A Decade of Automatic Enrolment

Has it helped or hindered saving psychology?

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Contents

Executive summary

October 2022 sees the tenth anniversary of pension automatic enrolment in the UK. The introduction of automatic enrolment was a landmark moment in UK pension policy, which sought to increase pension scheme membership in the private sector. There is no question that automatic enrolment has transformed pension participation, reversing decades of declining pension participation in the private sector. But, has it increased saving psychology?

Since automatic enrolment came into effect in 2012, 10.6 million eligible employees have been enrolled into a workplace pension, including many younger workers, lower earners and women. The Covid-19 pandemic had a negligible impact on participation rates, largely due to Government support and the furlough scheme. The current cost of living crisis, though, poses a more serious threat to both short- and long-term saving that needs to be taken into account.

Automatic enrolment works by harnessing the power of inertia. Inertia has been paramount to high participation and also explains why opt-outs have remained low, but inertia can be a double-edged sword. High participation does not necessarily lead to engaged, competent savers. Participation is largely passive. Many are saving at the default contribution rate and are not making the voluntary saving that is needed to deliver an adequate income in retirement.

Simply by being automatically enrolled in a pension, many people think that their pension has been taken care of and are often less actively engaged than those who made a voluntary decision to join a pension. Default contribution rates are decidedly sticky and have a significant impact on saving psychology, encouraging people to maintain the status quo. Indeed, many believe that the default rate is the recommended rate and assume it is sufficient.

Awareness and understanding of pensions remain low. Many pension savers do not know whether they are saving enough, or indeed what enough is. Many also struggle with thinking about and planning for the long-term, and in thinking about the future life they want to achieve.

The recently launched Pension Attention campaign aims to raise awareness and interest in pensions and help people connect with their pension. This is an important first step, but plans also need to be put in place to build on this. Engagement is a process and, depending where people are on their pension journey, may take time to bring about changes in behaviour.

Pension Dashboards, due to be launched in 2023, are a welcome development and should help people to find their pension information more easily. But information alone is not enough. People need to understand the information and know how to act on it. Information without guidance could simply confuse or worse demotivate people from taking action when they need to. People also need to be nudged to engage with the information and nudged to take action.

It is also important to recognise that people are at different stages of their pension journey. A one-size-fits-all approach will not work for everyone, and developments need to be sensitive to the different context and needs of pension savers, combining flexibility with tailored solutions, information and guidance.

It is widely recognised that there is a problem with engagement, but what is meant by engagement is not fully defined. Engagement is multi-dimensional comprising cognitive (understanding), affective (emotional) and behavioural (action) dimensions. All of these need to be addressed to develop empowered and engaged pension savers.

To move beyond participation to developing competent savers requires a whole eco-system approach involving Government and policy, providers and employers. It will require a combination of policy developments, nudges, personalised information and guidance and tools working together to build competence.

Building on the success of automatic enrolment thus far, we set out a series of recommendations for Government and policy, employers, and providers. Taken together, our recommendations, if implemented, will further expand pension participation, increase pension saving, result in more households achieving a better retirement income, and equip people to not just be savers, but competent savers.

For Government and policy

Within the next two years:

- Urgently put in place a timeline to implement key proposals outlined in the 2017 automatic enrolment review.

- Remove the upper age limit (currently State Pension Age) for those saving through automatic enrolment.

Within the next decade:

- There needs to be greater flexibility to save through automatic enrolment to empower workers to make active decisions towards saving for retirement.

- Decoupling of employee and employer contributions for lower earners.

- Support the majority of households to achieve better retirement outcomes.

- Empower pension providers to give more personalised support to pension savers.

- A collaborative approach between Government, regulators, pension industry and employers to shift people's mindsets and increase pension awareness and public understanding of pensions.

- An increased focus on the role and expectations of employers

For Employers:

- Greater and broader focus on awareness raising, increasing general understanding and provision of information and guidance on planning for later life – enabling workers to make more informed decisions.

- Implementing measures to encourage employees to increase their short-term and long-term savings.

For Providers:

- To play a key role in making it straightforward for savers to access information.

- Adopt a targeted and timely approach to communications.

