Pension saving in a world of personal responsibility

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Economic
and Social
Research Council

The changing pensions landscape

- Lots of trends and reforms over past decade and longer
  - Decline of DB pensions
  - Removal of earnings-related component of state pension
  - Increased proportion of life spent in retirement
- Increasing private responsibility for retirement outcomes

- Concern that some can’t or won’t rise to that responsibility
- Automatic enrolment designed to nudge people in the right direction
  - But only a blanket nudge, not necessarily right for everyone
  - Self-employed are not covered by AE

This research programme

- Two year programme of work exploring various aspects of attitudes and pension behaviours in that context
- Very grateful for funding and insights from the IFS Retirement Savings Consortium:

What have we learned?

Big picture: most people are really inert when it comes to pension saving

1. People are planning to retire later, but other attitudes towards saving have not really changed over the 2010s
2. Few people leave their pension after being automatically enrolled – and little explains why those that leave do so
3. Little evidence people adjust the timing of their pension saving with respect to housing wealth accumulation
4. Pension saving among the self-employed has collapsed – and more so among higher income and longer term self-employed

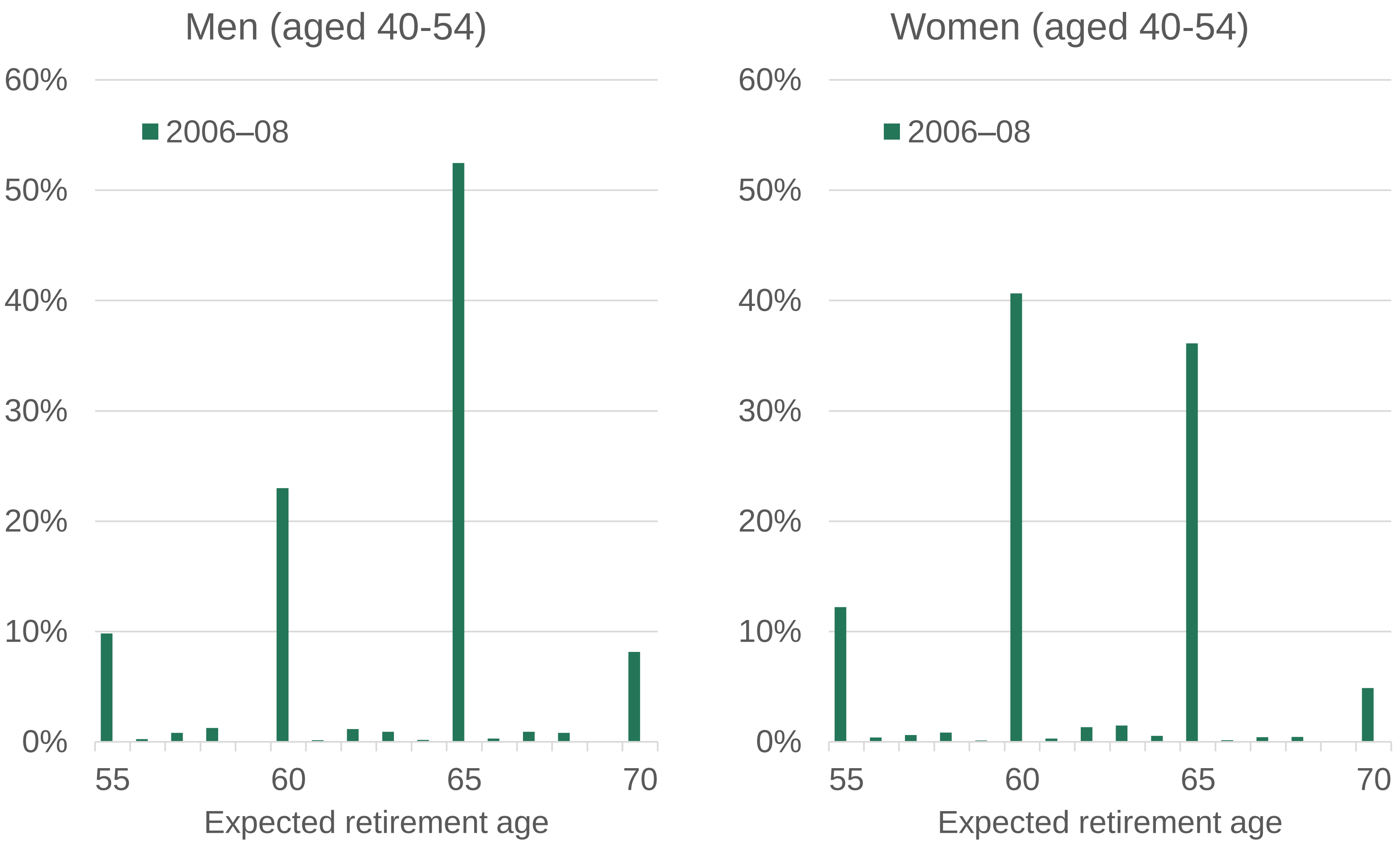
(1) People are planning to retire later, but other attitudes towards saving have not really changed over the 2010s

