

How will automatic enrolment affect pension saving?

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How will automatic enrolment affect pension saving?

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- Who saved in a pension before automatic enrolment?
- Who is saving under automatic enrolment?
- Modelling and assumptions
- Employee responses
- Employer responses

Automatic enrolment – a brief recap

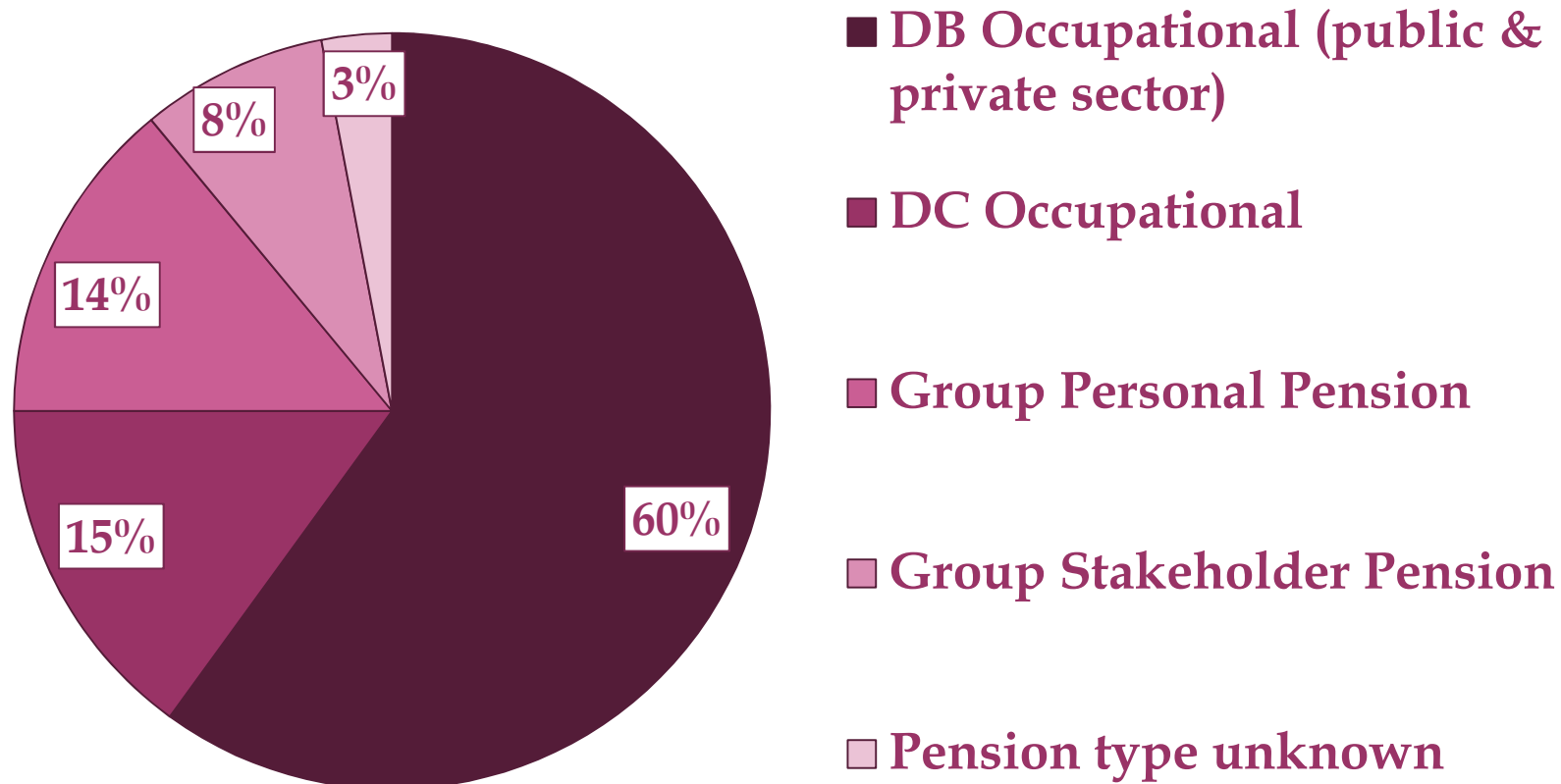
- Implemented from October 2012.
- Harnessing inertia by introducing default saving.
- Workers earning £10,000+ (2014-15) and not participating in a qualifying scheme to be automatically enrolled
- Workers are able to opt out (others can opt in)
- Contributions payable on band earnings, £5,772, - £41,865, (2014-15).
- *Who saved before automatic enrolment...?*

In 2012, around 3/4 of workplace pension savers were saving in Occupational Pension schemes

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Private and public sector membership of workplace pension schemes by type, 2012



Self-employment has been increasing, while pension scheme membership among the self-employed has been on the decline

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Number of self employed people in the UK and proportion of self-employed in personal pension schemes by year



Why are fewer self-employed people saving in a pension?

- Possible explanations include:
 - ISAs - 1999
 - Recession - 2008 onwards
 - Change in nature or self-employment and characteristics of the self-employed
 - Changes to scheme charges, commission and marketing

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Who is saving under automatic enrolment?

