Institute for Fiscal Studies

Automatic enrolment: lessons so far

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Automatic enrolment

Employers have to

- enrol all eligible employees into a workplace pension
- with at least minimum levels of total and employer contributions

Employees can then choose to leave the pension if they wish

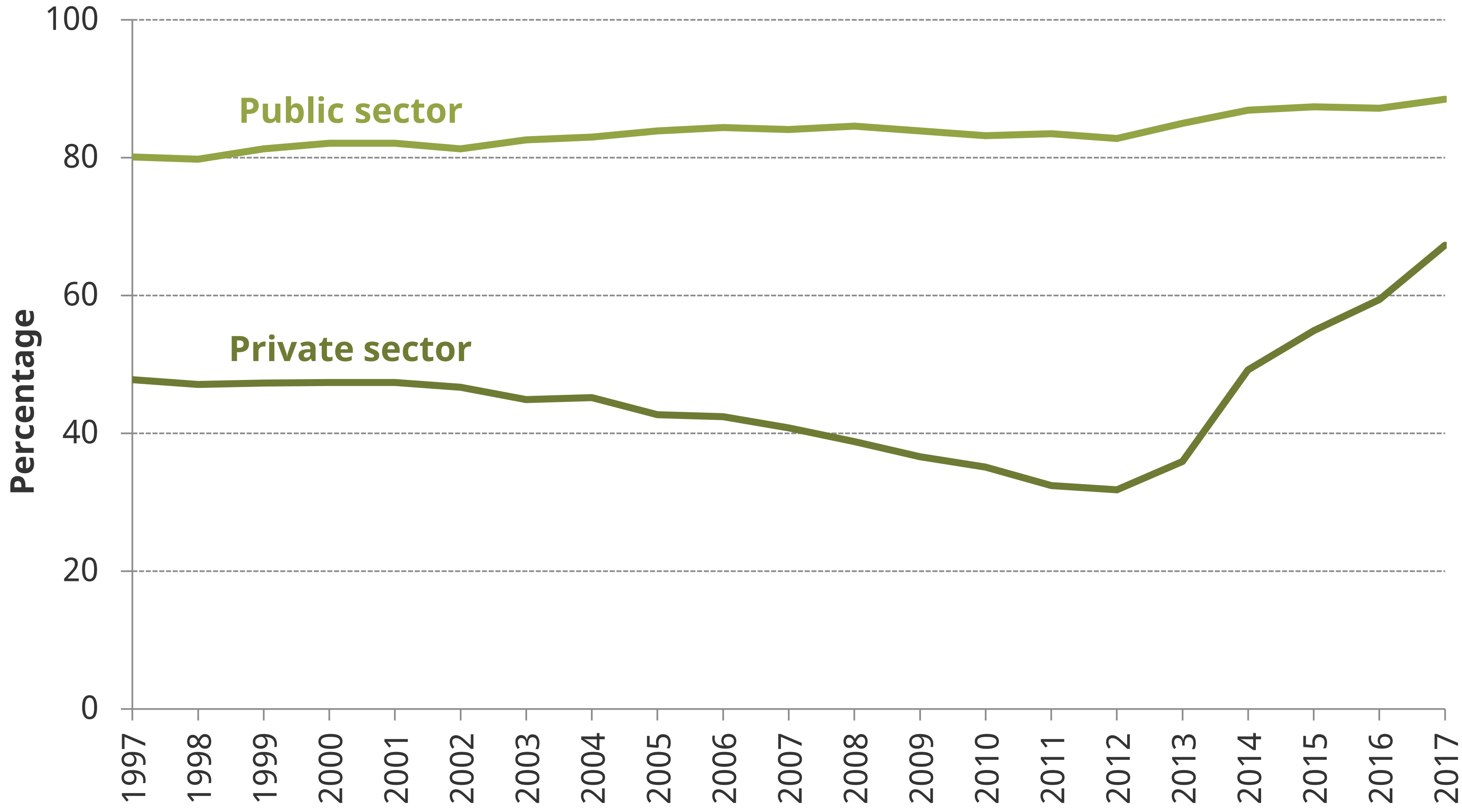
Eligibility

- aged 22 to state pension age
- earn over £10,000
- worked for employer for at least 3 months

Several reasons why it may boost pension membership, including:

- tendency to procrastinate/avoid complex decisions
- financial incentive from employer contribution
- endorsement effects

Workplace pension membership



Source: Cribb and Emmerson (2019).

