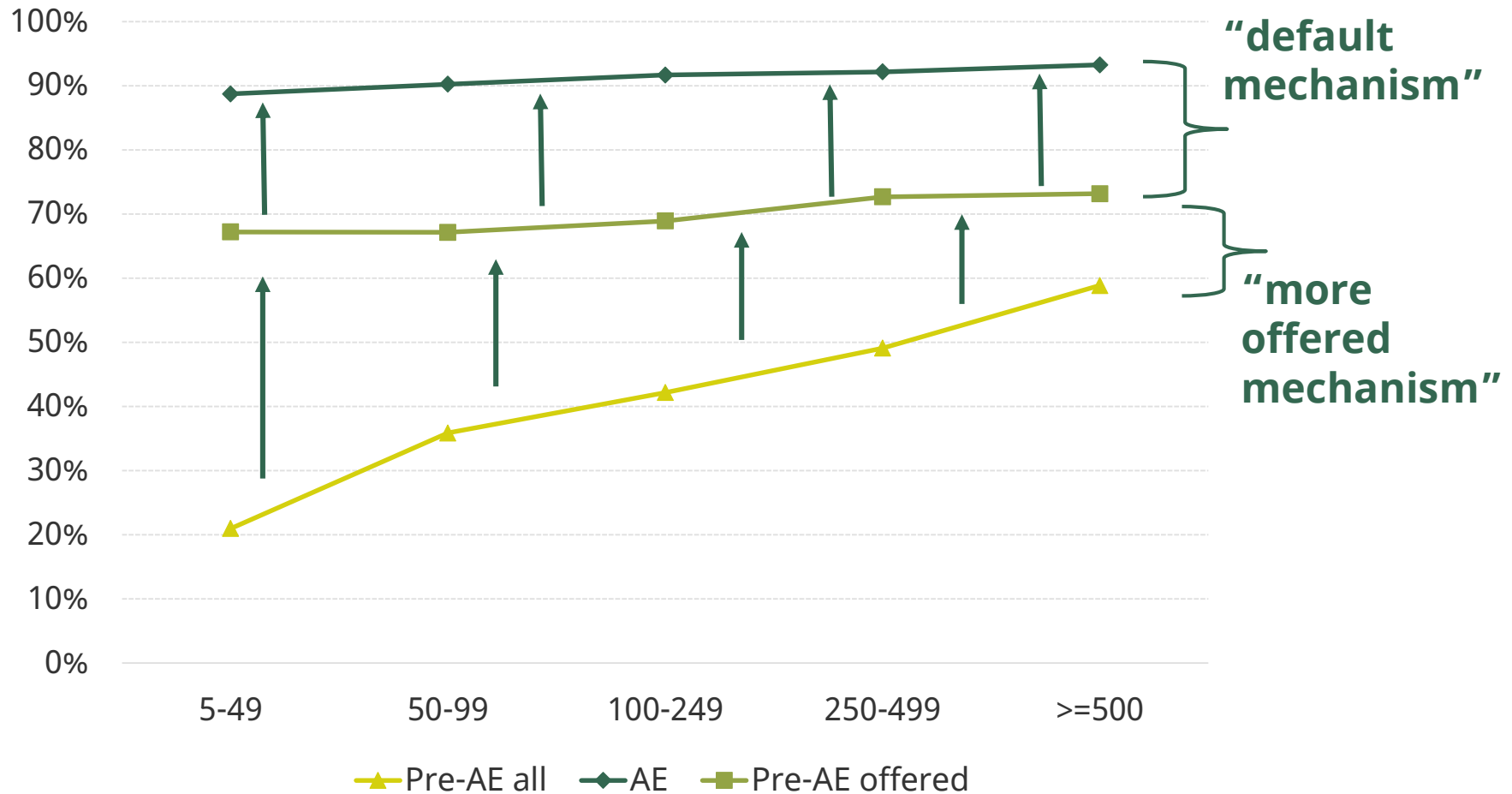
“AE sample”: 92%

“Pre-AE offered” : 71%

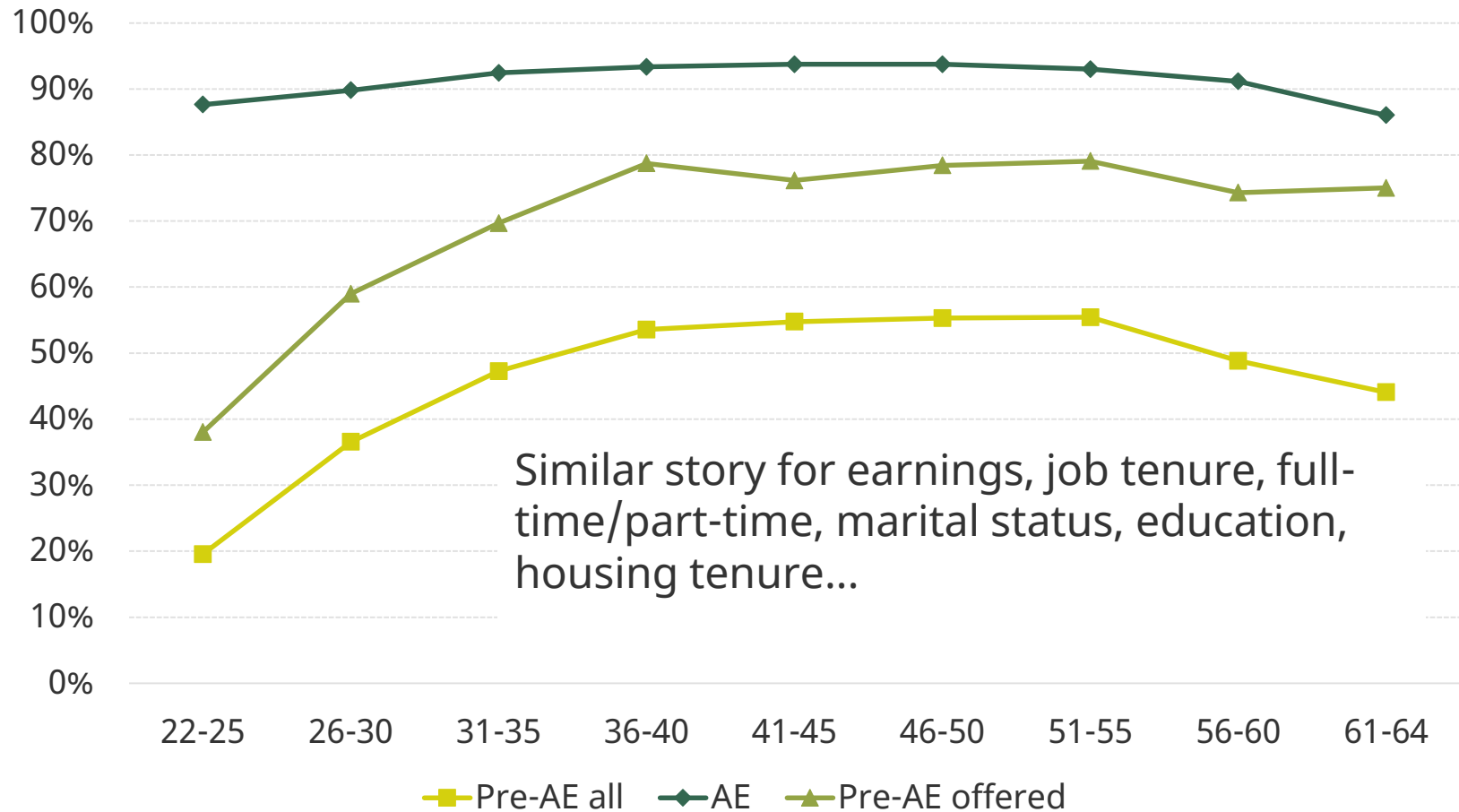
“Pre-AE all”: 47%

For whom and how does automatic enrolment boost membership?

Pension membership, by employer size



Pension membership, by age



**Are the “right” people staying in/
opting out?**

Who might be better off leaving their pension scheme?

Four potential indicators of financial difficulty:

- 1) Belongs to lowest 10% of working households income distribution
- 2) Belongs to the most materially deprived tenth of eligible employees
- 3) Has (in combination with partner) less than £1,500 in liquid savings
- 4) Reports having a long-standing health issue that limits daily activities

Who is likely better off remaining in a pension?

