PENSIONS POLICY INSTITUTE

PPI

PPI Policy Seminar: The benefits of automatic enrolment and workplace pensions for older workers

The Pensions Policy Institute (PPI) held a policy seminar on 19 May 2014 to launch its latest report *The benefits of automatic enrolment and workplace pensions for older workers*. The research was funded by Prudential who also hosted the launch event. This report is the second in a series of reports on automatic enrolment; the series is sponsored by 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, and the People's Pension.

The report analysed the characteristics of people aged over 50 that may affect their suitability to remain automatically enrolled in a pension scheme by calculating the return on pension contributions under automatic enrolment, taking into account the likely effects of means tested benefits.

The event was chaired by **Robert Laslett, visiting lecturer at UCL and Governor of the Pensions Policy Institute**.

Mel Duffield, PPI Deputy Director and **Melissa Echalier, PPI Senior Policy Researcher** presented the main findings of the report. These included:

- that under reasonable assumptions, the vast majority (over 95%) of older workers are likely to receive good value on their pension contributions;
- where people would otherwise be eligible for means tested benefits, their return on being automatically enrolled into a pension scheme may be lower, this includes Housing Benefit and Council Tax reduction;
- those who are eligible for Housing Benefit during their working life could see good returns on their contributions as a result of some of their pension contribution being offset against their Housing Benefit, leading to a higher Housing Benefit;
- couples who would otherwise be eligible for Guarantee Credit could see low returns on their pension contributions, as each extra pound of pension income reduces guarantee credit by one pound;
- the changes announced in Budget 2014 may mean that people may use the flexibilities in way that may improve their return.

Tim Fassam, Head of Public Affairs at Prudential gave an insurance industry perspective. He was encouraged that the report was a good news story for older workers. However he was concerned that some older employees don't think that it's worth saving for them. He considered two scenarios for such people depending on whether they are right or wrong: if they are right then he was concerned about people being auto enrolled if they are likely to have a bad outcome; and if they are wrong then they may be making a bad decision in opting out.

He pointed out that a pot size which is small in traditional pension terms will still have a positive impact on people's post retirement finances. He said that saving is a good thing for people to do, and hoped that this report would help provide people with reassurance of that.

He considered the impact of the recent Budget 2014 changes to DC pension schemes. He said that Prudential welcomes the flexibility that the proposals offer to savers, however, he pointed out that people tend to underestimate life expectancy so felt that appropriate guidance is very important.

Bridget Micklem, Head of Private Pensions Policy and Analysis at the Department for Work and Pensions gave a government view of the findings. She welcomed the report, saying that the high level of positive outcomes for savers in the results was very satisfying.

She gave some statistics on the development of automatic enrolment at that time, saying that 3.3 million employees had been automatically enrolled so far, that 11,834 employers had completed registration with the Pensions Regulator and that opting-out has been encouragingly low at around 9% - 10%, leading to the DWP revising down their overall opt out figure to 15% for the life of the programme.

She confirmed that there had been a higher opt out rate for older workers, commenting that this had been anticipated, but was fewer than had been initially expected. She hoped that as people realise they are working longer then they will see the benefit of staying in a workplace pension at older ages.

She said that older workers are a "daunted" group, but showed examples of advertising materials that, while not exclusively targeting older workers, do encourage workers of all ages to stay enrolled, by presenting meaningful examples for different age groups.

She felt that the Budget changes may encourage employers to engage with employees about pensions earlier than the date of the required guidance set out in the Budget. And that the flexibilities set out in the Budget may initiate conversations about employees easing themselves into retirement, possibly by working part time.

Darren Philp, Head of Policy at The People's Pension discussed the significance of the findings from an automatic enrolment provider's perspective. He gave a background to the People's Pension, from the early days of B&CE as a holiday pay scheme, to providing pensions within the construction industry, and finally to launching a pension scheme open to all in the form of the People's Pension which, since launch has auto-enrolled around 690 thousand employees.