- 90% of those automatically enrolled are saving
- Comprehensive data is not yet available, but there are patterns emerging regarding who is more likely to opt out:
 - Those in older age groups
 - Women
 - Tentative correlation between those enrolled at higher contribution levels and opt-outs
 - “Financial constraints” - the main reason for opt-outs

Age plays a role in opt-out decisions

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Opt-out rates using combined data from automatic enrolment, multi-employer schemes

Age band	Opt-out rate
22-30	4.5%
30-40	5%
40-50	6%
50-60	11%
60-65	20%
Total average	6.5%

Who might save under automatic enrolment going forward?

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- Small to medium sized employers being staged in from April 2014 - April 2017
- Some uncertainty about how opt-out rates might change
- Medium and small employers may have less comprehensive HR and admin structures to support schemes – some may not understand or support automatic enrolment
- Government assuming 15%

Who might save under automatic enrolment going forward?

- Factors which will affect numbers of savers and aggregate value of saving:
 - *Employee responses* – opt-outs, contributions
 - *Employer responses*, in terms of contribution levels and choice of scheme
 - Charges
 - Investment returns
 - Other factors: market and economy, labour market, DB decline...

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Modelling

- PPI Aggregate Model
 - Labour market (from LLMDB 2010) projected forward
 - Workforce split between DB and DC workplace schemes (ASHE 2010)
 - Remaining working population – potential new AE
 - Employees join AE between 2012 and 2017 in proportion to employer staging
 - Contributions phased in (2% in 2012 to 8% in 2018)

Assumptions

- Modelling assumptions (base year 2010)
 - DB scheme membership declines by 80% between 2010 and 2030
 - Investment returns: 6% (average) based on overall returns (67% invested in equities)
 - Charges: 0.75% for workplace DC schemes, and 0.5% for multi-employer/master-trust schemes set up for automatic enrolment
 - Long-term earnings growth: 4.4%

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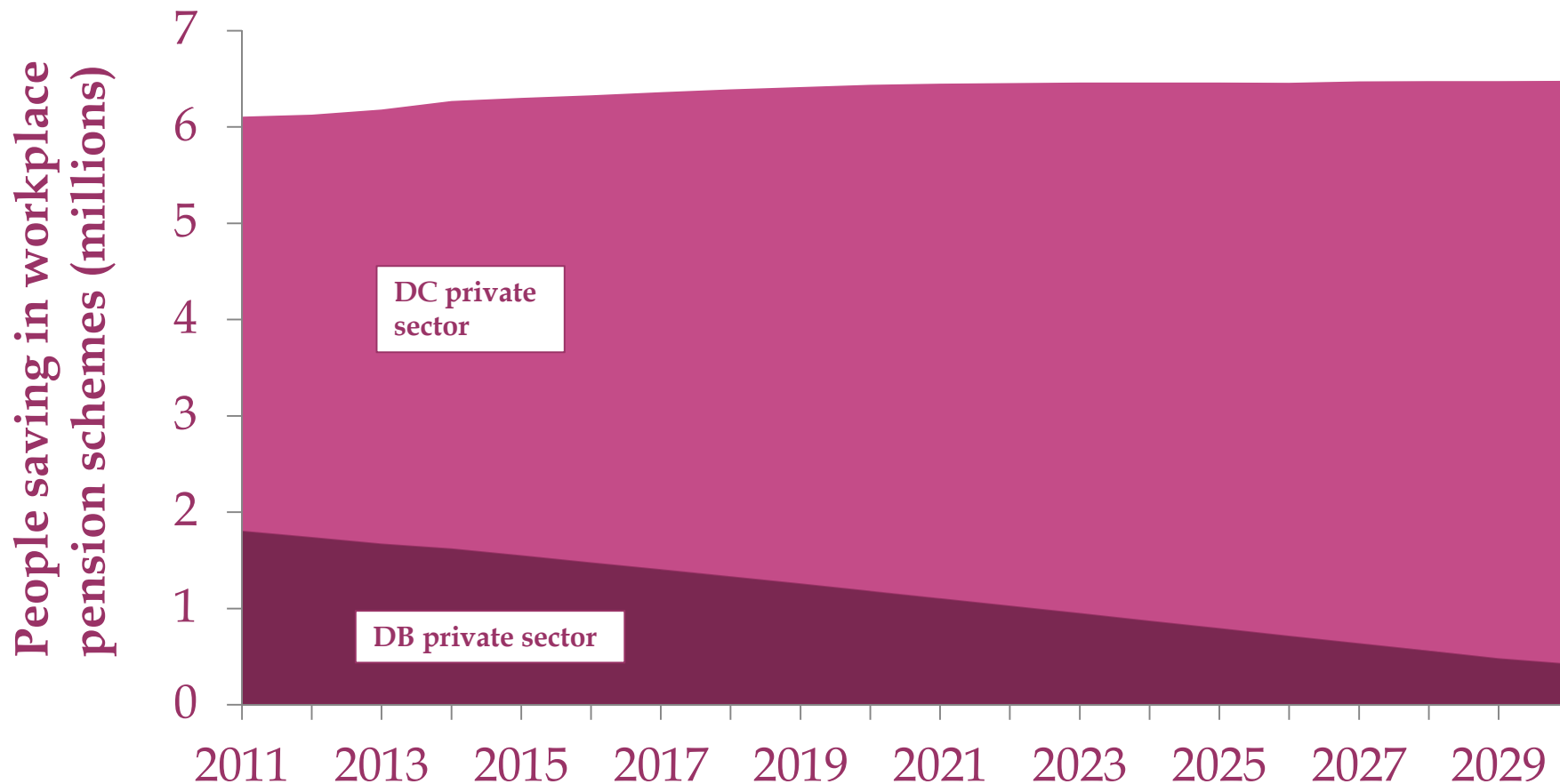
- Who saved in a pension before automatic enrolment?
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Employee responses to automatic enrolment