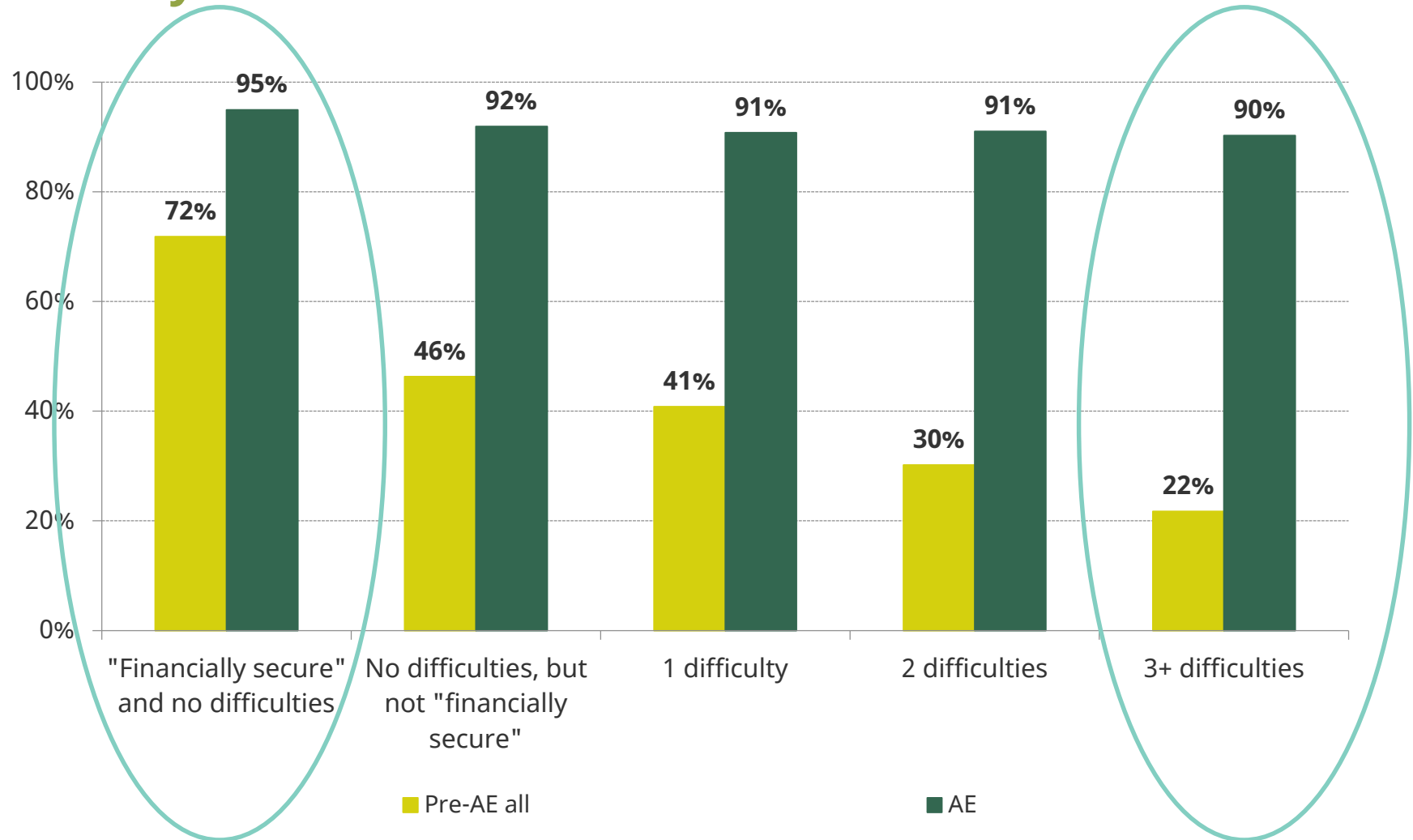
An indicator of financial security:

- Has liquid financial assets of at least £8,000 (combined with partner)
- And is not currently behind on any bills
- And is in top half of working household income distribution
- And is in top half of individual gross earnings distribution.

