PRESS RELEASE
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"Government report on incentives to save in a pension moves the debate forward but needs careful interpretation" says Pensions Policy Institute

The Government has today published its report on the incentives to save in a pension. The report contains new analysis of the incentives to save in a pension after the introduction of auto-enrolment in 2012.

Niki Cleal, PPI Director said:

"The Government's latest analysis of the incentives to save in a pension published today moves the debate forward, but needs careful interpretation."

"The Government's findings are broadly consistent with previous PPI research in this area, for example, the Government finds that as a result of the pension reforms younger employees are more likely to receive higher paybacks from pension saving, on average, than older employees."

"The report confirms that for most people the interaction between auto-enrolment and means-tested benefits need not be a barrier to saving. However, it also shows that a minority of people will not get back the value of their own contributions after taking account of inflation due to the interaction of their saving with means-tested benefits. This could have a detrimental impact on wider public confidence in the pension system."

"The Government's conclusion that most people can expect to be better off in retirement by saving, with the majority getting back more than double what they save needs careful interpretation. This finding is based on a specific set of assumptions which may, or may not, transpire in the real world. All individuals who save in money purchase pension schemes are exposed to the risk that the value of their pension pot can go down as well as up."

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PPI reports can be downloaded from the PPI's website:
www.pensionspolicyinstitute.org.uk

Notes for editors

1. The Pensions Policy Institute (PPI) is an independent research organisation that produces research on pensions policy and retirement provision. Its aim is to improve information and understanding about pensions (state and private) and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular policy proposal, but works to make the pensions and retirement policy debate better informed.

2. PPI research has shown that many people may gain from the Government's proposals to introduce auto-enrolment into pension saving in 2012. However, there are some people who are at risk of low returns from saving because they may lose eligibility for means-tested benefits as a consequence of their saving, for example, some people who may rent in retirement or low earners in their forties and fifties who haven't yet started saving.

3. The PPI published a short briefing note summarising its research on incentives to save in a pension. Available here: http://www.pensionspolicyinstitute.org.uk/news.asp?p=306&s=6&a=0. The full research report can be downloaded from the PPI's website at: http://www.pensionspolicyinstitute.org.uk/news.asp?p=251&s=2&a=0

4. Today the Government has published the results of its Savings Incentives Work Programme which aimed to establish a shared understanding of the evidence on financial incentives to save for retirement following reform and to assess the potential costs, benefits and other impacts of relevant measures which could affect incentives to save for retirement against an appropriate set of evaluation criteria.

5. The Government's analysis suggests that around 5% of people will not receive back £1 for each £1 that they contribute to a pension. However, many people will expect to receive back not just the value of their own contributions to their pension, but also a return on their investment. The Government has not produced detailed analysis of individuals who may get a positive but relatively low return (those classified as at 'medium-risk' in PPI analysis), focussing only on those who would not get their own contributions back (people in the PPI's high-risk category).

6. The PPI has previously published analyses of policy options that could improve the incentives to save in a pension (see below). The Government has undertaken an initial analysis of these and other options, but is not proposing any policy changes at this stage.

7. B&CE Benefit Schemes commissioned the PPI to undertake analysis of a policy reform to disregard a limited amount of pension income in calculating eligibility for means-tested benefits designed to improve the incentives to save in personal accounts. The full report is available from the PPI website:
   http://www.pensionspolicyinstitute.org.uk/news.asp?p=288&s=2&a=0

8. The Equal Opportunities Commission (now part of the Equality and Human Rights Commission) commissioned the PPI to undertake analysis of changes to the trivial commutation limit designed to improve the incentives to save in personal accounts. The full report is available from the PPI website:
   http://www.pensionspolicyinstitute.org.uk/news.asp?p=280&s=2&a=0