- **Four scenarios:**
 - No automatic enrolment
 - Central opt-out rate – 15%
 - Low opt-out rate – 9%
 - High opt-out rate – 25%
- Scenarios explore impact on *private sector workplace pension schemes*

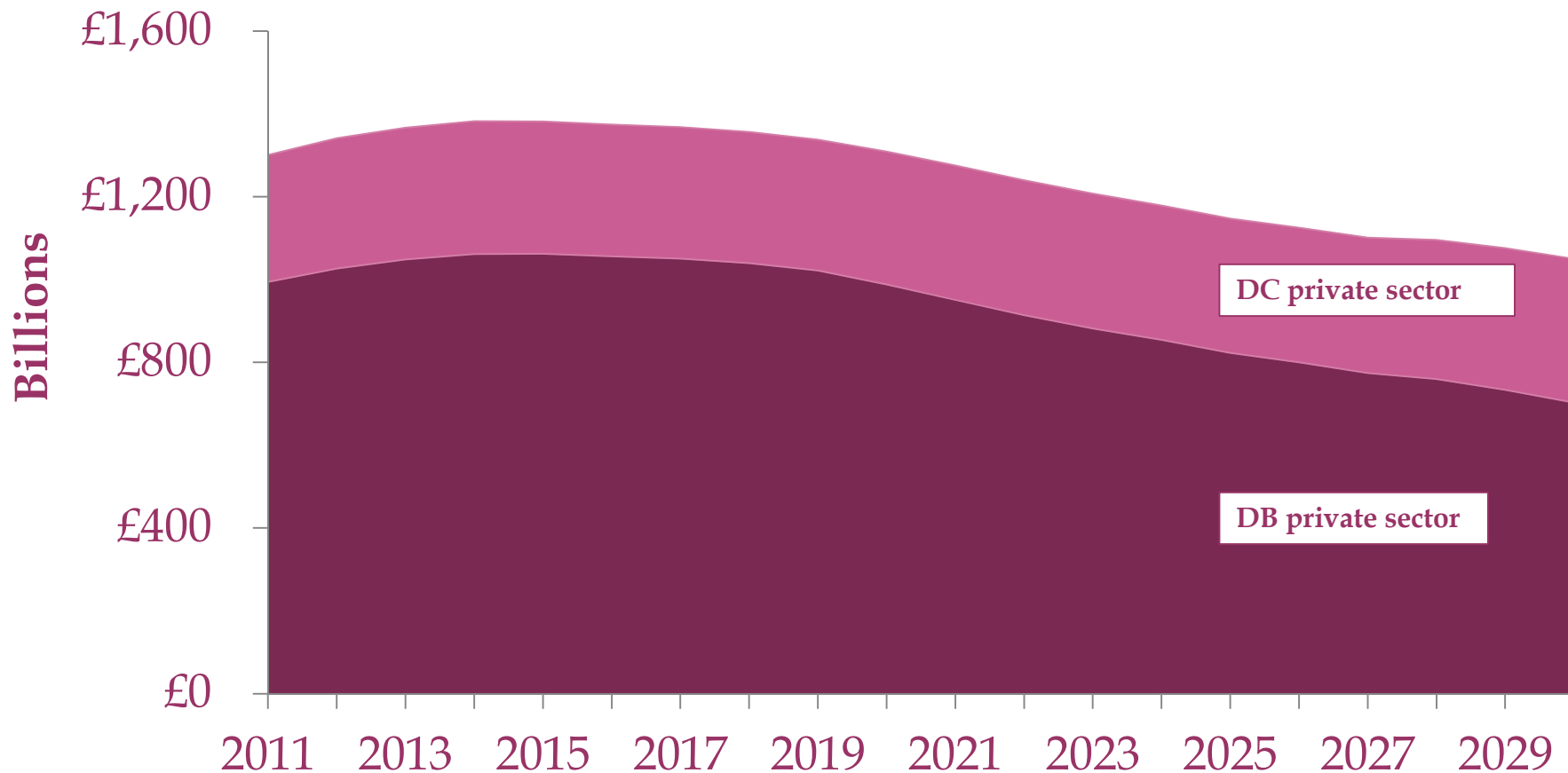
Without automatic enrolment there could be around 6.5m people actively saving in private sector workplace pension schemes by 2030