Automatic enrolment: details

Policy phased in over time starting with largest employers

- from October 2012 to February 2018

Those who opt out re-enrolled every three years

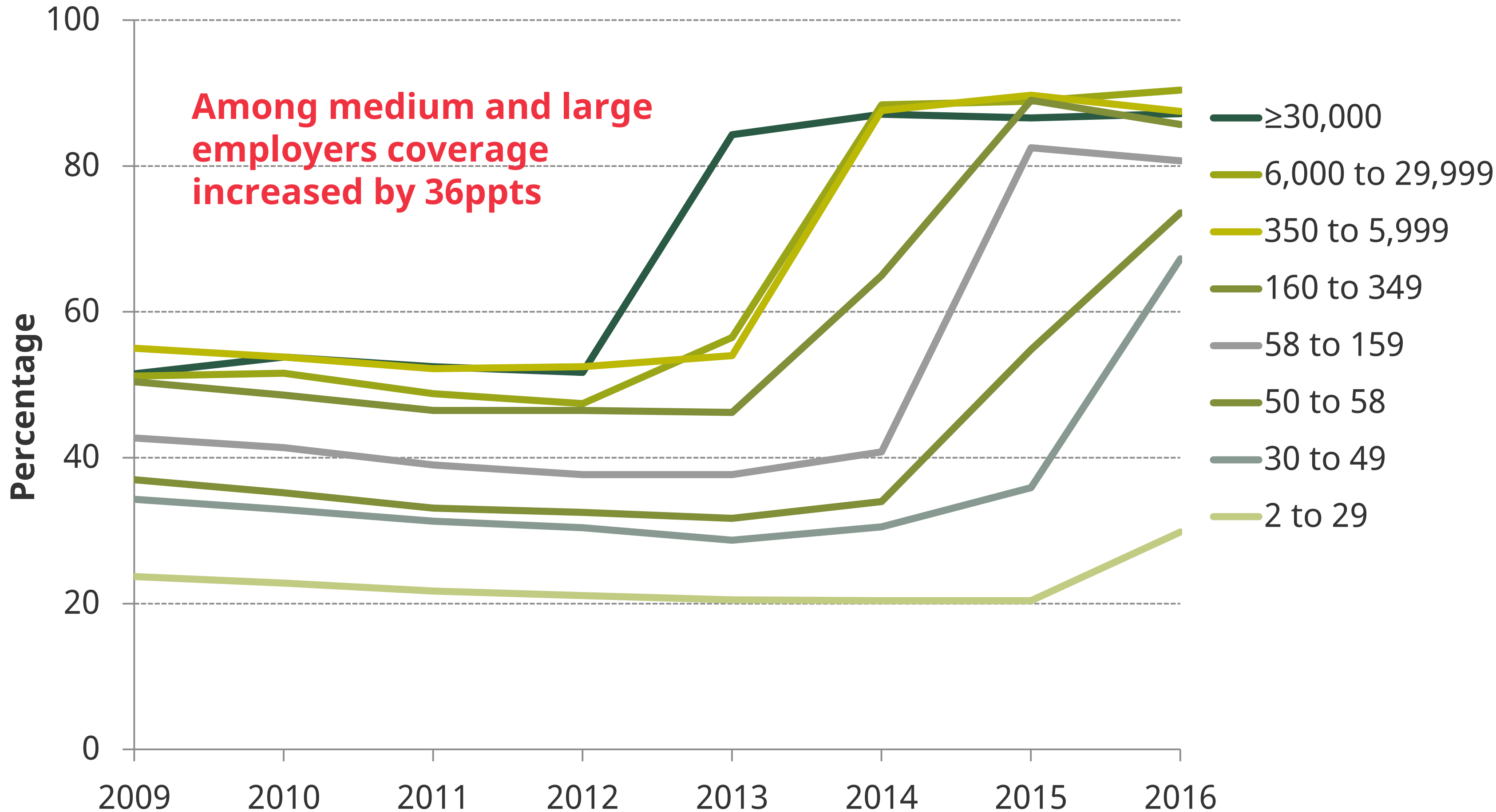
Minimum contributions apply to qualifying earnings