Combining financial security and financial difficulty conditions

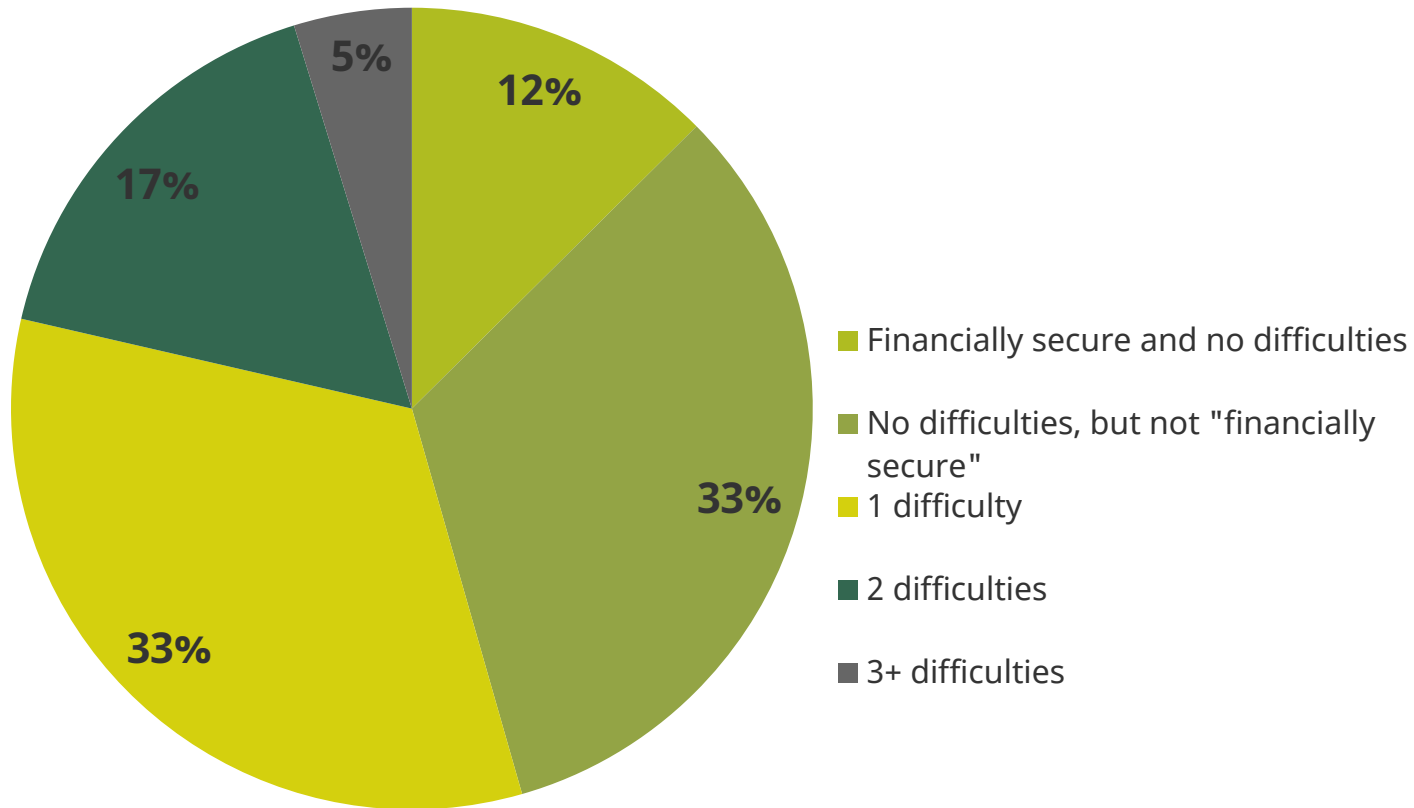
- 1) **Financially secure group:** meet financial security condition & have none of the financial difficulties (25% of AE sample)
- 2) **Financially ok group:** do *not meet* financial security condition, but have none of the financial difficulties (33% of AE sample)
- 3) **1 financial difficulty:** (28% of AE sample)
- 4) **2 financial difficulties:** (11% of AE sample)
- 5) **3+ financial difficulties:** (3% of AE sample)

Pension participation rates by financial security indicators



Contribution (%) of each group to overall change in membership

Overall boost in participation rate: 45ppts (47 to 92%)



Summary

Summary

- AE has closed gaps between the participation rates of sub-groups through 2 mechanisms:
 1. More firms offering an employee pension
 2. Defaulting
- Evidence that AE pushes up participation of those who are financially secure
- But also causes vast majority of individuals in financial difficulty to remain enrolled in their workplace pension scheme
 - Could potentially be better off with higher income today
- Other policies/adjustments to allow for more flexibility?

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