Introduction

This report from the University of Edinburgh in partnership with Aegon UK examines the impact of automatic enrolment since its introduction in 2012. We consider how automatic enrolment has impacted both pension participation and savings levels, as well as how the underlying nudge into savings has influenced the attitudes and behaviours of individuals towards saving for their retirement.

The report considers what automatic enrolment has achieved in the last 10 years, and sets out an ambition for the next 10 years to develop competent savers. It specifically examines the extent to which automatic enrolment has helped or hindered saving psychology by examining the following questions:

- What impact has automatic enrolment had on money and mindset?
- To what extent has auto-enrolment helped or hindered our ability to think about and plan for the future?
- To what extent is inertia a good or a bad thing?
- How has automatic enrolment affected different groups?

We conclude with a series of recommendations for Government and policy, employers, and providers aimed at further expanding pension participation, increasing pension saving, and equipping people to not just be savers, but competent savers

Our analysis and recommendations draw on a range of published industry and academic sources as well as primary research conducted specifically for this report. Two surveys were conducted. A survey of pension attitudes and behaviour was carried out by Opinium[1] between 30th June and 4th July 2022, on behalf of Aegon UK, weighted to be nationally representative among a sample 2,000 of UK adults. A cost of living survey was conducted by Opinion Matters[2] on behalf of Aegon UK between 13th and 16th September 2022, weighted to be nationally

[1] Opinium is a market research and insight agency and a member of the Market Research Society, British Polling Council and The European Society for Opinion and Marketing Research.
[2] Opinion Matters is a market research and insight agency and abides by and employs members of the Market Research Society

representative among a sample of 2,000 UK adults. Three online focus groups were conducted by the report authors comprising 13 participants in total (six men and seven women) from across the UK and with a mix of ages ranging from late 20's to late 50's.

Automatic enrolment – retrospect and prospect

Automatic enrolment was introduced in October 2012 to increase pension participation and particularly address the decline in private pension saving. It requires employers to automatically enrol eligible employees into a qualifying workplace pension scheme and make a minimum contribution. Employees are currently eligible if they are at least 22 years of age and under the State Pension age, earn over £10,000 per year in a single job, and normally work in the UK.

The automatic enrolment duties were introduced in stages from October 2012, starting with the largest employers first and a minimum two per cent contribution rate (of which at least one per cent was the employer's contribution). Contribution rates subsequently increased in 2018 to five per cent (including at least two per cent from the employer) and again in 2019 to eight per cent (including at least three per cent from the employer). Eight per cent remains the current total minimum contribution rate, applied to a band of earnings that is currently £6,240 to £50,270.

There is no question that automatic enrolment has transformed pension participation, reversing decades of declining private sector pension participation. Between 2009 and 2012, workplace pension participation fell from 58 per cent to 55 per cent of eligible employees.[3] Since automatic enrolment came into effect from 2012, 10.6 million eligible employees have been automatically enrolled into a workplace pension.[4] In total, 20 million individuals (88 per cent of all eligible employees) were participating in a workplace pension in 2021.[5] Trends in greater participation are mainly due to increased private sector pension participation, up by

[3] DWP, Workplace Pension Participation and Saving trends 2009 -2020
[4] DWP, Automatic Enrolment Evaluation Report, 2019.
[5] DWP, Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis

44 percentage points since 2012 with 86 per cent of private sector eligible employees participating. Public sector pension participation has remained high at 94 per cent (increasing just six percentage points since 2012).[6]

Overall, automatic enrolment has narrowed a number of previous participation gaps, notably gender and age gaps, and resulted in many more women, lower earners and younger people enrolled into a pension. Furthermore, the proportion of people choosing to opt-out of their pension has been far lower than expected, and has remained consistently at around 1 in 10 people opting-out within one month of being automatically enrolled.[7] Opt-outs were also largely unaffected during the Covid-19 pandemic. Even amongst the least-financially secure (those with little or no savings) participation rates are above 90 per cent.[8]