- 2018–19: £6,032 to £46,350
- 2019–20: £6,136 to £50,000

Minimum contributing rate rising next week

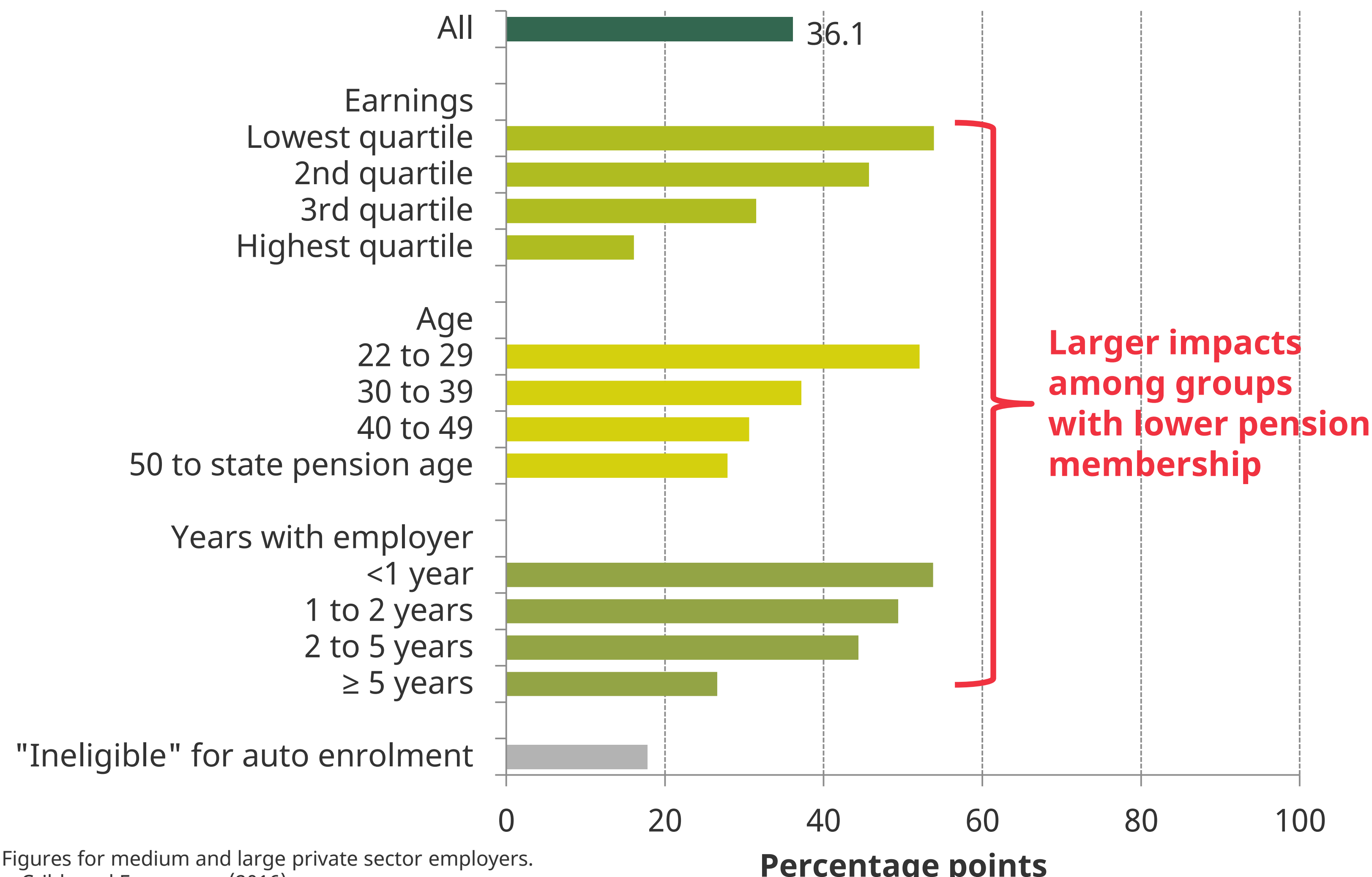
- 2018–19: 5%, of which at least 2% from employer
- 2019–20 onwards: 8%, of which at least 3% from employer
- will affect about one-quarter of the workforce

Workplace pension membership of eligible private sector employees, by employer size



