Pensions automatic enrolment: lessons from the UK experience

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Policy context

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UK's state pension looks affordable, but concerns about adequacy of retirement incomes

- flat-rate single-tier state pension of £168.60 (€190.51) per week (≈30% of median FT pay)
- state pension age currently rising from 65 to 66, with further increases legislated from 2026
- workplace pension membership among private sector employees fell from 50% in 1997 to 36% in 2012

Irish context quite similar

- full state pension of €248.30 per week (≈35% of median FT pay)
- state pension age already 66, with further rises sooner than in the UK
- just 35% of private sector workers saving in a supplementary pension

Automatic enrolment in the UK

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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

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

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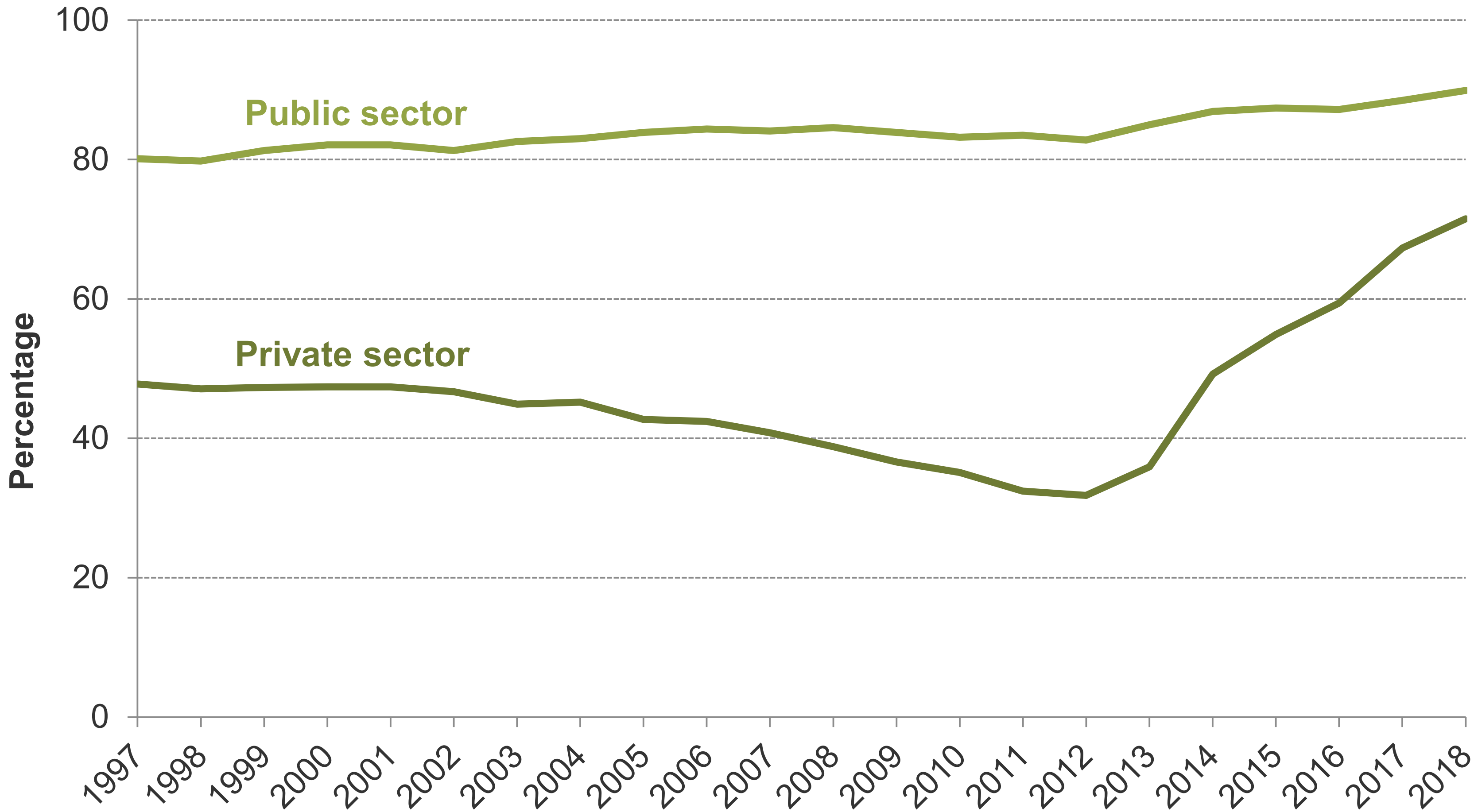

Source: Cribb and Emmerson (2019) with 2018 data added from the 2018 ASHE pensions tables.