Notwithstanding the success of automatic enrolment, there are ongoing concerns that many people still are left behind. Not all workers qualify for automatic enrolment. Furthermore, whilst participation gaps have narrowed, some gaps continue to exist, particularly among women and ethnic minorities. Alongside the 10 million that have been automatically enrolled into a pension are a further 10 million employees who are still not in a workplace pension scheme.[9] These employees are mostly women, younger workers, and a growing segment of gig economy workers (estimated at between 4.4 and 5 million and growing rapidly).[10] Many of these are excluded because they do not meet the minimum age threshold, work part-time, or are in lower paid or multiple jobs and do not meet the minimum earnings threshold of £10,000 in a single job. Younger workers outside automatic enrolment eligibility are five times less likely to have a workplace pension as middle-aged employees; participation is just 20 per cent among 16-21 year olds.[11]

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[6] DWP, Workplace Pension Participation and Saving trends 2009 -2020
[7] DWP, Automatic Enrolment Evaluation Report, 2019.
[8] Cribb, J and Emerson, C. (2016). What Happens When Employers are Obliged to Nudge? Automatic Enrolment and Pension Saving in the UK. Institute for Fiscal Studies.
[9] Biggins, R and McCready, C (2020). Getting Retirement Right: Plan, Prepare, Enjoy, TISA (The Investing and Saving Alliance)
[10] See TUC Seven Ways Platform Workers are Fighting Back and Reference 9.
[11] Onward (2022). Levelling Up Pensions: How Pension Reform can Boost Opportunity for Poorer Workers and Regions

Moreover, 4.2 million self-employed individuals also remain excluded from automatic enrolment. The number of self-employed individuals has decreased from a peak of 5 million in 2019, largely due to the pandemic.[12] Self-employed individuals display the lowest levels of pension participation among all workers. Only 16 per cent of self-employed workers were saving into a private pension in 2018, which has decreased significantly in the last two decades: in 1998, 48 per cent of self-employed people contributed to a private pension.[13] This trend is particularly worrying considering that the number of self-employed has increased over the same period from 3.4 million to 4.8 million.[14] The nature of self-employment has also changed considerably over the last 20 years. Highly skilled self-employed women have contributed to this growth increasing 69 per cent since 2008.[15] An urgent solution is required for the self-employed who currently are not served by automatic enrolment and risk facing retirement with insufficient retirement income.

An independent review of automatic enrolment policy carried out for DWP in 2017[16] recommended lowering the age threshold from 22 to 18 years, and removing the lower level of qualifying earnings (£6,240 for 2022-23) thus applying the 8 per cent contribution to the whole salary up to the higher threshold. The Government signalled its intention to implement these changes in the mid-2020s, but we are fast approaching this point and there is currently no roadmap in place. If made, DWP estimates these changes would increase annual pension saving by £3.8 billion, and significantly benefit the youngest and lowest earners, increasing their pension pots by over 80 per cent. A timeline for the implementation of these policy changes needs to be agreed urgently to set this in motion.

To align with working trends, the upper age limit (currently linked to State Pension Age) should also be considered for removal. The number of over 50s in work has increased considerably in recent years. It is predicted that almost half (47 per cent) of over 50s and 11

[12] ONS, Understanding changes in self-employment in the UK: January 2019 to March 2022.
[13] Cribb, J and Emerson, C. (2016). What Happens When Employers are Obliged to Nudge? Automatic Enrolment and Pension Saving in the UK. Institute for Fiscal Studies.
[14] Ibid
[15] https://www.ipse.co.uk/policy/research/women-in-self-employment/women-in-self-employment.html
[16] Automatic Enrolment Review 2017: Maintaining the Momentum. Cm9546. Department for Work and Pensions, December 2017.

per cent of those aged over 66 (current State Pension Age) will be in work by 2030.[17] This has been driven by individuals living longer, healthier lives, but also out of financial need. Pre-retirees are becoming relatively poorer: individuals aged 50-64 currently hold 36 per cent of the nation's wealth, compared with 42 per cent a decade ago. Over 50s showed an increasing trend of economic inactivity throughout the pandemic.[18]

Calls have also been made to remove the earnings trigger for automatic enrolment of £10,000, so that all employees regardless of earnings can contribute to a pension and importantly benefit from an employer pension contribution. There is also broad consensus that the contribution level needed to provide an adequate income in retirement needs to increase, with 12 per cent generally recommended. It has moreover been suggested that employer and employee make equal contributions of 6 per cent. In Australia, for example, the employer contribution alone is already 10 per cent and is set to increase to 12 per cent by 2025.

