PRESS RELEASE
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"Vast majority of older workers will receive good value from staying in a workplace pension rather than opting out" says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing *The benefits of automatic enrolment and workplace pensions for older workers*, a report that analyses the returns on pension contributions for those aged between 50 and State Pension Age (SPA) who do not opt out from their workplace pension after being automatically enrolled.

The report has been funded by Prudential, and uses data from the English Longitudinal Study of Ageing (ELSA) to calculate internal rates of return from pension contributions under automatic enrolment, based on household circumstances, and taking into account the likely effects of means-tested benefits and tax in retirement.

The report finds that, under reasonable assumptions, the vast majority (over 95%) of older workers are likely to receive good value on their pension contributions from staying automatically enrolled. Recent research from the Department of Work and Pensions (DWP) found that opt out rates for those aged 50 and over, at 15%, had been higher so far than those for other age groups (at 9% on average).

Recent changes to the policy landscape, including the phased introduction of minimum contributions for automatic enrolment, and the introduction of the single-tier state pension in April 2016, are expected to have improved rates of return for older workers. However, for some groups it may still be sensible to opt out of pension saving, particularly if they have issues with affordability and debt.

Mel Duffield said "The analysis shows that, despite the higher opt out rates of around 15% seen amongst older workers, staying in a workplace pension is likely to deliver a very good return on their own pension contributions for the vast majority of this group."

"Even so, the pension pots being built up by older workers under automatic enrolment, and particularly by lower earners, are expected to be relatively small. An average 51 year old, who is eligible to be automatically enrolled in 2012 and who only makes the minimum level of contributions, will have built up a pension pot of around £13,000 by the time they reach State Pension Age."

The report also finds that a very small group (less than 3% of those aged 50-SPA and automatically enrolled) are likely to be at high risk of automatic enrolment not being suitable for them, assuming that they do not opt out. These are generally older workers who are automatically enrolled and who then become eligible for Guarantee Credit in retirement because of the low income of their partner. For those couples eligible for Guarantee Credit

(currently set at £226.50 per week for couples), staying automatically enrolled and increasing their private pension income by £1 simply leads to a £1 reduction in benefit entitlement in later life, unless they can save enough in their workplace pension to lift them above the means-tested thresholds.

However, even for those groups with low rates of return, they will still be able to benefit from being able to take a 25% tax-free lump sum at retirement, and the remainder of their pension pot is likely to be small enough to be taken as a lump sum, even before the new flexibilities for savers with Defined Contribution (DC) pensions announced in the Budget 2014.

Mel Duffield added "The analysis finds that, under reasonable assumptions, around 90% of the pension pots built up under automatic-enrolment by older workers saving into a pension for the first time would have been below the existing trivial commutation limits. This would have given those savers the flexibility to take their pension as a lump sum at retirement and reduce interactions with means-tested benefits, boosting their rates of return on pension saving."

"Following the announcement in the Budget 2014, from April 2015 all older workers should be able to use these flexibilities, irrespective of the size of their pension pot from automatic enrolment and any existing pension savings. Individuals will, however, require support and guidance to ensure that they can access their pension in a way that delivers a good return on saving while meeting their income needs at different stages during their retirement."

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.

2. *The benefits of automatic enrolment and workplace pensions for older workers* is the second in a series of three reports on the implications of the automatic enrolment reforms. The research series is being funded by a consortium or organisations including the Association of British Insurers, the Defined Contribution Investment Forum, the Department for Work and Pensions, the Institute and Faculty of Actuaries, Legal and General, The People's Pension and Prudential.

3. The automatic enrolment legislation requires employers to automatically enrol their employees into a qualifying pension scheme from October 2012. Automatic enrolment will be fully rolled out by 2018. Employees can choose to opt out. From 2018 onwards the employer is required to contribute a minimum of 3% of a band of earnings from the LEL (Lower Earnings Limit) to the UEL (Upper Earnings Limit). If the employer contributes the minimum of 3%, the employee will have to contribute 4% and the Government will contribute 1% through tax relief. Minimum contributions are being phased in between October 2012 and October 2018.

4. The report defines automatic enrolment as being *suitable* for an older worker (or an older worker being at *low risk* of seeing a poor return) if they expect to receive back at least the inflation-protected value of their own pension contributions, with the inflation-protected return measured by the Consumer Price Index (CPI).

5. This is assessed by calculating an **internal rate of return (IRR),** which is the equivalent rate of interest per year that an individual receives on his or her pension contributions. The IRR allows for the effects of tax relief, employer contributions, investment returns, charges, income tax and means-tested benefits. Where the IRR on their own pension contributions is less than 2% (CPI) an older worker is consider at *high risk* of automatic enrolment not being suitable for them. However, the IRR approach does not allow for wider circumstances which may mean that making contributions into a workplace pension scheme is not suitable, for example because of issues around affordability and debt.

6. The analysis uses outputs from the PPI Individual Model and the PPI Dynamic Model to calculate internal rates of return for those aged between 50 and State Pension Age who, based on their earnings and not currently saving into a workplace pension scheme, would be eligible for automatic enrolment. The Dynamic Model contains data from the English Longitudinal Study of Ageing (ELSA) on a wide range of household circumstances and so can calculate a rate of return taking into account the households' likely eligibility for means-tested benefits in retirement. For a full list of the modelling assumptions used please see the Technical Annex of the full report.