Number of active scheme members in private sector workplace pension schemes by year, assuming no auto-enrolment



Without automatic enrolment there could be around £1,050bn assets in private sector workplace pension schemes (£350bn DC) by 2030 (2014 earnings terms)

Value of assets in private sector workplace pension schemes by year, assuming no auto-enrolment (2014 earnings terms)



Scheme distribution - 15% opt out

Employers without existing provision

- Automatically enrol into “multi-employer schemes”
- Employers & employees pay minimum required contribution levels on band earnings (£5,772 to £41,865 in 2014/15)

Scheme distribution – 15% opt out

Employers with existing provision

- Current scheme members:
 - 80% workers – remain in current scheme
 - 20% workers – “other automatic enrolment DC” minimum contributions (total earnings)
- Automatically enrolled workers:
 - 80% workers – “other automatic enrolment DC” minimum contributions (total earnings)
 - 20% workers – enrolled into existing provision

Scheme distribution - 15% opt out

- Multi-employer scheme
 - minimum contributions of band earnings

- Existing DC scheme
 - 9% contributions of total earnings

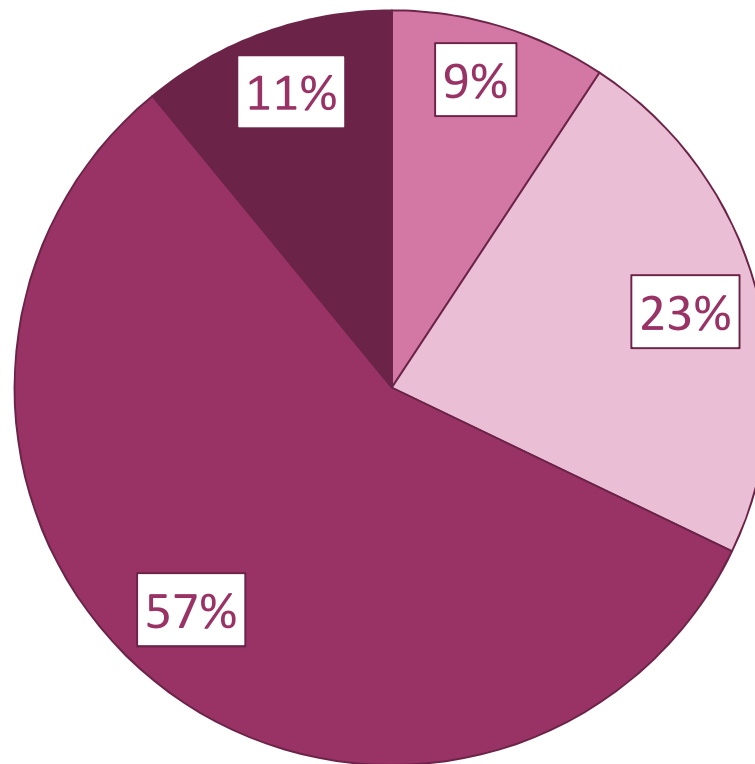
OR

- Automatic enrolment DC scheme
 - Minimum contributions of total earnings

57% of private sector savers could be active members of auto-enrolment multi-employer schemes in 2018

Proportion of total active scheme members in private sector workplace pension schemes (DB & DC) in 2018, assuming 15% opt out from auto enrolment