If we want pension saving to be the norm for everyone in work, it needs to be available to all from the first day of work, and set at an appropriate contribution level to deliver an adequate income in retirement. However, we would encourage further work to understand the behavioural and economic impacts of lowering the earnings trigger and raising contributions further. Having emerged from two years of a coronavirus pandemic, the UK has now entered a cost-of-living crisis. Whilst the Covid-19 pandemic did not have a significant impact on participation or contribution rates, largely due to Government support, the current cost-of-living crisis poses a more serious threat. Increasing numbers of pension savers may struggle to continue current contribution levels whilst meeting significant increases to day-to-day living costs.

Recent research by Aegon suggests that the cost of living crisis is having a significant impact on individuals' relationship with both short-term and longer-term saving. Since the start of the cost of living crisis in late 2021, two-thirds (63 per cent) of 2,000 working adults

[17] https://group.legalandgeneral.com/en/newsroom/press-releases/proportion-of-over-50s-in-work-set-to-hit-record-high-of-47-by-2030-according-to-new-report
[18] ONS, Movements out of work for those aged over 50 years since the start of the coronavirus pandemic

surveyed say they are more worried about their finances. Over half (54 per cent) say they have cut back on day-to-day spending. One in five (20 per cent) say they have used up some or all of their emergency savings, and one in five (19 per cent) say they have increased their borrowing, rising to one in three (35 per cent) among young people. A third (32 per cent) say they have decreased or stopped saving, and a quarter (24 per cent) say they have decreased or stopped saving for retirement. Cost of living is also a major contributor to accessing retirement savings early. Almost half (46 per cent) of those that had taken an income from their retirement savings early, said they had done so because of the cost of living.

It is important then that automatic enrolment policy does not have unintended consequences, leading to increased short-term financial vulnerability or increased opt-out / cessation rates. In certain circumstances, it may be appropriate for individuals temporarily to opt out of making a personal contribution. Under the current rules, however, opting out means losing both the personal and the employer contributions. TISA[19] proposed the concept of an additional earnings threshold whereby those with earnings below the threshold might choose to opt out of the personal contribution but still benefit from the employer contribution. This would provide a more inclusive approach whilst also addressing concerns about short-term affordability, but would introduce additional complexity.

This added flexibility to automatic enrolment would certainly be beneficial, particularly for lower earners. Opting out, though, could create longer-term problems. Due to inertia people are unlikely to opt back in again voluntarily before they are automatically re-enrolled, which for some could be three years away. Therefore, any flexibility made to opt-outs should also be coupled with more regular (annual) automatic re-enrolment to ensure that people do not fall behind significantly on pension contributions.

The recent pandemic and now cost of living crisis clearly underline the need for people to be more financially resilient. Indications by the former Pensions Minister Guy Opperman that a debate on the future of auto-enrolment might incorporate some element of

[19] Biggins, R and McCready, C (2020). Getting Retirement Right: Plan, Prepare, Enjoy, TISA (The Investing and Saving Alliance)

additional emergency savings is very welcome and worth exploring, building on the successful 'sidecar' savings pilots led by NEST based on US research.[20]

How has automatic enrolment impacted money and mindset?

Automatic enrolment has been deemed a success in terms of participation, but what impact has it had on money and mindset? To what extent has automatic enrolment helped or hindered saving psychology?

At a general level, automatic enrolment has led to an increase in total savings via workplace pensions. Total annual savings for eligible savers increased to £105.9 billion in 2020, which was £28 billion more being saved into workplace pensions in 2020 compared with 2012.[21] At an individual level, however, savings rates are still too low for many. While automatic enrolment ensures that many more people than before are making provisions for later life, the Pensions and Lifetime Savings Association (PLSA) argues that contributions at the minimum rate are insufficient to provide an adequate income in retirement. Contributions at 8 per cent of relevant earnings, plus the State Pension, are estimated to deliver roughly half the level of savings required to achieve an adequate income in retirement and an estimated 12.2 million people are facing inadequate retirement incomes.[22]