Automatic enrolment in the UK: details

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Proposed by the Pensions Commission in 2005 and legislated in 2008

Eligibility

- aged 22 to state pension age (proposal to widen this to 18 to SPA)
- earn over £10,000 per year
- worked for employer for at least 3 months

Those who opt out re-enrolled every three years

National Employment Savings Trust (NEST) set up by Government

- ensures all employers have access to a workplace pension

Policy phased in over time starting with largest employers

- from October 2012 to February 2018

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

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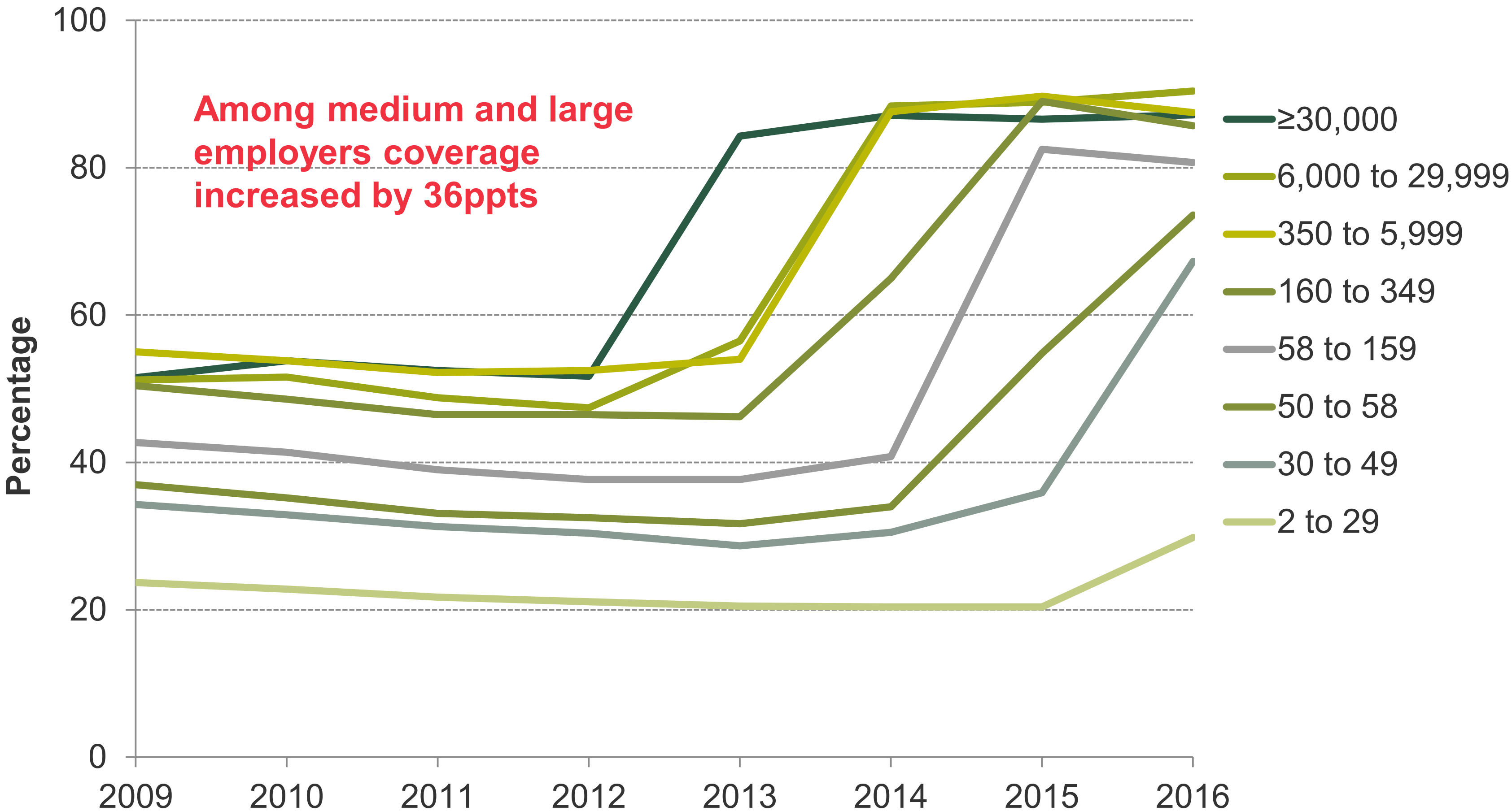
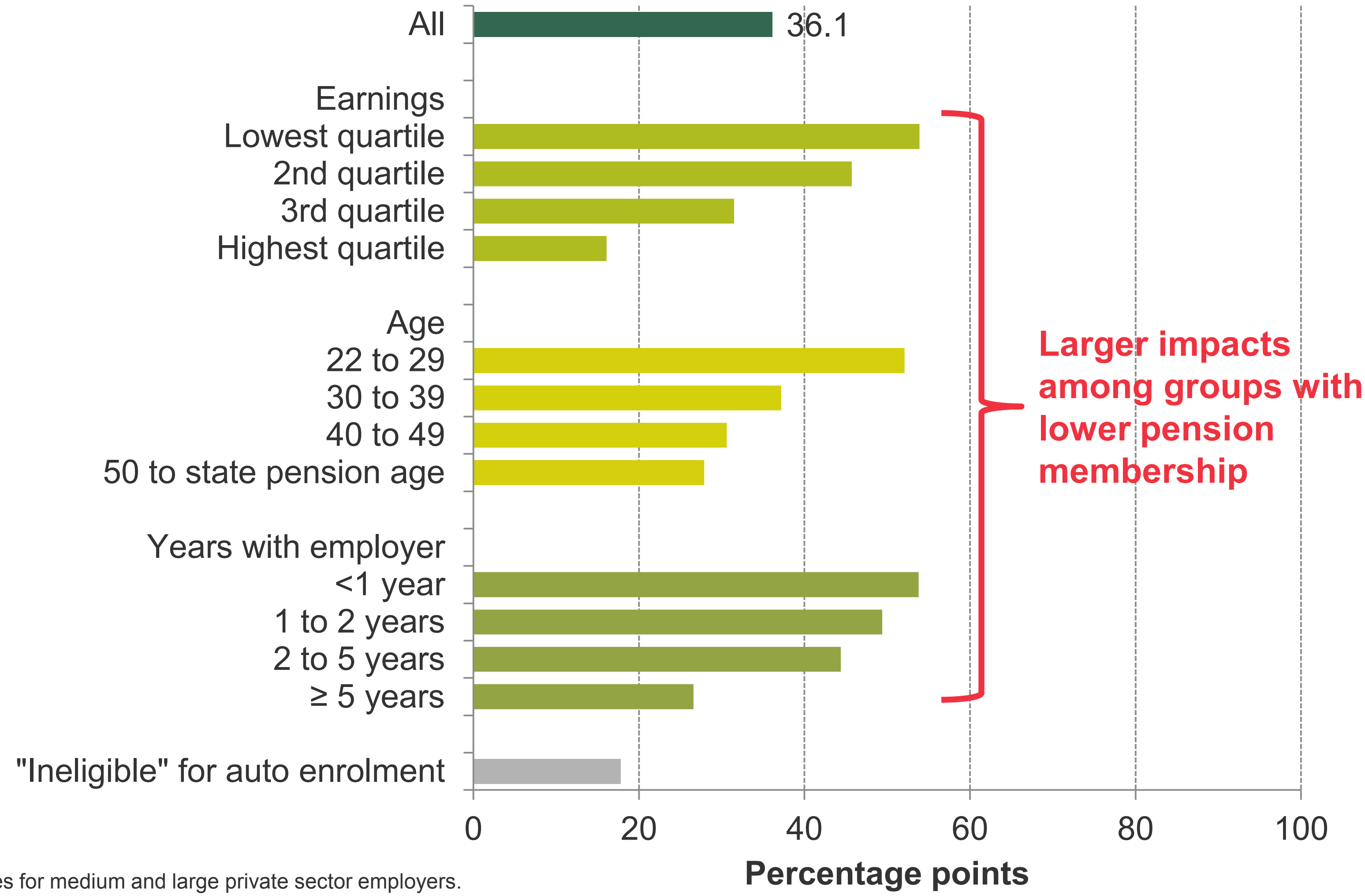