Proportion of all private sector workplace pension scheme members



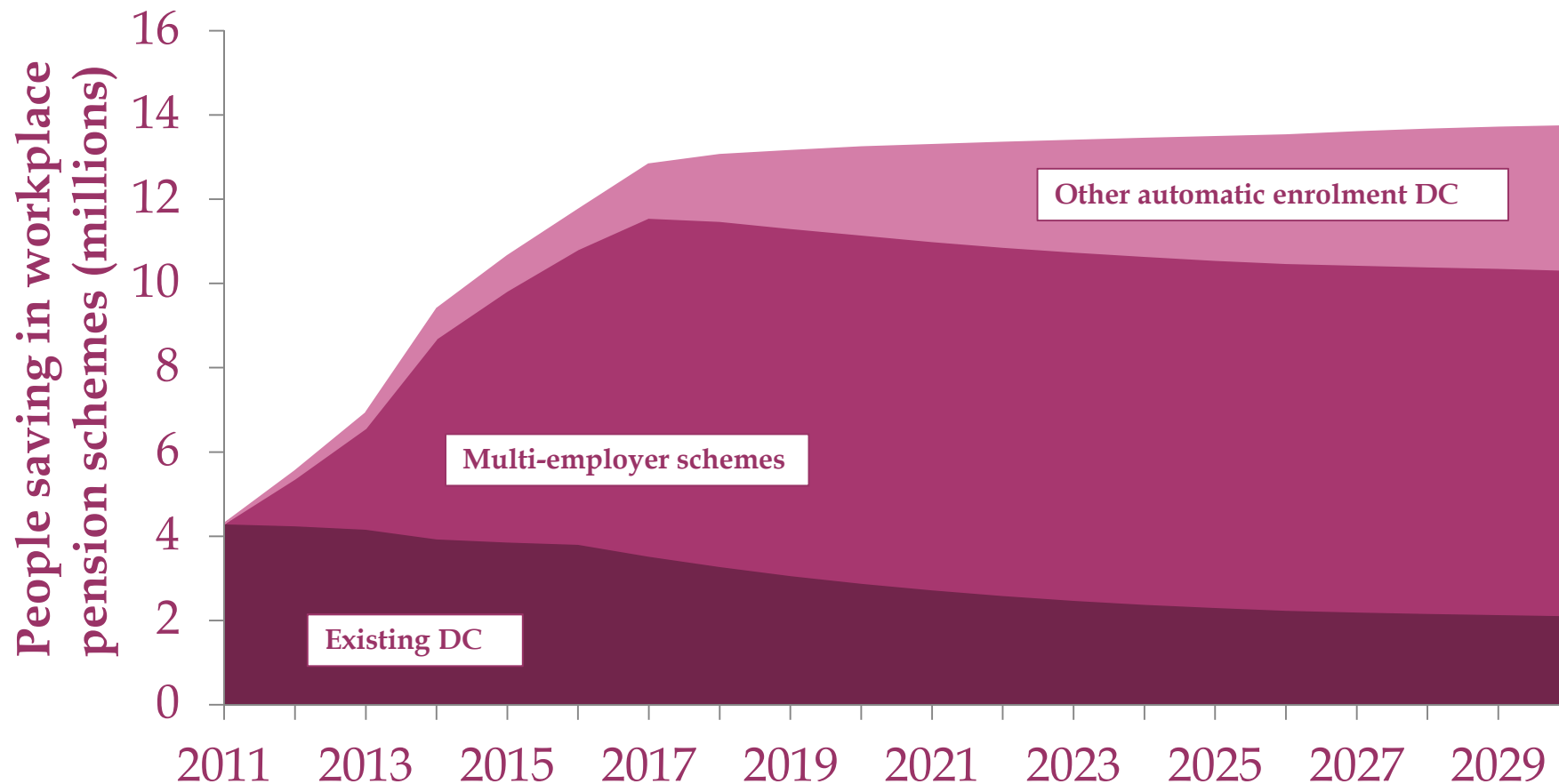
- DB private sector
- Existing DC
- Multi-employer schemes
- Other automatic enrolment DC

A 15% opt out rate would result in 14m people actively saving in private sector DC workplace pension schemes by 2030

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Number of active scheme members in private sector workplace pension schemes by year assuming 15% opt out