For many, if not most, the default contribution rate was not designed to be sufficient on its own.[23] According to ABI,[24] a crucial assumption of how pension savers would meet replacement rates was through voluntary saving. Yet, voluntary saving beyond the statutory minimum has not materialized for millions of pension savers. The median contribution rate fell when automatic enrolment was first introduced, but has since increased in line with statutory increases to the minimum contribution rate. This suggests that automatic enrolment has resulted in a large increase in employees with relatively low contributions,

[20] https://www.pensions-expert.com/DC-Auto-enrolment/Nest-Insight-launches-opt-out-savings-trial
[21] DWP, Workplace Pension Participation and Saving trends 2009 -2020
[22] Department for Work and Pensions (2017) Automatic Enrolment Review 2017: Maintaining the Momentum
[23] Phillips, J. and Blakstad, M. (2020). Beyond the Defaults. Nest Insight.
[24] ABI (2022) Automatic Enrolment: What will the next decade bring? www.abi.org.uk, 21 June 2022.

effectively making the default statutory minimum contribution, thus reducing average contributions.[25] Comparing with private defined benefit schemes, the ABI[26] notes that average total contributions (25.6 per cent of pensionable earnings; 6.4 per cent of which is being paid by employees) 'dwarfed those in private DC schemes by a factor of 5 to 1'.

By being automatically enrolled into a pension, many people think that their pension has been taken care of and are not actively involved. Research conducted by Aegon shows that since being automatically enrolled, 45 per cent of employees say they pay less attention to their savings because it happens automatically and 48 per cent say they are less inclined to take action because it is taken care for them. These proportions are even higher for 18-35 year olds (56 per cent and 52 per cent respectively), which is particularly worrying given the significant impact and benefits of saving early and compound growth.

Default contribution rates have a significant impact on saving psychology. Research consistently shows the stickiness of defaults.[27] Part of this is due to inertia, but part of it is due to large numbers believing that the default rate is the recommended saving rate. The PLSA notes 51 per cent of employees automatically enrolled in a pension believe that the current contribution rate is the recommended saving level. Individuals therefore assume that by making the default contribution they are doing enough.[28] Thus, the default rate could actually be discouraging people from saving more.

Research by Aegon shows that less than half (43 per cent) of employees surveyed who had been automatically enrolled contributed more than the 5 per cent minimum. Earning more and having access to financial advice seem to be key drivers of higher contributions, both of which are related. Aegon research shows that 70 per cent of those earning above £50k and 73 per cent of those who had used a financial adviser (versus 35 per cent who had not) were contributing more than the default minimum. In monetary terms, those with a financial

[25] Cribb, J and Emerson, C. (2016). What Happens When Employers are Obliged to Nudge? Automatic Enrolment and Pension Saving in the UK. Institute for Fiscal Studies.
[26] ABI (2022) Automatic Enrolment: What will the next decade bring? www.abi.org.uk, 21 June 2022.
[27] See Beshears, J., Choi, J. Laibson, D. and Madrian, B. (2006). The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States, Wharton Pension Research Council Working Papers 350. https://repository.upenn.edu/prc_papers/350/
[28] Pensions and Lifetime Savings Association. Hitting the Target: Delivering Better Retirement Outcomes

adviser are saving on average £90 more into their pension per month, which is considerably higher when taking tax relief into account.

A more generous employer match has also been shown to induce some employees to move away from the default, but this typically favours higher earners and the more financially literate.[29] Aegon research reveals that three quarters (74%) would increase their contributions if their employer matched it £ for £.

Research[30] has shown people who have been automatically enrolled in a pension, compared with those who have actively chosen to save for retirement, are less likely to take voluntary action that would lead to an improvement in their pension outcomes. This may be partly explained by selection bias - people who have chosen to save for retirement may be more engaged to start with. It may also be partly explained by priming - automatic enrolment may be priming individuals to take a more passive stance.

In effect, many employees are not actively taking ownership of their retirement saving, and many individuals will need to make very high contributions to counterbalance the shortfall. Since this is not likely to be feasible for many, TISA[31] warns of increased numbers experiencing 'pension poverty' over the next 15 years.