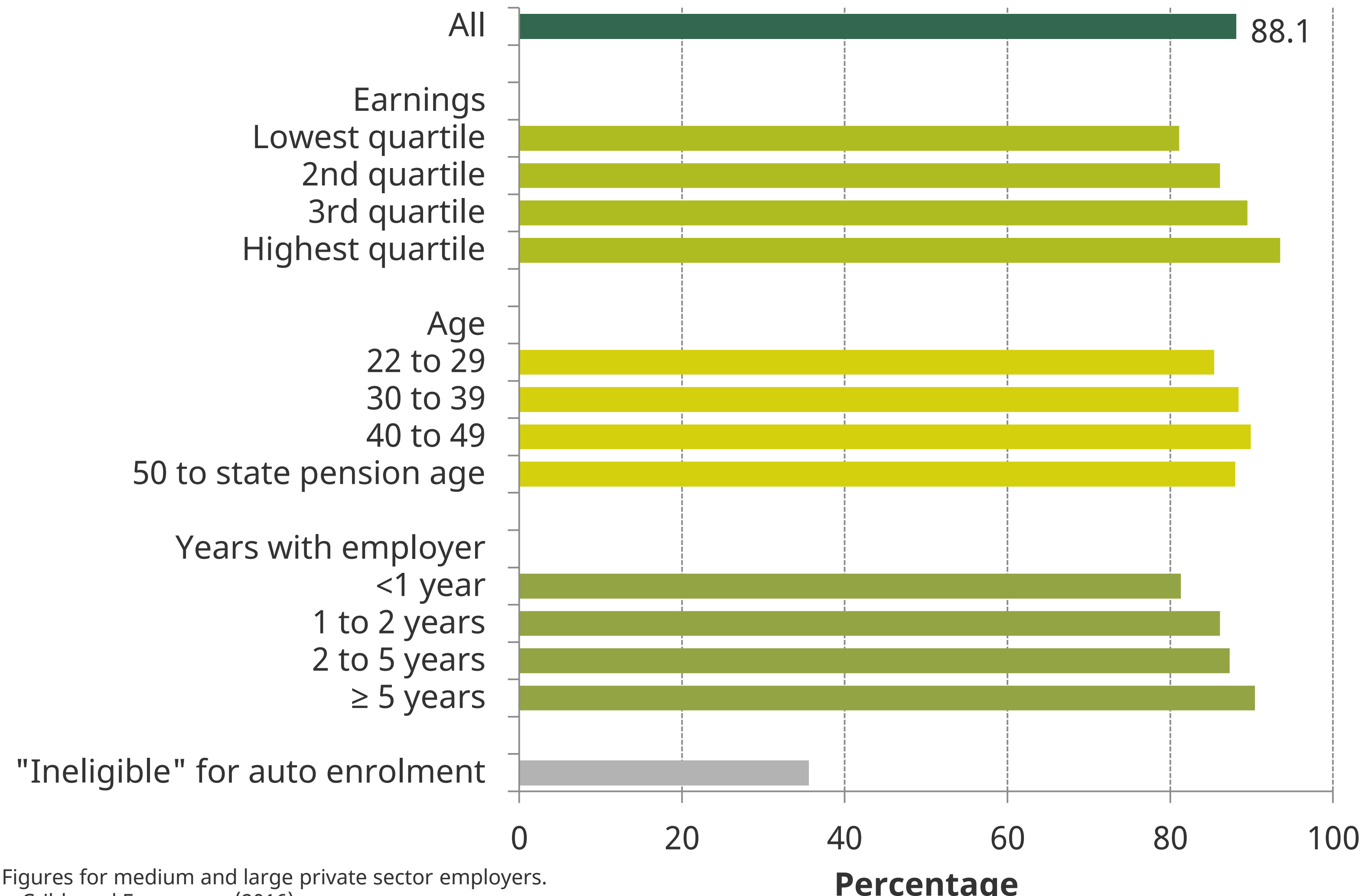
Note: Employer size as of 2012. Source: Cribb and Emmerson (2019).