https://www.ifs.org.uk/publications/14743

Attitudes and expectations

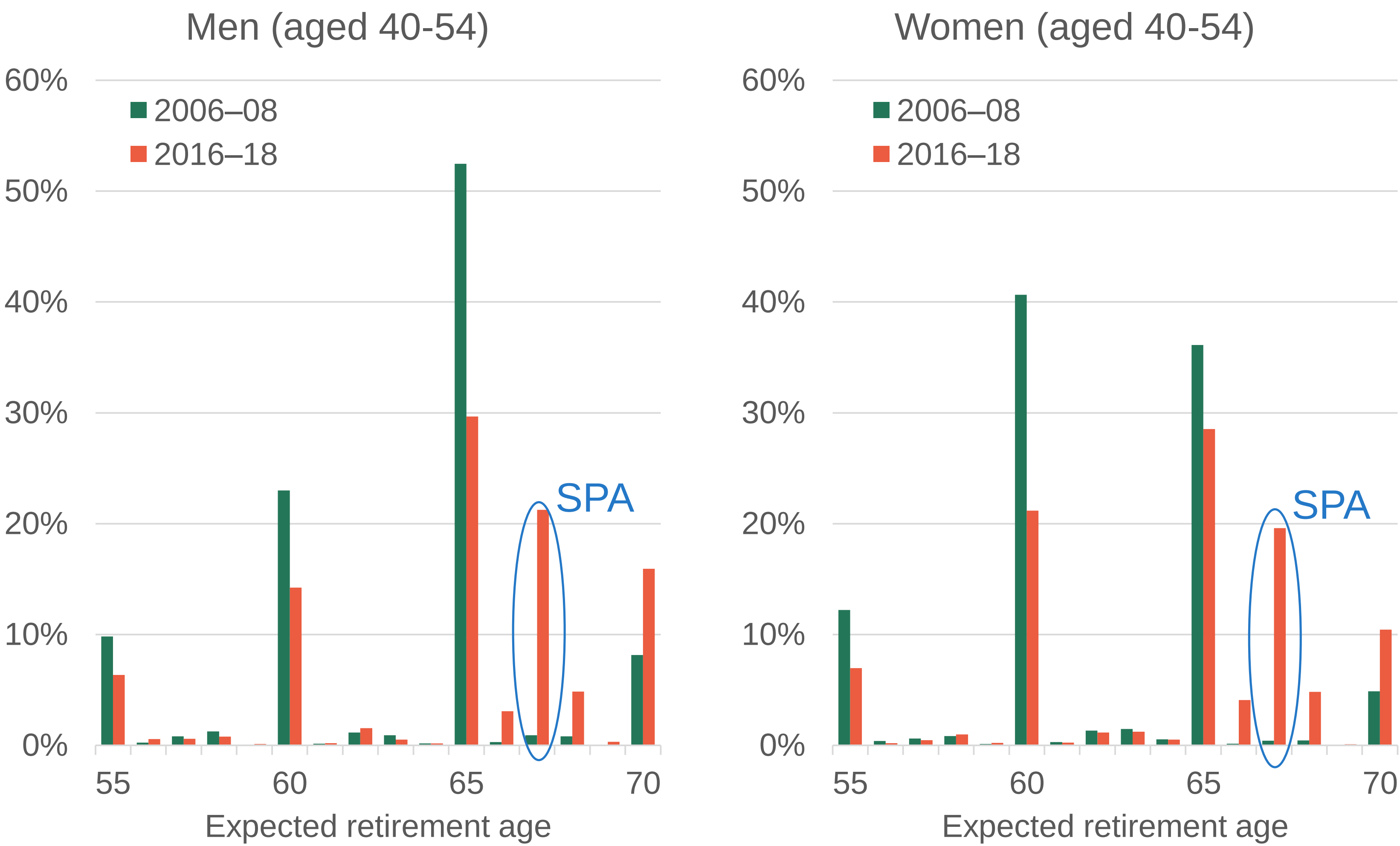
- Compare responses to questions about attitudes and expectations that have been consistently asked 2006 to 2018
- Little evidence of much change in:
  - Self-reported “understand enough about pensions to make decisions”
  - Preferences for today versus the future
- More individuals are expecting private pension income in retirement
  - Suggests auto enrolment increasing proportion who will save in a pension at some point over their lifetime
- Confidence in retirement income adequacy has improved
  - Likely driven by increases in income and general consumer confidence
  - Only around half are confident in the adequacy of their retirement incomes