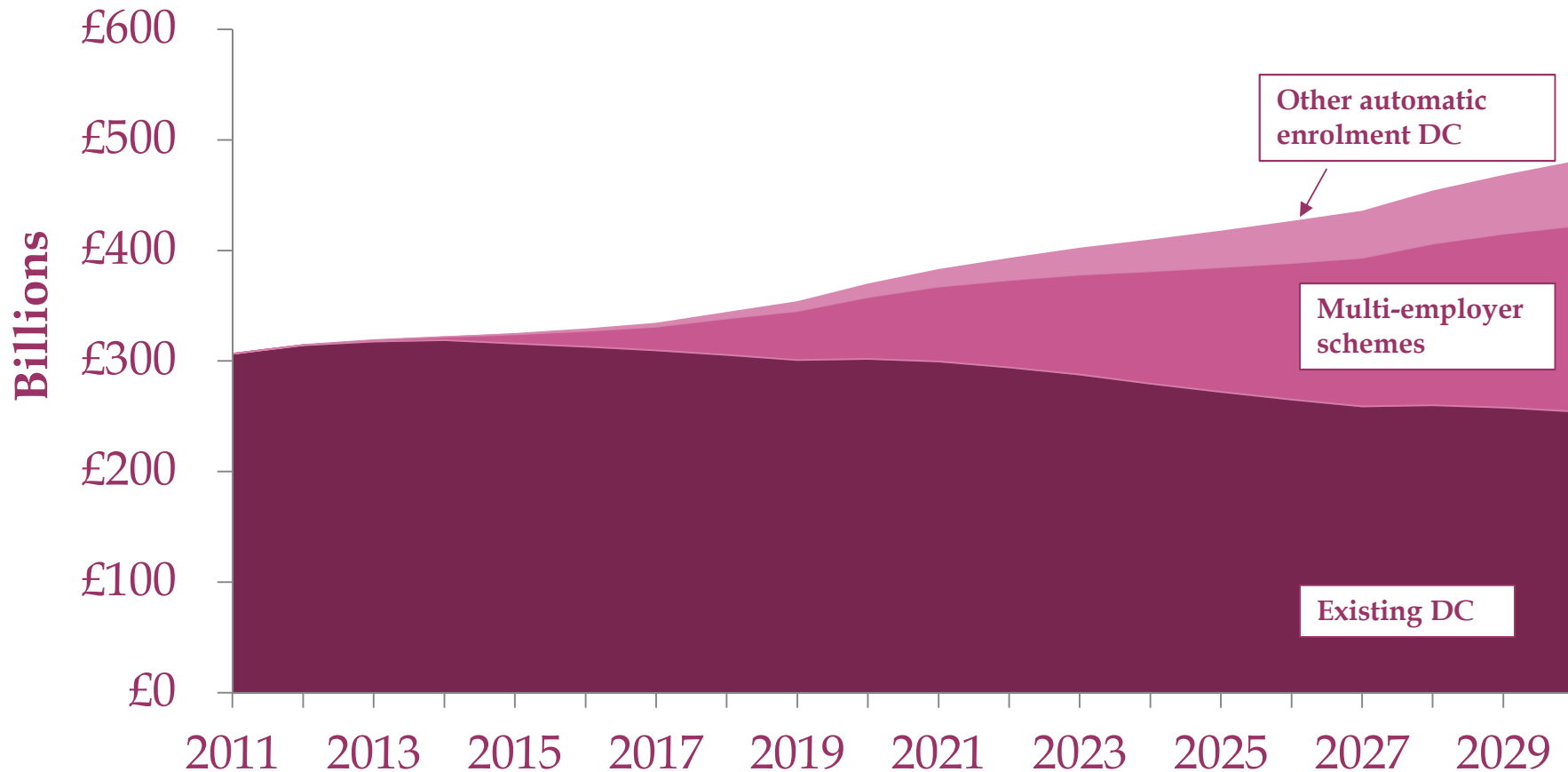


A 15% opt out rate could result in around £480bn total assets in private sector DC workplace pension schemes by 2030

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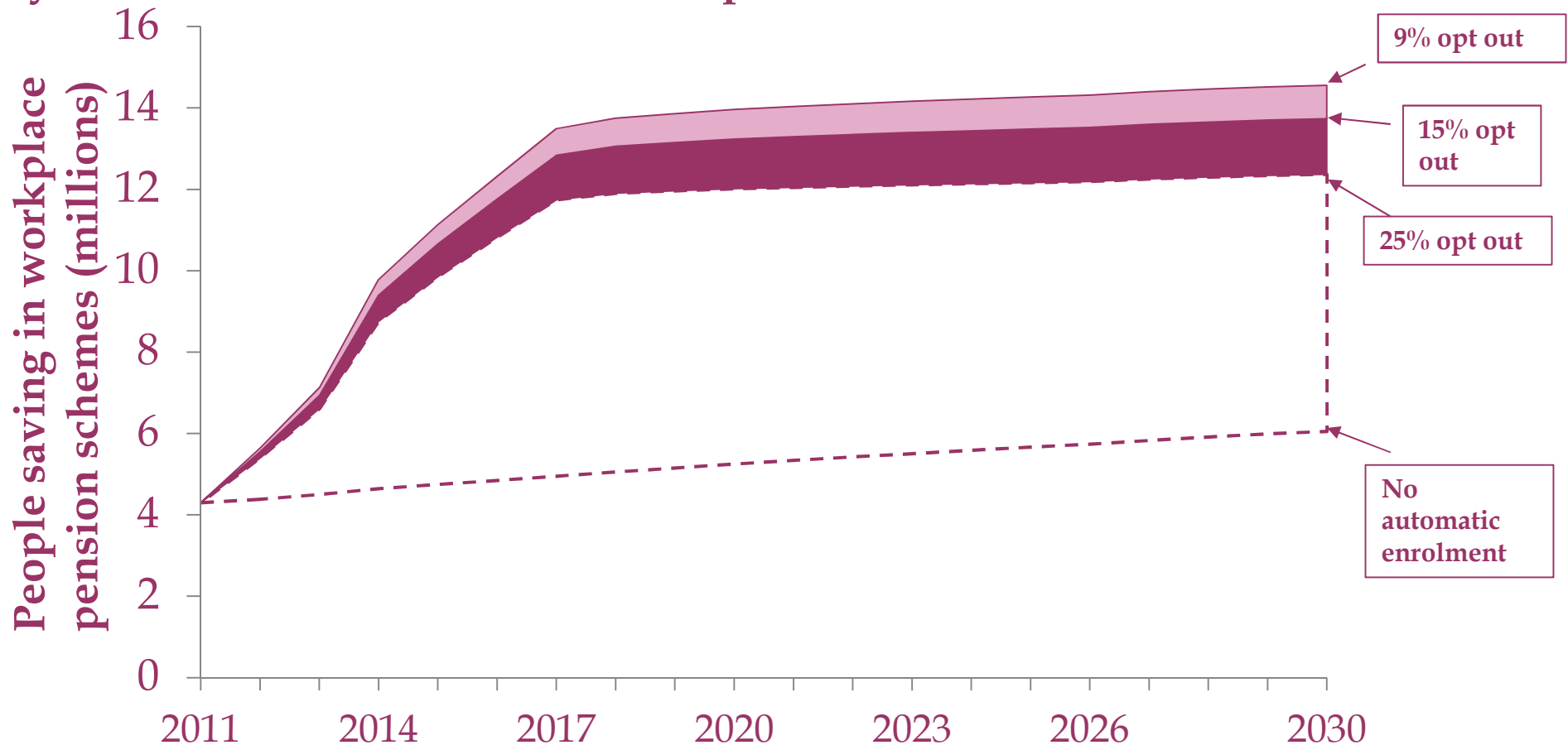