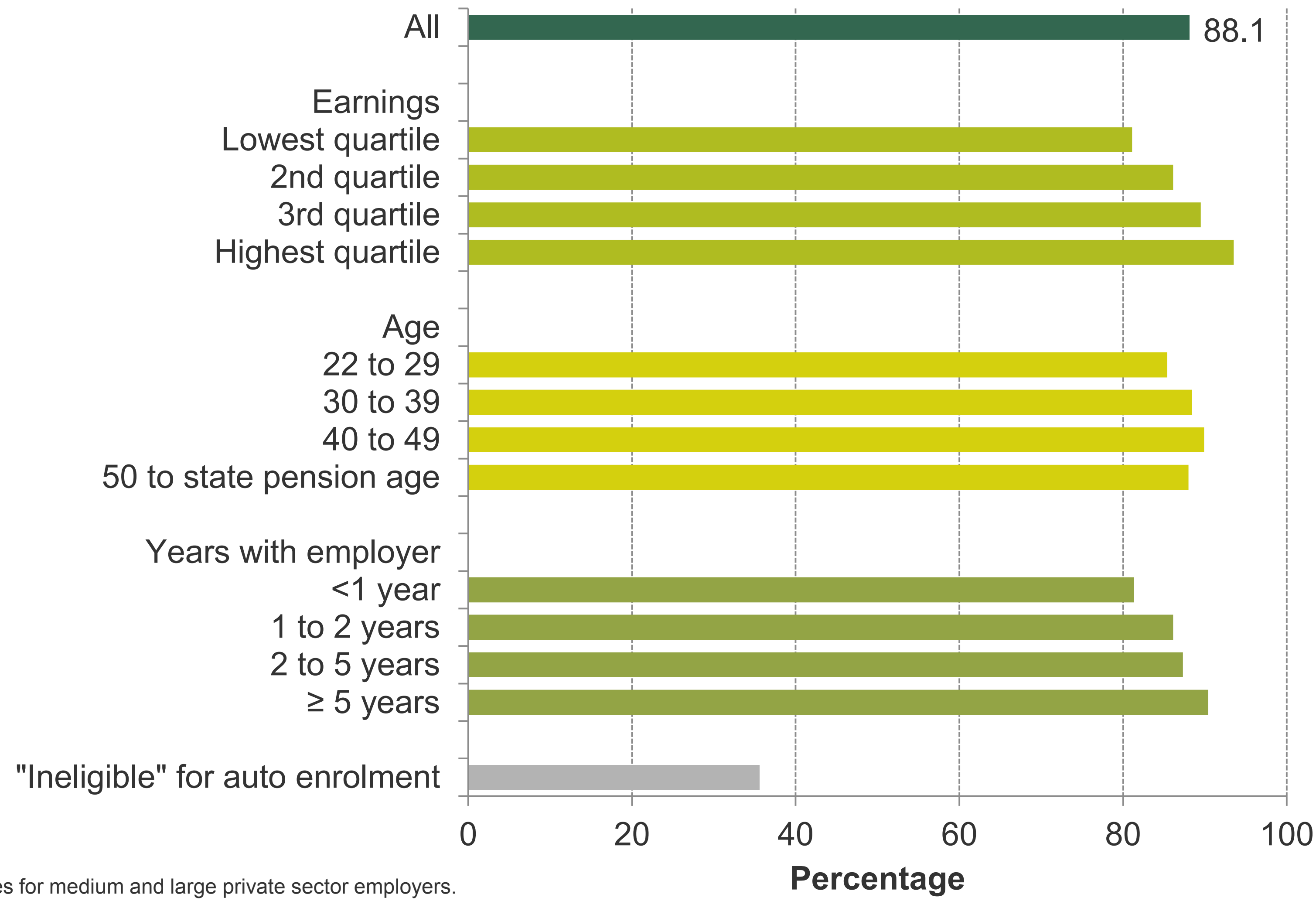
Note: Employer size as of 2012. Source: Cribb and Emmerson (2019).