On the positive side, research for DWP's evaluation shows that 79 per cent of eligible employees surveyed in 2019 believed that a workplace pension is a good thing. The Theory of Reasoned Action[32] suggests that a positive attitude towards a behaviour is a key predictor of that behaviour and is a crucial step towards engaging people in voluntary pension saving. Research by Aegon similarly shows that three-quarters of individuals surveyed generally perceive paying into a pension a positive thing, although a small proportion (13 per cent)

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[29] See Falk, J., & Karamcheva, N. (2022). The impact of an employer match and automatic enrollment on the savings behavior of public-sector workers. *Journal of Pension Economics and Finance,* 1-31. doi:10.1017/S1474747221000366. Blanchett, David and Finke, Michael S. and Liu, Zhikun, The Impact of Employer Defaults and Match Rates on Retirement Saving (December 24, 2021). Available at SSRN: https://ssrn.com/abstract=3992899 or http://dx.doi.org/10.2139/ssrn.3992899

[30] Madrian, Brigitte C., and Dennis F. Shea. (2021). The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior. *The Quarterly Journal of Economics*, vol. 116, no. 4, pp. 1149–87. https://www.jstor.org/stable/2696456

[31] Biggins, R and McCready, C (2020). Getting Retirement Right: Plan, Prepare, Enjoy, TISA (The Investing and Saving Alliance)

[32] Fishbein, M., & Ajzen, I. (2010). *Predicting and changing behavior: The reasoned action approach*. New York: Psychology Press.

grudge paying into a pension because it means they cannot spend so much now enjoying themselves or covering the basics.

There is also evidence to suggest that by being automatic enrolled, some people have become more interested in saving. Since being automatically enrolled, just under half (49 per cent) the individuals in the Aegon study said they had become more interested in saving for retirement. Younger employees (aged 18-34) were the most interested of all age groups. Interest in saving for retirement unsurprisingly increases with income (41 per cent of those earning up to £30,000 compared with 72 per cent earning over £50,000). However, when asked about the impact that automatic enrolment has had on saving habits, 50 per cent said it had no change on their actual behaviour.

To influence saving psychology, beyond understanding and appreciating the benefits of contributing to a pension, individuals also need to appreciate the need to make additional voluntary contributions beyond the default minimum. This requires them to know what target retirement income they are aiming for and, if there is a shortfall, what level of saving is required to close or narrow the gap. It has been reported that as high as 80 per cent of individuals do not know whether they are saving enough.[33] Lack of awareness, understanding and access to personalised guidance are key to explaining the engagement gap. To move beyond passive participation to active saving, there needs to be a focus on helping people to become competent savers. While automatic enrolment has increased pension participation, it has not been effective at helping people make well-planned decisions about how much to save for retirement.

Has automatic enrolment helped or hindered our ability to think about and plan for the future?

To what extent has mandatory saving via automatic enrolment helped or hindered our ability to think about and plan for the future? Overall, it would seem that for many being automatically enrolled in a pension has not had a significant impact on thinking about and

[33] Pensions and Lifetime Savings Association. Hitting the Target: Delivering Better Retirement Outcomes

planning for the future. Indeed, for some it may actually delay thinking about the future if they believe that by being automatically enrolled their pension has been taken care of.

In general, people tend not to think too much about retirement, particularly the further they are away from it. Regardless of whether employees have been automatically enrolled, Aegon research finds that a little over one quarter (26 per cent) of employees in a workplace pension think about retirement a lot, 47 per cent think about retirement a little and 28 per cent think about retirement either not much or not at all. Unsurprisingly, thinking about retirement increases with age: Only 14 per cent of 18-34 year olds have thought about retirement a lot whereas one-third (34 per cent) have thought about it not very much or not at all, compared with 43 per cent of those aged over 55 who have thought about retirement a lot.