People are planning to retire later



Source: Figure 5.1 https://www.ifs.org.uk/publications/14743

People are planning to retire later

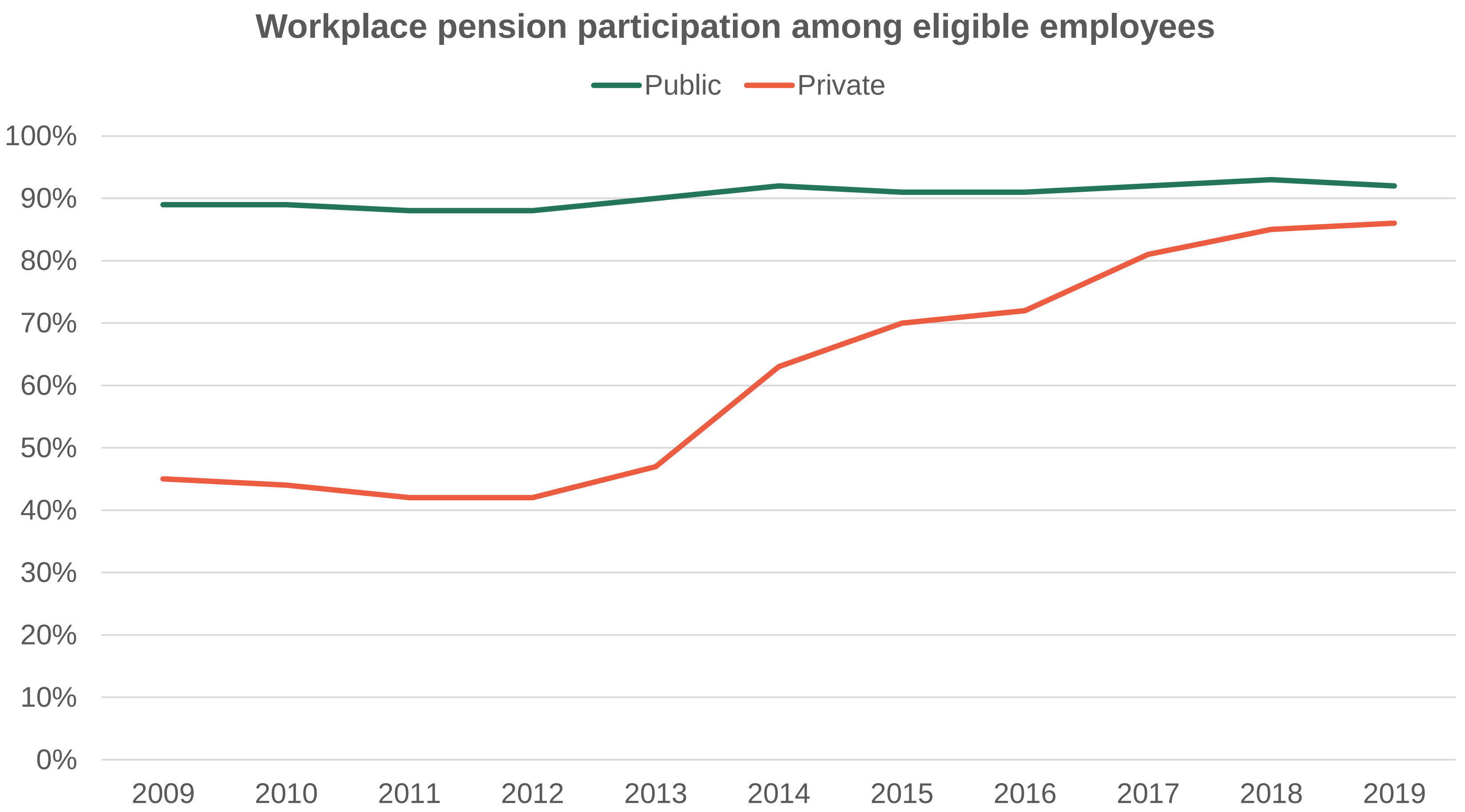


Source: Figure 5.1 https://www.ifs.org.uk/publications/14743

(2) Few people leave after being automatically enrolled – and little explains why those that leave do so

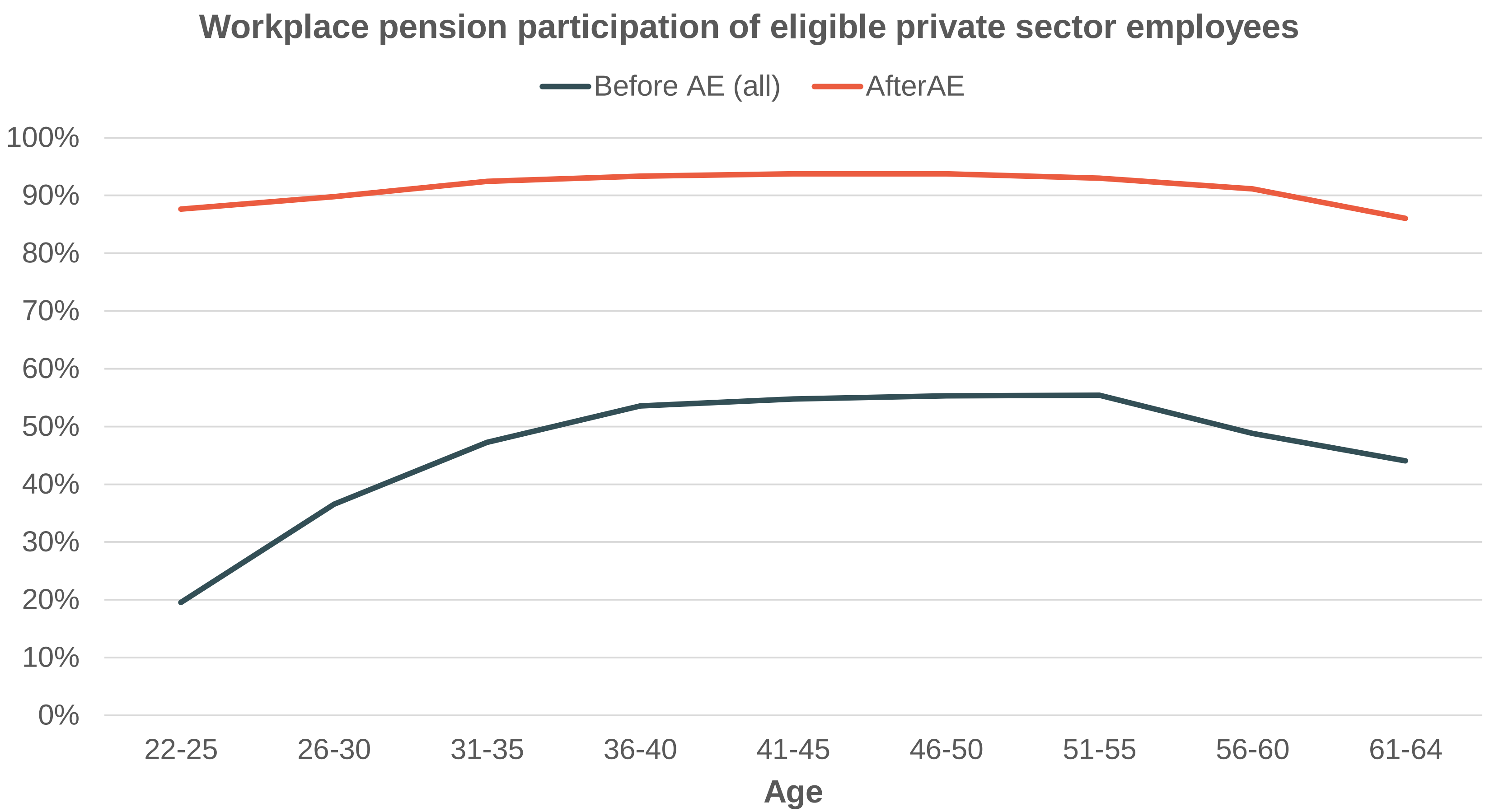
https://www.ifs.org.uk/publications/14742