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

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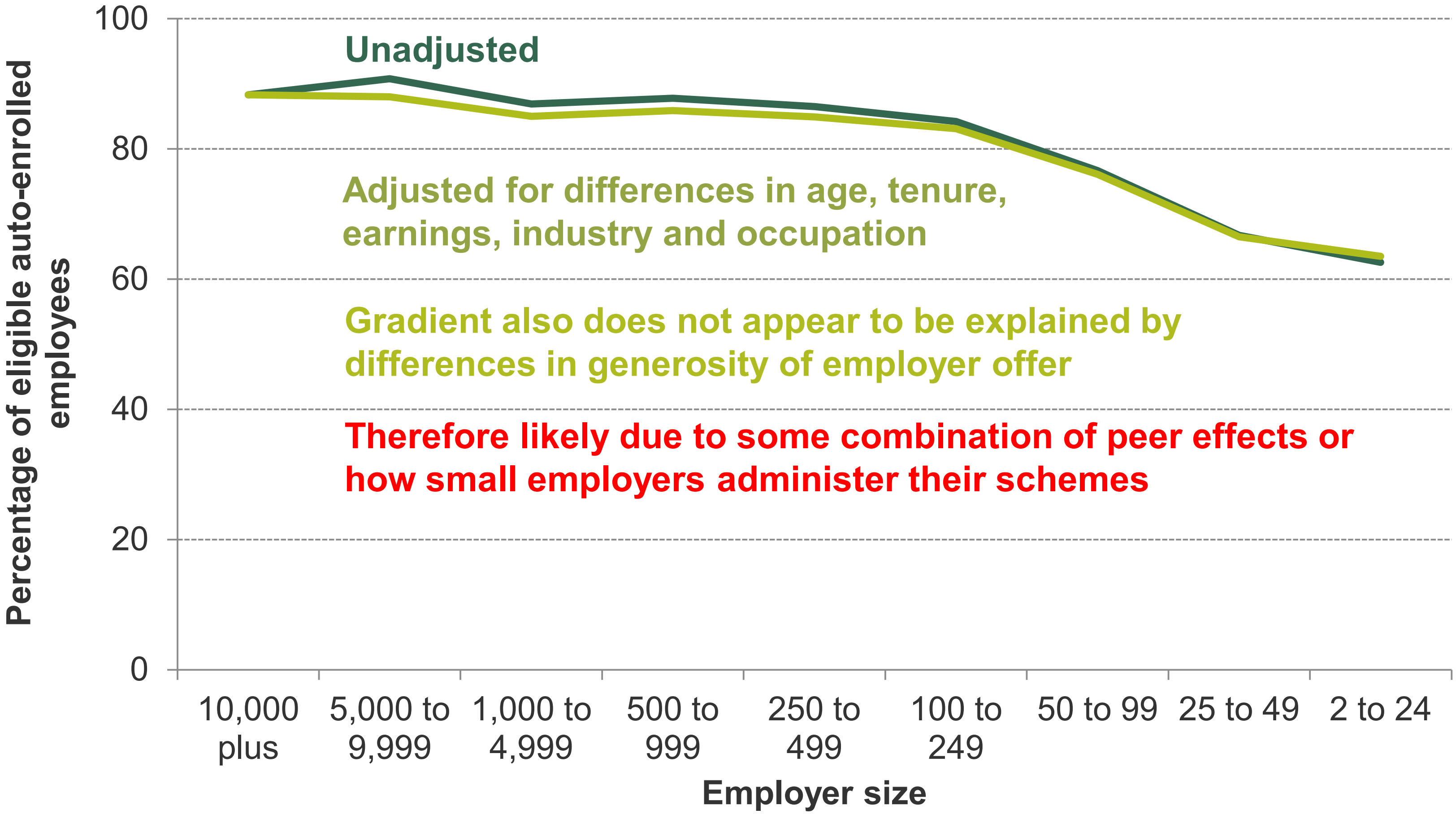

Note: Private sector only.
Source: Cribb and Emmerson (2019).