Value of assets in private sector DC workplace pension schemes by year, assuming 15% opt out (2014 earnings terms)



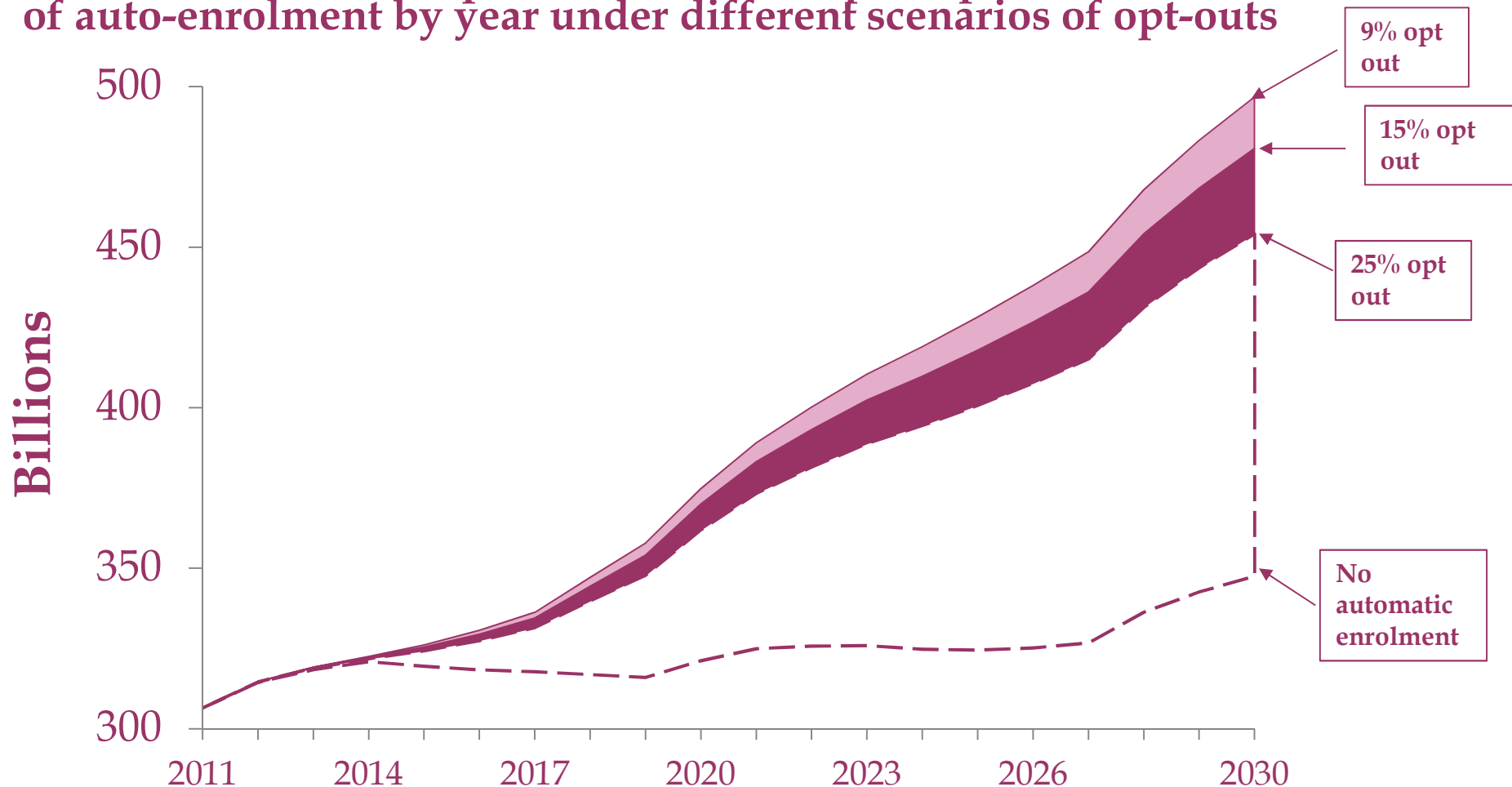
The number of people actively saving in private sector DC workplace pension schemes in 2030 could range between 12.5 and 14.5 million depending on opt-out rates

Number of active scheme members in DC workplace pension schemes by year under different scenarios of opt-outs



The value of assets in private sector DC workplace pension schemes in 2030 could range between £455bn and £495bn depending on opt-out rates

Value of assets in DC private sector workplace pension schemes as a result of auto-enrolment by year under different scenarios of opt-outs



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Employer responses

Current trends:

- Many larger employers extended existing provision to automatic enrolment group
- Employers offering access to existing provision were less likely to lower contribution levels than those offering access to a new scheme
- However, employers without existing provision - smaller to medium employers - are more likely to say they intend to pay minimum required contribution levels

Employer responses

Therefore:

- All scenarios assume that a large proportion of those automatically enrolled (around two thirds of working population in 2030) receive minimum required contributions from their employer – in line with current behaviour
- Scenarios explore the impact of a employer decisions on employees of those who had existing provision prior to automatic enrolment

Employer responses

- **Three scenarios:**

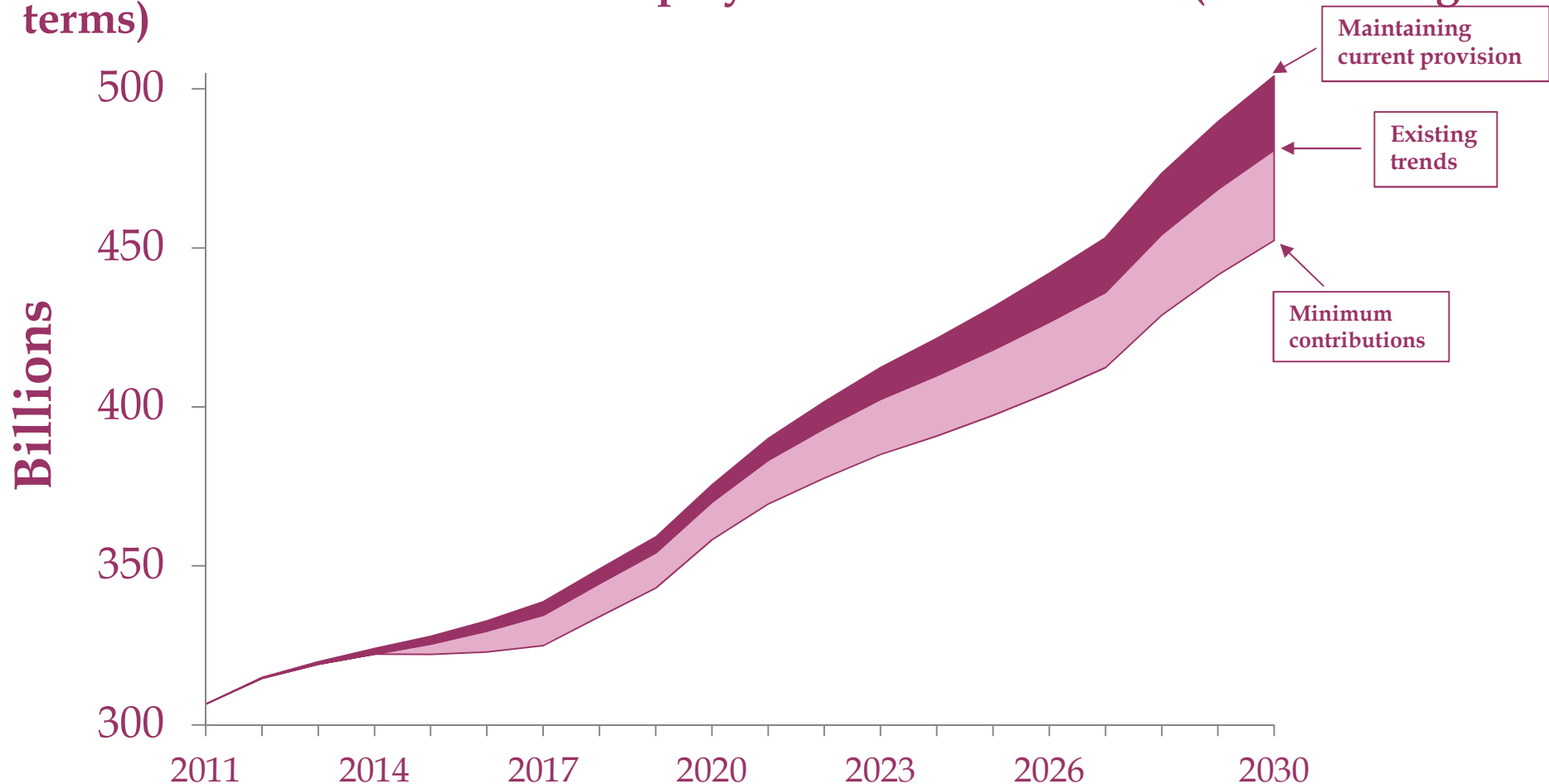
- “Minimum contributions” - levelling down by all employers on behalf of all workers
- “Existing trends” - current behaviour continuing throughout the automatic enrolment process and in the future
- “Maintaining current provision” scenario – maintaining pre-automatic enrolment provision/contribution levels for workers of all employers with existing provision

The value of assets in private sector DC workplace pension schemes could range between £450bn and £505bn in 2030 depending on contribution levels by employers

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Value of assets in private sector DC workplace pension schemes by year, under different scenarios of employer contribution levels (2014 earnings terms)



Conclusion

- Vast majority of new savers will be in DC schemes - DC will dominate in private sector
- Scheme numbers/asset value - depend on employer /employee responses, DB decline, charges, returns, economic and labour market factors...
- Both the nature of the pension savings people reach retirement with and the way people take and use this as income will look very different in future from how it does today – esp. in light of Budget 2014