AE has boosted private pension membership



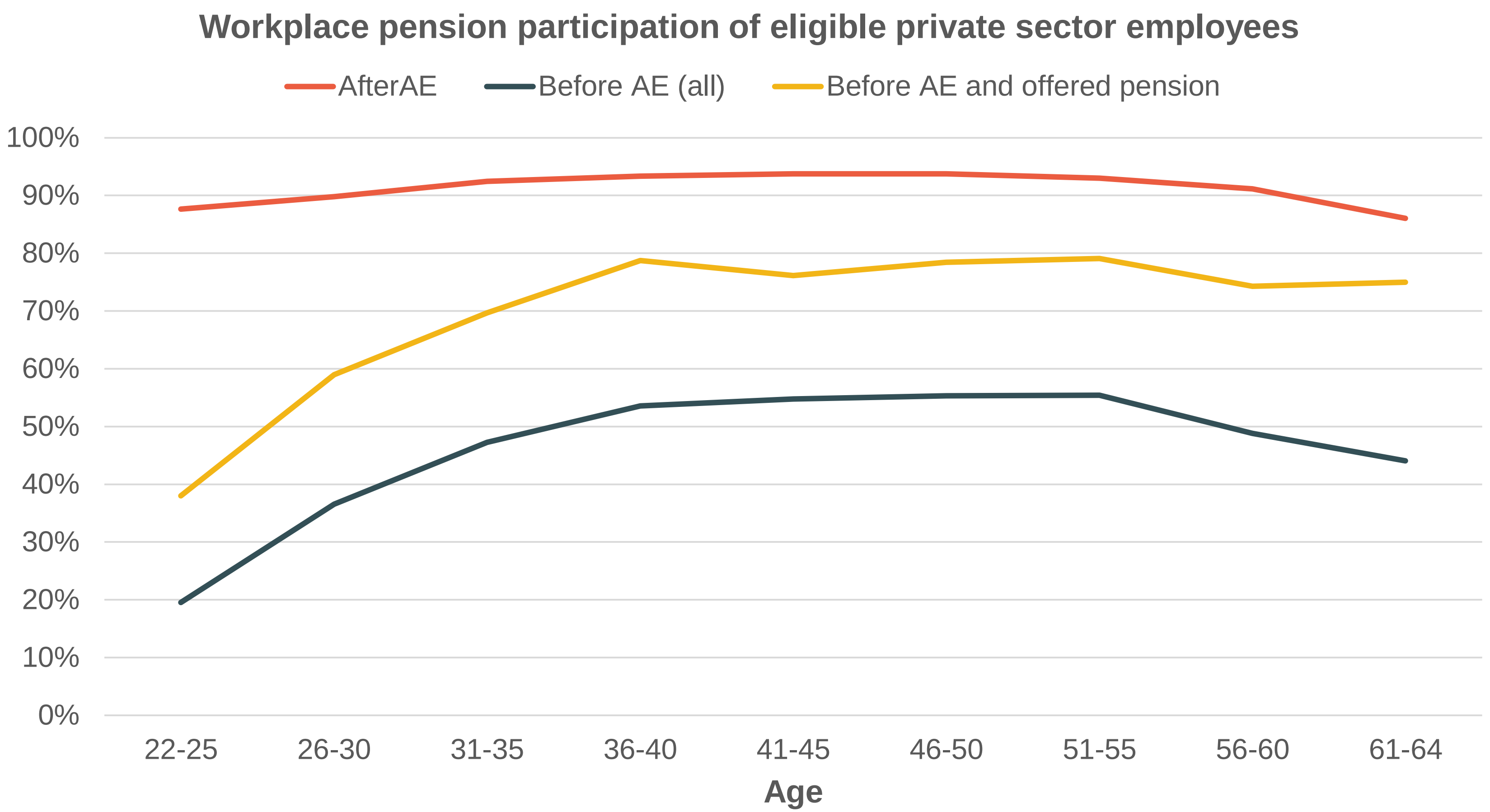
Source: Department for Work and Pensions, “Workplace pensions participation and savings trends: 2009 to 2019”