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

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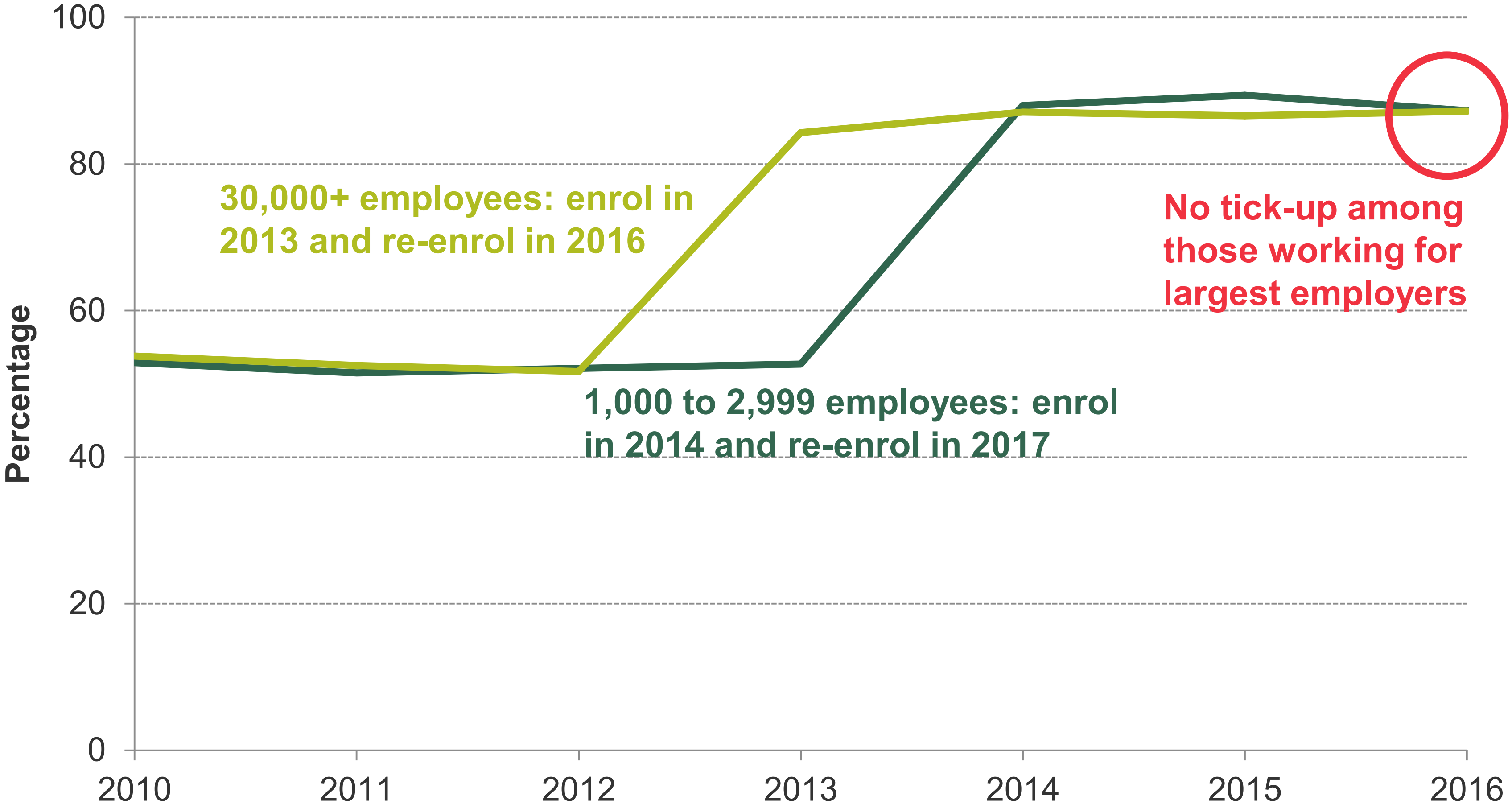


Source: Cribb and Emmerson (2019).

How much is being contributed?

Minimum contributions apply to qualifying earnings

- 2019–20: £6,136 to £50,000
- Proposal to eliminate lower threshold, which could particularly benefit those with multiple jobs, but not until the mid-2020s

