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: lessons so far
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

Among medium and large employers coverage increased by 36ppts

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

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

30,000+ employees: enrol in 2013 and re-enrol in 2016

1,000 to 2,999 employees: enrol in 2014 and re-enrol in 2017

No tick-up among those working for largest employers

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”

Long-run (8% of all earnings up to upper threshold)

2019–20 (8% of band 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?