… and has equalised pension membership rates across people



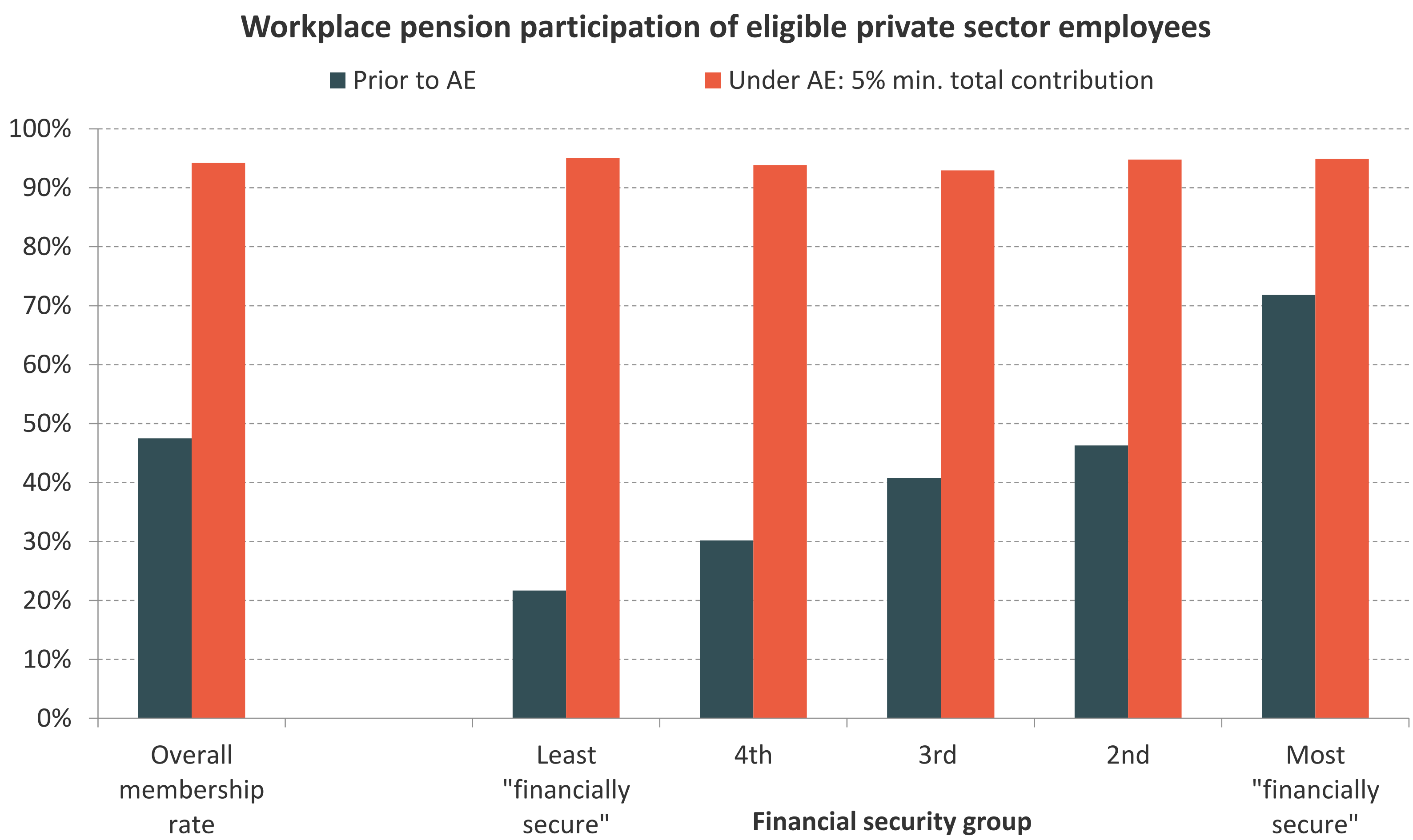
Source: Figure 2 Bourquin, Cribb and Emmerson (2020) https://www.ifs.org.uk/publications/14742

This is largely due to the ‘default mechanism’



Source: Figure 2 Bourquin, Cribb and Emmerson (2020) https://www.ifs.org.uk/publications/14742

Even the financially insecure are staying in



Note: Proportions of individuals in each group: least secure = 3%, 4^{th} = 9%, 3^{rd} = 29%, 2^{nd} = 38%, most secure = 22%.
Source: Figure 1 Bourquin and Crawford (2020) https://www.ifs.org.uk/publications/14850

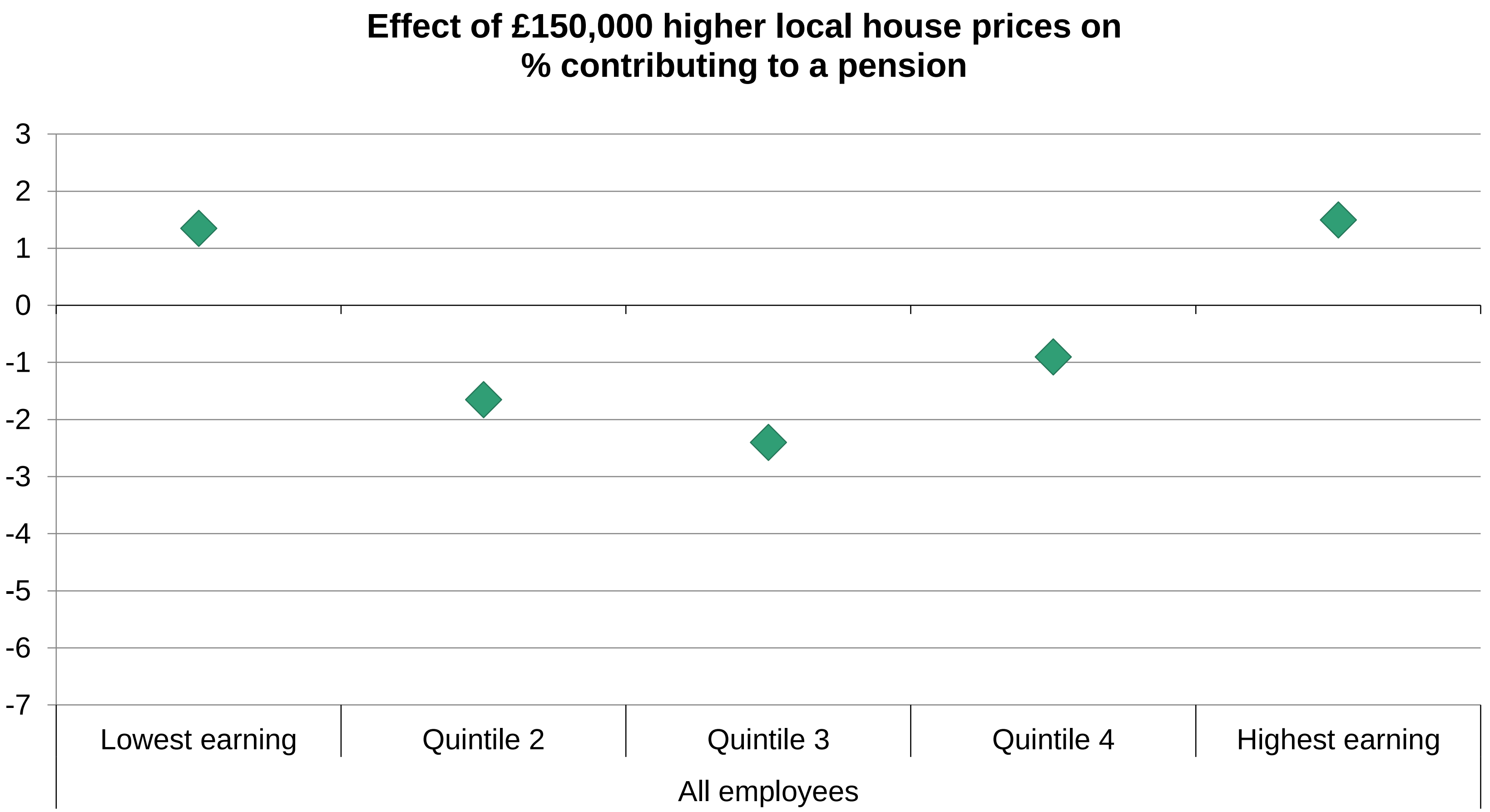
(3) Little evidence people adjust the timing of their pension saving with respect to housing wealth accumulation