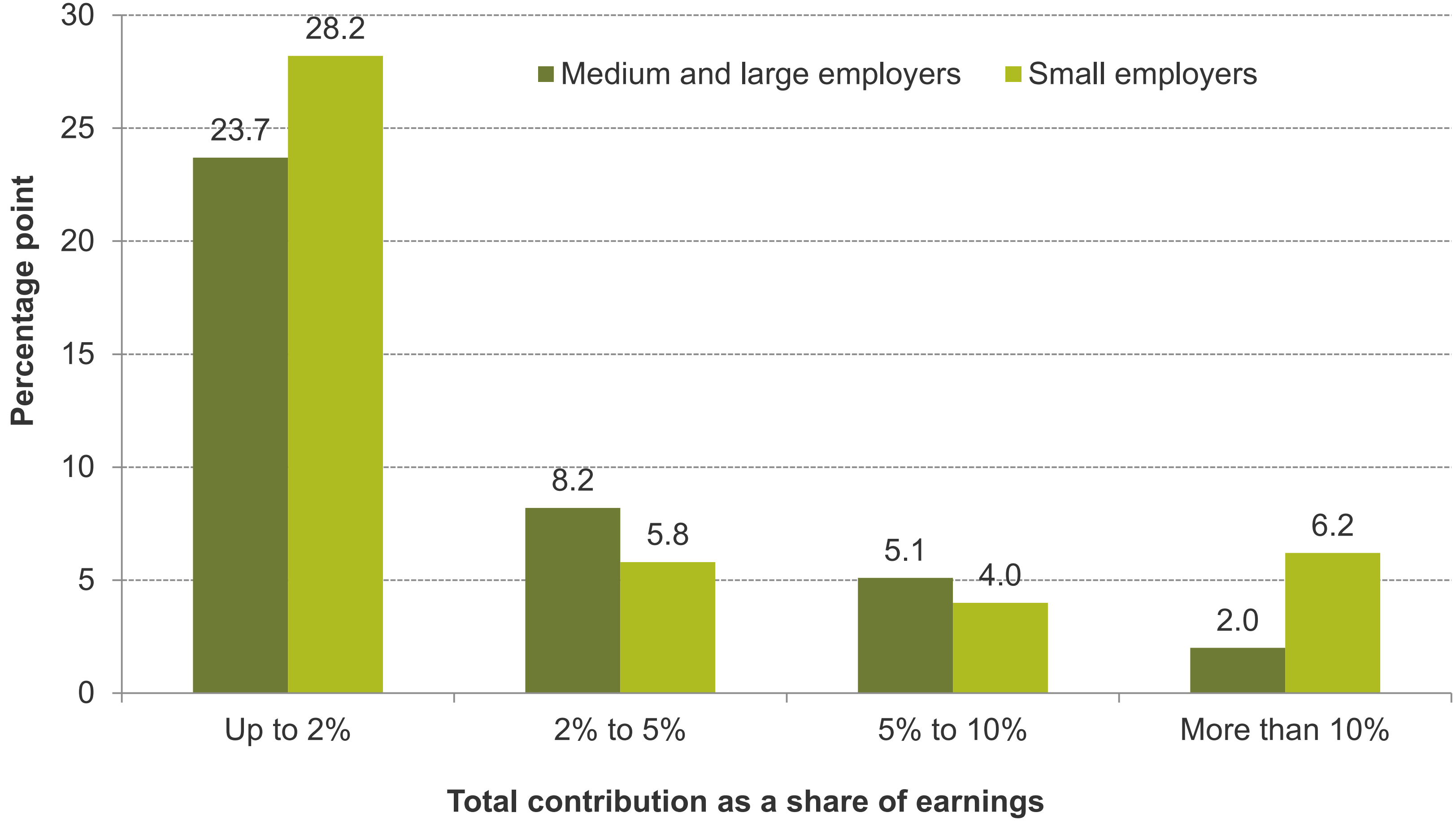
Minimum contributing rate

- 2017–18: 2%, of which at least 1% from employer
- 2018–19: 5%, of which at least 2% from employer
- 2019–20 onwards: 8%, of which at least 3% from employer

Irish “strawman” proposals for similarly low initial contributions but being more quickly ramped up to higher levels

- 1% employee and 1% employer in 2022
- rising to 6% employee and 6% employer in 2028

Most – but not all – brought in at low contributions



Source: Cribb and Emmerson (2016, 2019).

Some key unknowns

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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?

Risk that those who change employer frequently will end up with many small pension pots

- in contrast to Irish “strawman” proposal for “pot-follows-member”

Conclusions

Automatic enrolment has, so far, been successful in the UK

- 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?
- potential to end up with lots of small pots?

Much has changed – both to policy and in the wider economic environment – since automatic enrolment originally proposed

- should AE policy be adjusted in response?