In planning for the future, individuals and households need to consider the kind of lifestyle they want to have in retirement. This requires them to take into account how long they will live in retirement and need to provide for themselves. Life expectancy rates have increased over the last few decades. TISA notes that individuals entering the workplace in 2025 will have a life expectancy of 90 years and will need to fund retirement for 20 of those years.[34] Not all will be able to work into later life due to ill health and not all years in retirement will be in good health, giving rise to higher care costs. The average time spent in a care home is 30 months typically costing between £80,000 to £100,000, although costs can be much higher for some.[35]

When thinking about their future self (at age 60 plus), Aegon research suggests that 64 per cent of those automatically enrolled (versus 62 per cent of all employees) say that they consciously take into account how much money they will need to live the life they want to live in retirement. Moreover, 62 per cent (versus 61 per cent) take into account their pension and how much they will need. Over two-thirds (78 per cent) of those automatically enrolled agree that having a pension makes them feel better protected/more resilient to later life events. Yet, a little over half of those automatically enrolled (53 per cent compared with 52 per cent of all employees) have an idea of how much they need to be saving to meet their

[34] Biggins, R and McCready, C (2020). Getting Retirement Right: Plan, Prepare, Enjoy, TISA (The Investing and Saving Alliance)
[35] Ibid

retirement goals, and 40 per cent are not confident that they will have saved enough money to fund the lifestyle they would like in retirement.

Those earning more (44 per cent earning less than £50K and 76 per cent earning £50K+) and those that have used a financial adviser (81 per cent used versus 44 per cent not used) are the most confident that they will have saved enough to meet their retirement goals. Young people are also more confident – 62 per cent of 18-34 year olds are confident they will have saved enough to meet their retirement goals compared with 45 per cent of 35-54 year olds. This could be false confidence, reflecting a lack of understanding of pensions and how much needs to be saved, as well as procrastination caused by the longer time available until retirement, and is potentially worrying if it leads to delayed action. Women are less confident than men that they will have saved enough: 45 per cent vs 58 per cent. Almost half (49 per cent) of those automatically enrolled are worried that they will not have enough money when they retire. The most worried are women (52 per cent) and 35-54 year olds (53 per cent).

This suggests a high proportion of individuals are either unaware of how much they need to save to fund the lifestyle they want to live in retirement, or they are seriously underestimating the cost of retirement. The PLSA has developed retirement living standards that show what retirement looks like for minimum, moderate and comfortable standards of living and suggests that an annual income of £30,600 is required for a couple to achieve a 'moderate' retirement.[36] A number of organisations have already adopted these standards in their pensions communications, but more could be done to ensure that they are consistently used across the industry to help pension savers engage more effectively with their futures.

Understanding the retirement standards to be achieved is a key initial step in thinking about and planning for the future, providing a target to aim for. But more needs to be done about understanding how much people need to save to achieve retirement income standards and greater support is required to assist people in understanding how to achieve those standards, to avoid people realizing too late that they will not achieve their retirement expectations.

[36] https://www.retirementlivingstandards.org.uk/

There is a role for pension providers and employers to help employees think about and plan for the future and empower them to take ownership of it.

Is inertia a good or a bad thing?

Automatic enrolment harnesses the power of inertia by removing the need for individuals to make an active decision. By automatically opting employees into a pension scheme they are nudged[37] into pension saving at a determined default minimum rate. To what extent, though, is inertia a good or a bad thing?

Automatic enrolment has achieved the success of high participation because it works with decision inertia. As a result of automatic enrolment saving into a workplace pension has become normalized. Research for DWP shows that 81 per cent of eligible employees surveyed in 2019 agreed that saving into a workplace pension is the normal thing to do if you work for an employer.

Inertia has also ensured that opt-outs have remained low. Even when the statutory contribution levels increased, opt-outs were largely unaffected. There was also little impact on opt-outs during the Covid-19 pandemic, largely due to Government support and the furlough scheme. Some have questioned whether inertia is too strong, suggesting it may be in the interests of some people, particularly those less financially secure, to opt out.[38] Participation rates of the least financially secure are the same as the most financially secure.

While inertia has been paramount to high pension participation and low opt-outs, it is also holding further saving back. Having removed the decision to join or not join does not remove inertia which continues to affect subsequent decisions that need to be made – such as whether to increase contributions. As such automatic enrolment has not significantly engaged people in voluntary pension saving. A report by the ABI[39] highlights numerous interventions - simpler language, "wake up" packs and the new Simple Annual Benefit Statements - from

[37] Thaler, R. and Sunstein, C. (2008). Nudge: Improving Decisions about Health, Wealth, and Happiness

[38] Biggins, R and McCready, C (2020). Getting Retirement Right: Plan, Prepare, Enjoy, TISA (The Investing and Saving Alliance)

[39] ABI (2022) Automatic Enrolment: What will the next decade bring? www.abi.org.uk, 21 June 2022.

industry and Government to wake people up. But, people also need to be nudged to engage with them.