https://www.ifs.org.uk/publications/15208

When and how to save

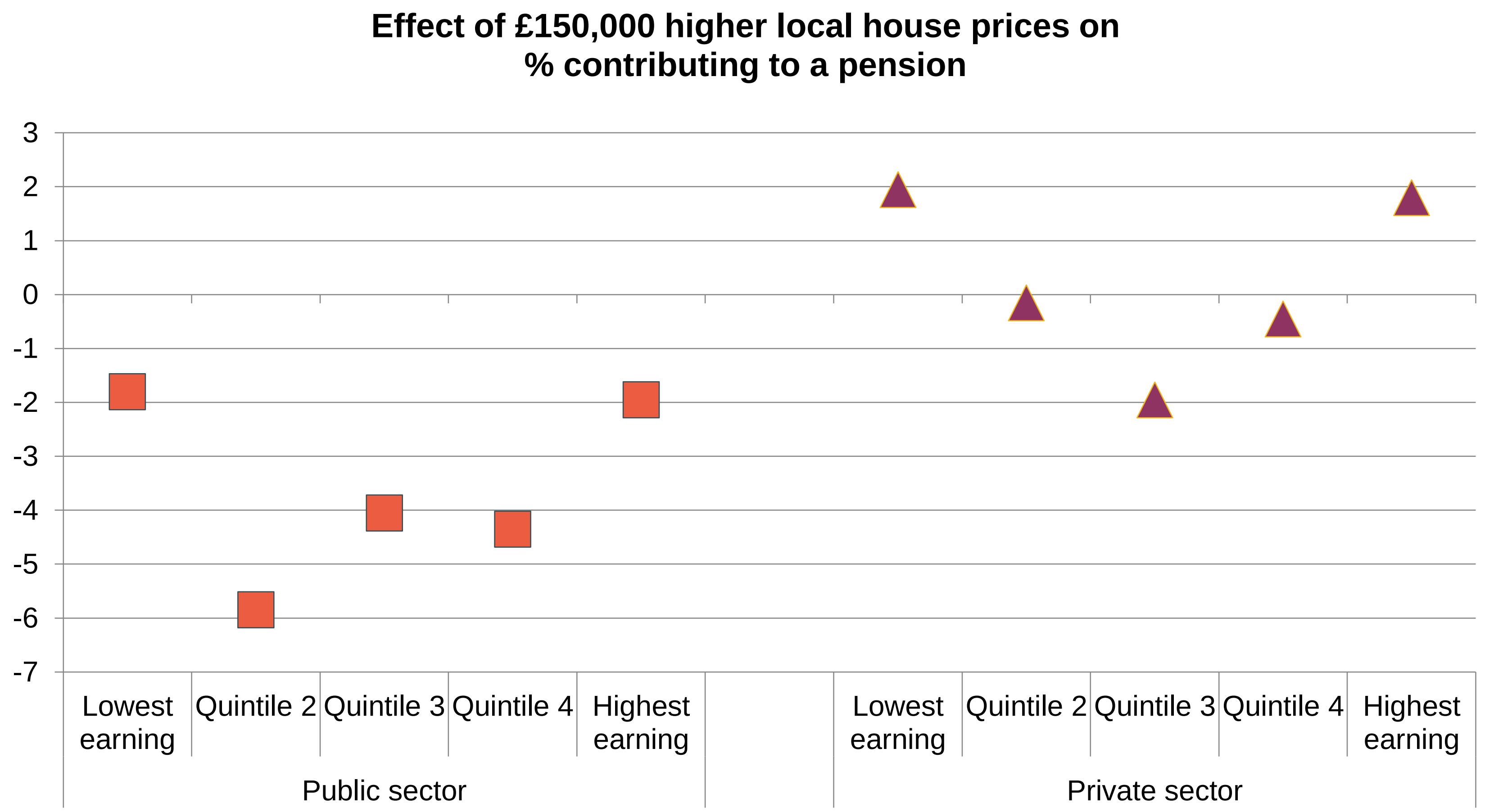
- Two important forms of wealth most individuals accumulate:
  - Owner occupied housing (mean £111,000 among those 50-59)
  - Private pension (mean £260,000 among those 50-59)
- How much to accumulate in each, and when, are difficult decisions
  - Complex(!): relative financial return, preferences for housing vs other goods and services, risks, tax and other incentives, …
  - Both relatively illiquid assets
- How do the timing of these interact?
  - For young adults
  - For older adults finishing repaying their mortgages