Heterogeneous impacts on pension coverage…



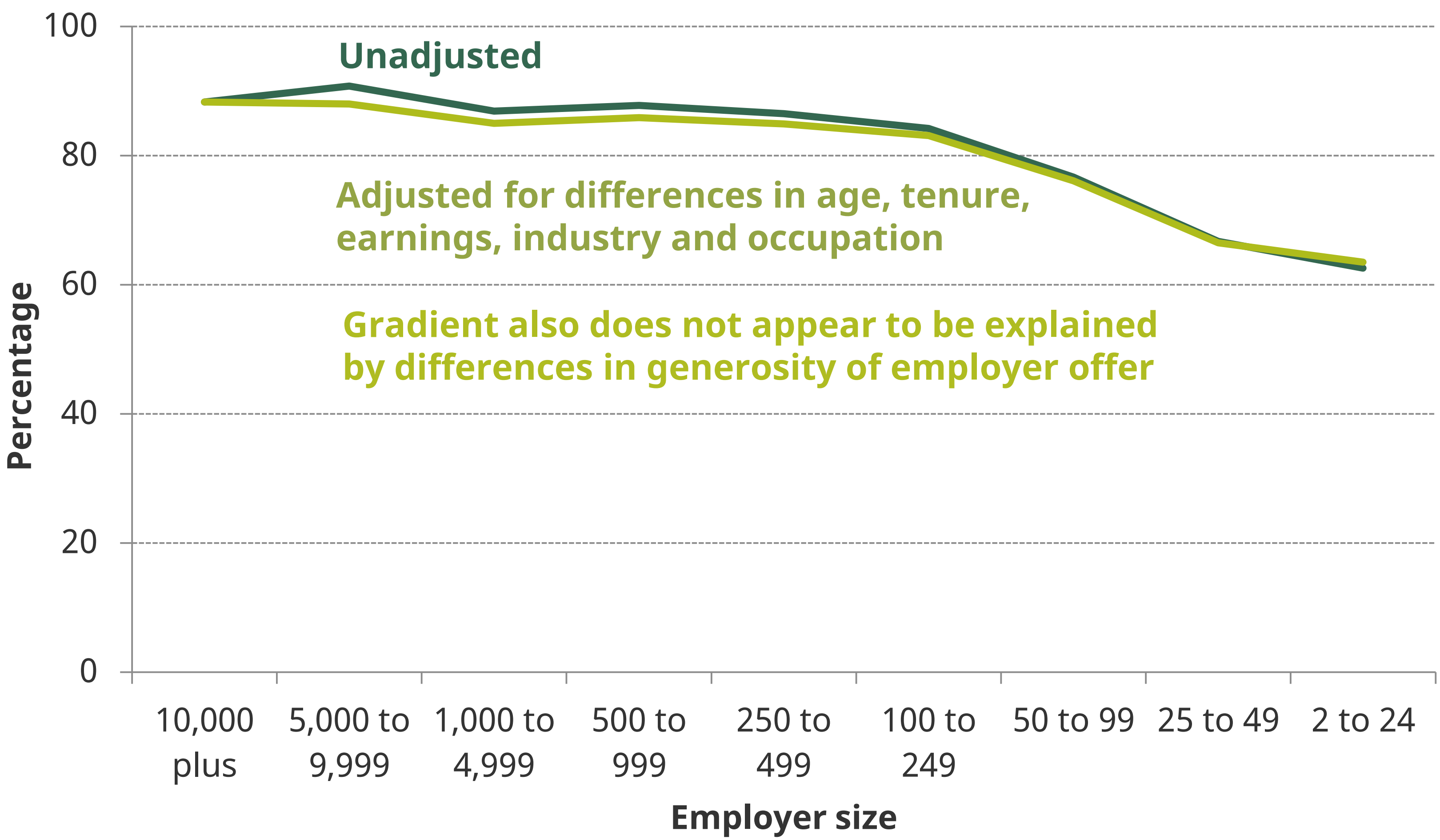
Note: Figures for medium and large private sector employers.
Source: Cribb and Emmerson (2016).

...leading to high pension coverage...