He confirmed that the People's Pension had experienced higher opt out rates for older workers. He said that the overall opt out rate experienced at the People's Pension was around 6%, with rates over the last 12 months of less than 5% for people below age 50, just over 10% for people aged 55-60, and approaching 20%for those aged 61-65.

He highlighted the result from the report that it is worth saving for people aged over 50, and felt that the message that it's never too late to start saving is one that needs to be repeated.

He stated that the single tier pension, combined with budget flexibility on private saving provide a strong foundation for encouraging pension saving. He said of the Budget changes that, while many older workers who are automatically enrolled would be under the existing trivial commutation limits, they still have greater freedom under the announced changes. He noted that the fact that Trivial Commutation rules kick in at age 60 meant that people aged 55 with small pots would annuitise their fund at a time that wasn't in their best interests, merely because they needed access to the 25% tax free cash sum.

He said that the Budget reforms have put an onus on providers to think about members' needs throughout their employees' lives. He also highlighted the need for engagement with employees, perhaps in an online manner.

Jackie Oatway, Head of Policy at the Money Advice Service discussed the role of the Money Advice Service in helping older workers manage their retirement options.

She considered what drives changes in behaviour through an individual's financial capability. She noted that financial capability is defined not just by the skills and knowledge that people have, but also by the motivations and attitudes and the opportunities that they encounter. She said that pensions are not always something that people want to engage with and that often the choices can be overwhelming. People often prefer to live for today, perhaps struggling with debt and therefore not thinking about retirement saving.

She said that the research today focussed on rates of return and accepted that one reason people may legitimately not want to save is if they are struggling with debt. She mentioned that the Money Advice Service's Indebted Lives research has shown that there are around 8.8 million people who either face a heavy burden of debt or have been at least 3 months behind with their bills in the last 6 months. However the peak age for worrying about debt is 35-44, falling for those 55 and older.

She noted that the PPI research highlighted complexities for renters receiving Housing Benefit either in work especially around their understanding that being auto enrolled could be a positive value for them. Also, if renters expect to be receiving Housing Benefit in retirement, that can create complexities in terms of their rates of return. And it might put them at risk of auto enrolment being unsuitable for them in that situation. There is a correlation with the indebted population; over half the indebted population live in rented accommodation. She also pointed out that research currently being undertaken shows that being a social tenant is a key predictor of poor financial capability.

She discussed the tools available on the Money Advice Service website, including tools specifically for people a year or two before retirement being automatically enrolled. The guidance suggests that people very close to retirement might want to consider paying down debt, and to think about whether they expect to be on means tested benefits in retirement. There is a pensions calculator, developed by the ABI which helps people understand how much they would get out of saving into a pension.

She then described the retirement journey from around age 55, the aim being to drive people into making engaged and informed choices about their retirement. She described the way that the Money Advice Service can support people at various stages as they begin to approach their retirement, including taking time to consider what they want from their retirement, understanding the options available to them, and using that knowledge to get the most out of financial advice.

Panel discussion
There followed a panel discussion featuring the speakers. The discussion featured discussion on the following points:

- There was a discussion concerning the role of employers in automatic enrolment. It was noted that employer engagement with employees can reduce opt out rates. It was also pointed out that it may be sensible for employers to encourage employees to have adequate pension for resourcing reasons.
- There was discussion around the potential of the reforms set out in the budget to be used for tax recycling. This is where the whole salary of an employee over age 55 is put into a pension scheme only to be immediately withdrawn, with 25% of it being eligible to be taken tax free. It was felt that the majority of people would not have the financial understanding in order to engage in such behaviour. However it was also pointed out that a large part of the complexity in tax rules cover the small number of people who would try to exploit such opportunities and that the rules to address this would increase the complexity of pension taxation.
- The role of guidance was considered. It was noted that the budget rules in concert with auto enrolment have had the effect of reducing choice at the accumulation stage of pension provision, and introducing choice at the deccumulation stage. It was noted that following such a large change in the system, the guidance must be appropriate and be aware of what employees want from their retirement saving. There were concerns about a one-size-fits-all approach to guidance. It was suggested that trigger factors such as pot size, age and other information could be used to improve targeted guidance.