High house prices only reduced pension membership slightly (even pre-AE)



Source: Figure 1 Crawford (2020) https://www.ifs.org.uk/publications/15210

High house prices only reduced pension membership slightly (even pre-AE)



Source: Figure 1 Crawford (2020) https://www.ifs.org.uk/publications/15210

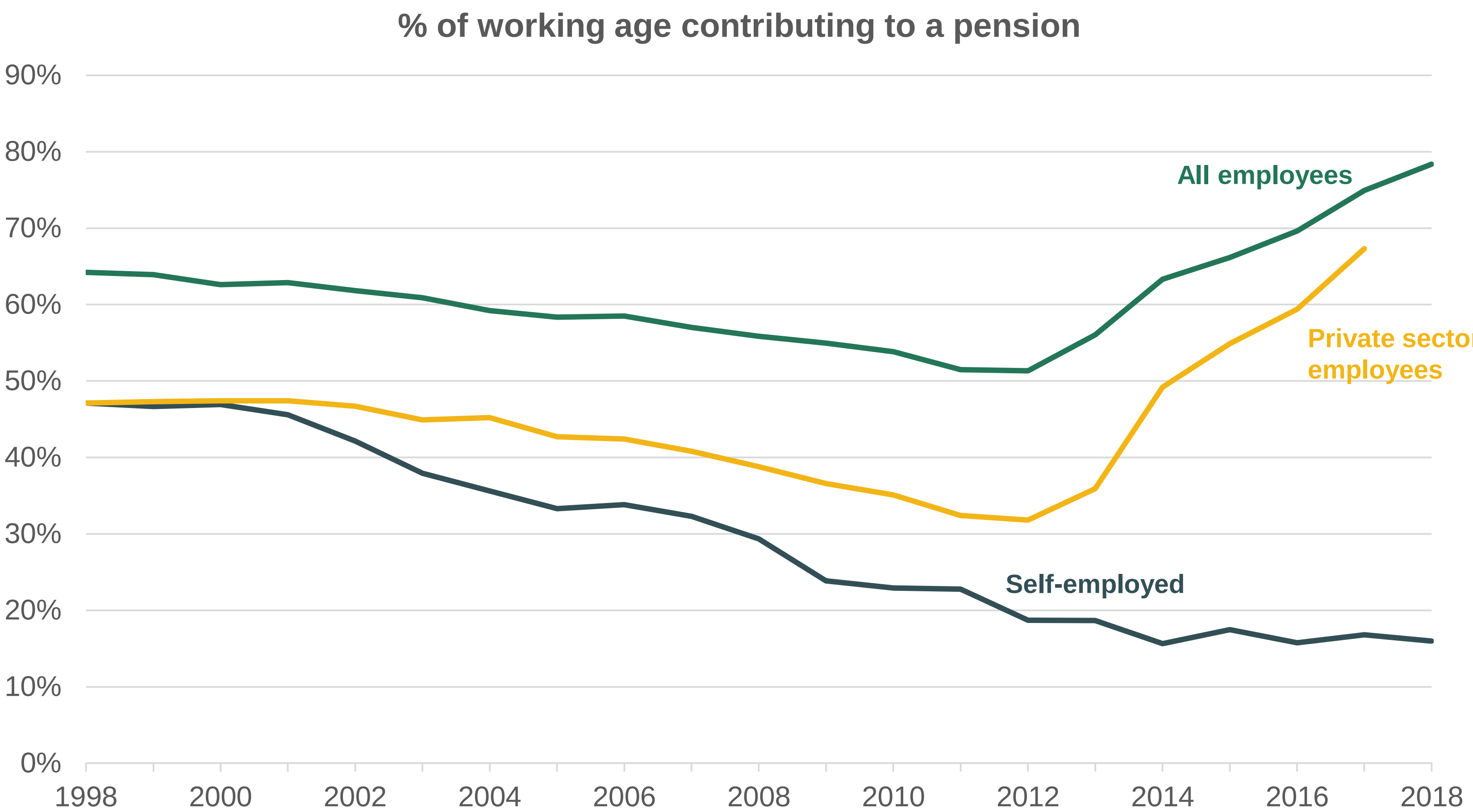
Few change pension saving when mortgage

- Those who finish repaying a mortgage could increase their pension contributions at that point without a fall in their living standards
- Among workers aged 54 to state pension age few do this
  - Average monthly mortgage repayments £400 (£200 per person)
  - Around 5% of people increase their pension contributions by £150 per month or more when mortgage repayment finishes
- Policy makers could try to use mortgage pay off as a ‘teachable moment’ to try and nudge behaviour
  - Possible even to get people to pre-commit to boost pension saving at that point?