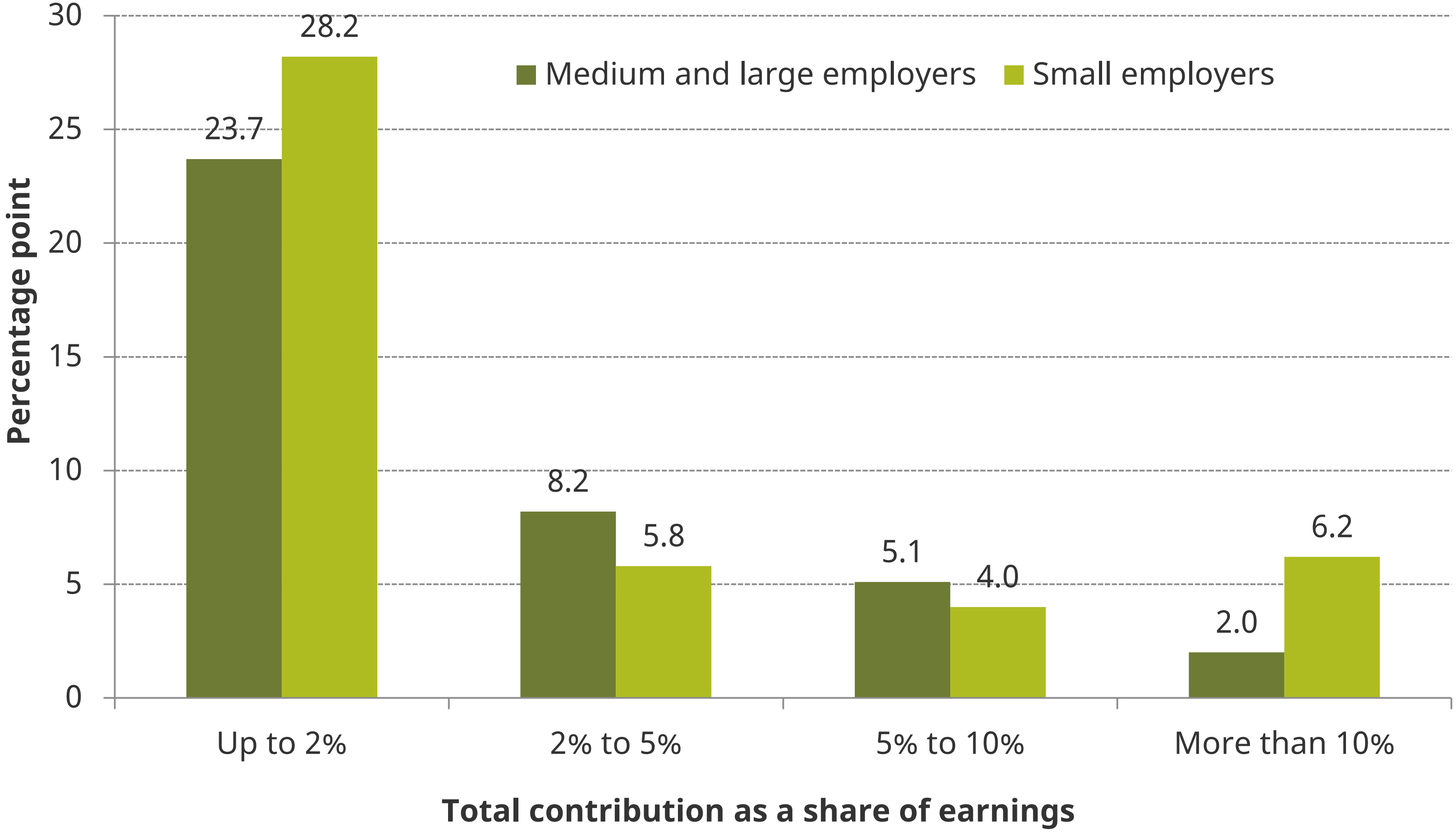
Note: Figures for medium and large private sector employers.
Source: Cribb and Emmerson (2016).

...although workplace pension membership rates remain higher among larger employers



Source: Cribb and Emmerson (2019).

Most – but not all – brought in at low contributions



Source: Cribb and Emmerson (2016, 2019).

No evidence of re-enrolment pushing up workplace pension membership rates further

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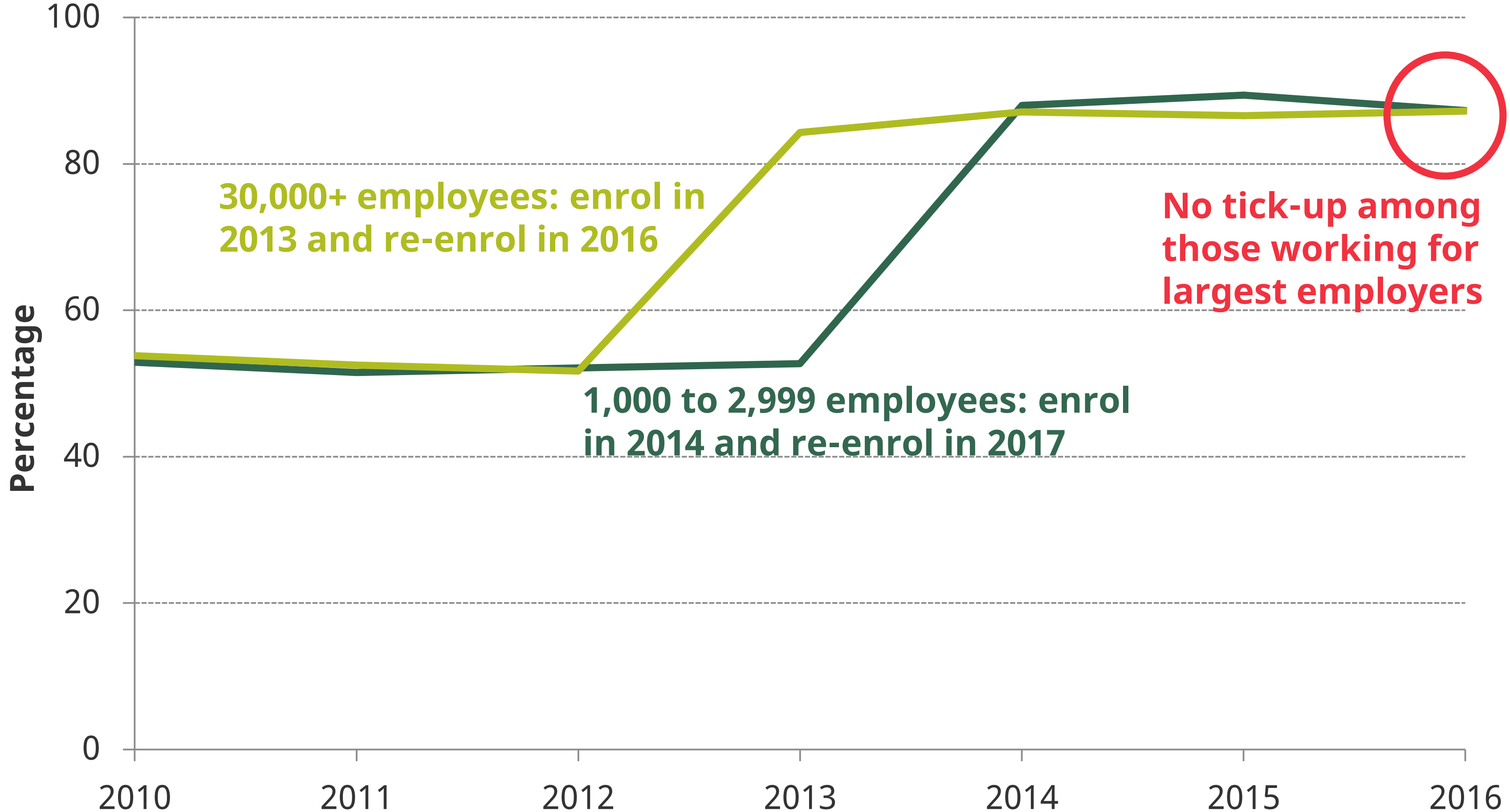


Source: Cribb and Emmerson (2019).

Some key unknowns

What is causing lower participation rates among smaller employers?

What will happen as minimum contributions rise?

- modest rise in opt outs perhaps the most likely outcome?

How are increased pension contributions being financed?

- unless productivity boosted increased employer contribution must reduce wages, reduce profits or increase prices
- are households reducing spending or offsetting greater workplace pension saving with lower saving elsewhere?