(4) Pension saving among the self-employed has collapsed – and more so among higher income and longer term self-employed

https://www.ifs.org.uk/publications/15103

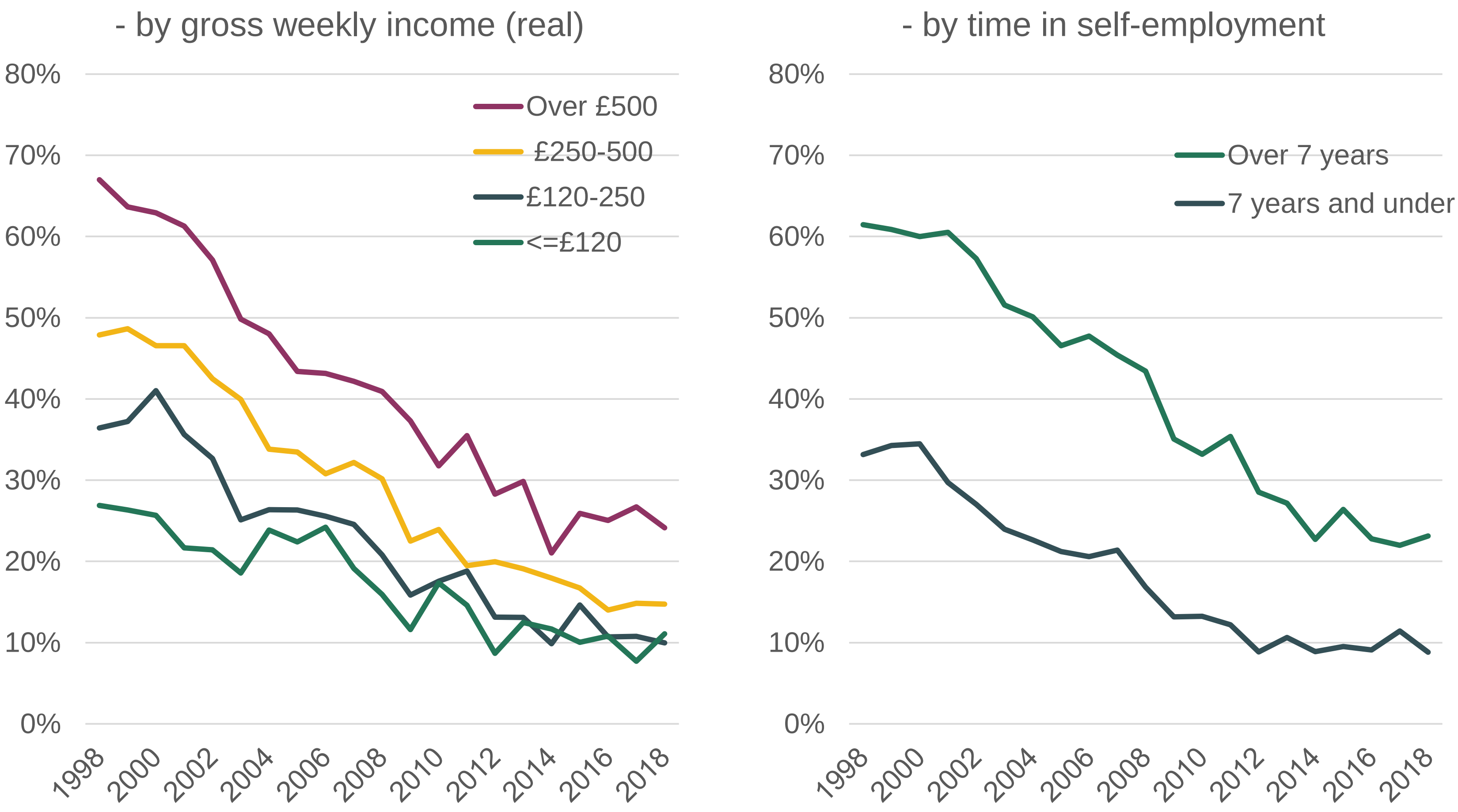
The precipitous decline in private pension membership



Source: Figure 1.1 Crawford and Karjalainen (2020) https://www.ifs.org.uk/publications/15103

Declines among different groups

% of working age self-employed contributing to a pension



Source: Figure 2.3 Crawford and Karjalainen (2020) https://www.ifs.org.uk/publications/15103

Where do we go from here?

Big policy issues going forwards

- How can AE be built on to ensure adequate retirement incomes when 8% is not enough for many?
- How can pension saving be increased among the self-employed?
- How can concerns about the need for (greater) pension saving be squared with concerns about low liquid financial savings?
- How can individuals be supported to get the most benefit from the new pension flexibilities?

What our research suggests…

- How can AE be built on to ensure adequate retirement incomes when 8% is not enough for many?
  - Target policies at those completing repayment of a mortgage
- How can pension saving be increased among the self-employed?
  - Target those for whom pension saving would be of most benefit
- How can concerns about the need for (greater) pension saving be squared with concerns about low liquid financial savings?
  - Consider whether AE should be adjusted in light of the continued pension saving by those with financial difficulties
- How can individuals be supported to get the most benefit from the new pension flexibilities?

A need for more evidence….

- How can AE be built on to ensure adequate retirement incomes when 8% is not enough for many?
  - When and why do individuals change pension contributions?
- How can pension saving be increased among the self-employed?
  - When and why do the SE change their pension contributions?
- How can concerns about the need for (greater) pension saving be squared with concerns about low liquid financial savings?
  - What are the drivers and consequences of low liquid savings?
- How can individuals be supported to get the most benefit from the new pension flexibilities?
  - How have those in drawdown been affected by, and responded to, recent stock market volatility?
  - What annuitized resources do individuals hold and how does spending change through retirement?

The Institute for Fiscal Studies
7 Ridgmount Street
London
WC1E 7AE

www.ifs.org.uk