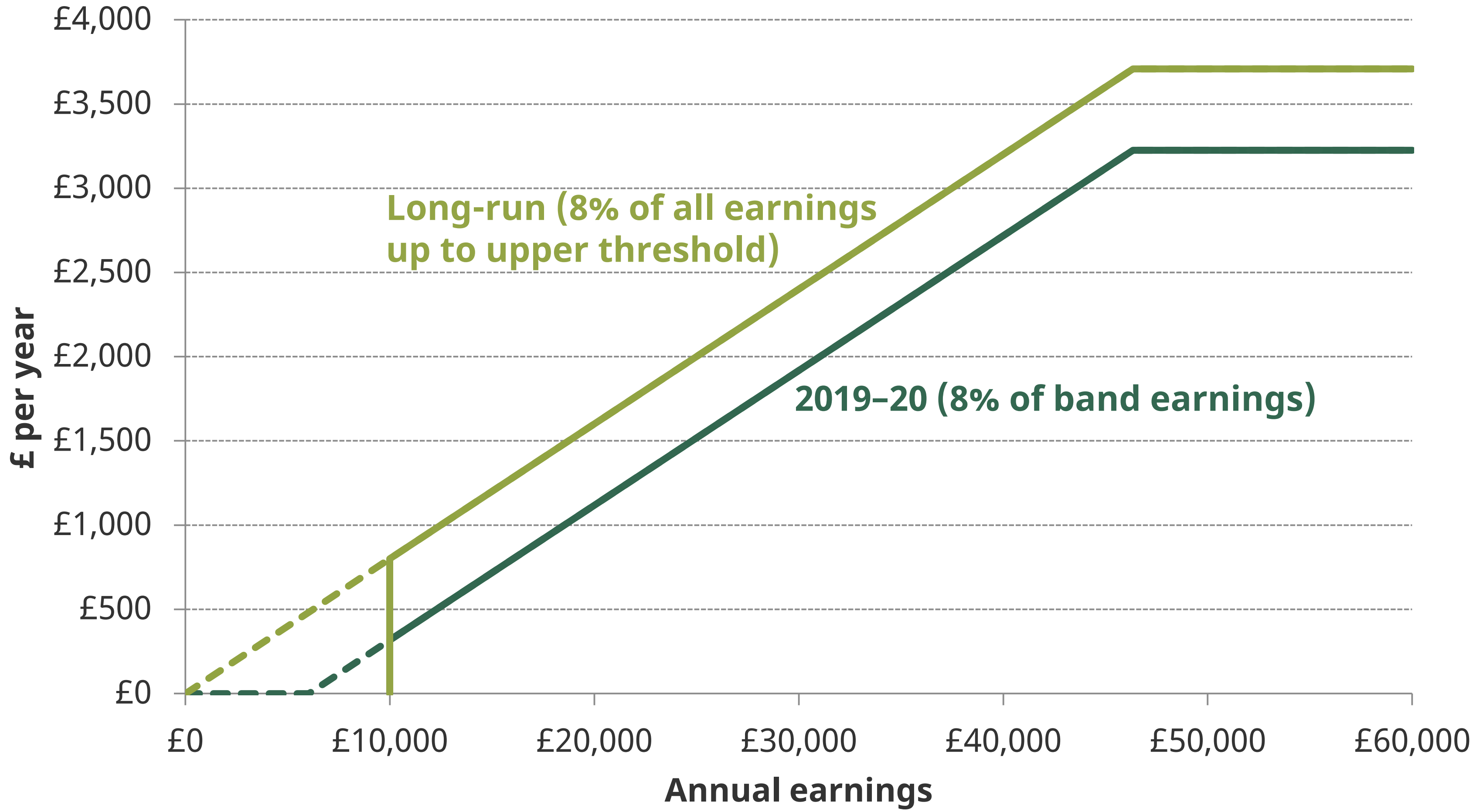
Are the “right” employees opting out?

Government proposals

Removal of lower threshold for “qualifying earnings”

- could particularly benefit those with multiple jobs

Removal of lower threshold for "qualifying earnings"



Government proposals

Removal of lower threshold for “qualifying earnings”

- could particularly benefit those with multiple jobs

Widen age band from 22–SPA to 18–SPA

- could help normalise workplace pension saving: why not go further and widen to 16–74?

Both these changes scheduled for the “mid-2020s”: if they are right for the mid-2020s why not for the early 2020s?

Issues from the broader saving landscape

DC pots no longer have to be used to buy an annuity, so no longer really a pension

- at retirement default is to retain pension pot: can policy do better?

Increased scope to save for retirement in other forms

- in 2010–11 annual DC pension contribution limit was 34 times the annual ISA limit: now it just twice as large
- many basic-rate taxpayers could be better off saving additional amounts in a Lifetime ISA rather than a pension

Potentially more retirees in privately rented housing receiving housing benefit

Lower prospective investment returns?

- FCA assumed nominal returns down from 6½% in 2003 to 5% in 2017

Conclusions

Automatic enrolment has, so far, been successful

- substantial increase in workplace pension membership
- increase in amounts contributed, though modest for most

Some key questions remain, including:

- are the "right" employees opting out?
- to what extent is overall saving being boosted?

2017 review proposals sensible, but why wait until the mid-2020s?

Much has changed since automatic enrolment originally proposed

- should AE policy be adjusted in response?