The lack of active engagement is completely at odds with the expectations of defined contribution pension savers. The move away from defined benefit to defined contribution and the advent of automatic enrolment marked an important shift in responsibility and risk for retirement outcomes from the employer to the individual. This includes responsibility for setting an appropriate contribution level and keeping this under review, selecting an appropriate fund, and making decisions regarding the most appropriate retirement income strategy. TISA suggests that this is "a huge undertaking for individuals, yet most people do not understand that they have these responsibilities."[40] This shift in responsibility to the employee would suggest the need for more active engagement and ownership of decision-making, rather than the passive participation currently observed.

The need to increase active engagement in pensions is widely cited as an objective by both industry and policy makers, but what is meant by engagement is not fully defined. Within the field of consumer behaviour research, there has been a considerable focus on understanding consumer engagement in the last decade, including a focus on how to conceptualise, define and measure engagement.[41] From this, there is general acceptance that consumer engagement:

- is individual and context dependent and may fluctuate over time;
- occurs as a result of an interactional relationship with another entity which may be a brand, provider or website;

[40] Ibid

[41] Brodie, R.J. and Hollebeek, L.D. (2011), Response: advancing and consolidating knowledge about customer engagement*, Journal of Service Research*, Vol. 14 No. 3, pp. 283-284. Brodie, R.J., Hollebeek, L.D., Juri c, B. and Ili c, A. (2011), Customer engagement: conceptual domain, fundamental propositions, and implications for research, *Journal of Service Research*, Vol. 14 No. 3, pp. 252-271.

- is manifested over three dimensions: cognitive, affective and behavioural. The relationship between these dimensions is non-linear and the importance of individual dimensions may vary depending on the product or service category.

A further development in the last five years has been a shift from conceptualising engagement within a dyadic relationship to positioning it within a broader ecosystem. This highlights the importance of the whole pension ecosystem, including Government, pension providers and employers working together to encourage and support engagement.

This provides a helpful basis for considering pension engagement, which is arguably a form of consumer engagement. There are, however, a number of distinguishing features of pension engagement that should also be considered. First, pension engagement under automatic enrolment sits within the relationship between the employer and employee but also between provider and member. Both of these relationships separately and in interaction may influence engagement. Secondly, the complex nature of pensions and the fact that any rewards are a long way into the future makes it particularly challenging to build engagement. Third, the beneficiary of pension engagement is the member rather than the brand or provider seeking to engage them.

Engagement is a process and, depending where people are in that journey, may take time to bring about changes in behaviour. The first ever Pension Attention season is taking place Autumn 2022 with support from across the pension industry. The main aim of Pension Attention in 2022 is to raise awareness and interest in pensions and help people to reconnect with their pension. The initial objectives are simply to help people feel good about having a pension, check their pension details are up-to-date and to know what they have and might need. This is an important first step in engaging pension savers at an awareness and emotional level.

The overall longer term objective of Pension Attention is to "*encourage people to engage more with existing pensions communications, save more to achieve a higher income in* *retirement, and encourage people to review their retirement options, consider opportunities to consolidate, and see how and where their pension is invested*."[42]

These aims broadly reflect The Pension Regulator's Regulatory Guidance for Defined Contribution Schemes[43] which specifically assigns responsibility to pension schemes for communications to enable engagement: "*Communication to members is designed and delivered to encourage member engagement, so that they are able to make informed decisions about their retirement savings....Member's outcomes will be improved when members engage on key issues such as how much to contribute, what fund(s) to invest in and ... retirement benefits*." (2013, p27-28).

Considering the aims discussed above and the dimensions of engagement. A key theme in both the ABI and TPR quotes above is informed decision making by members. This requires cognitive engagement in understanding the pension and what is required of them to fully engage, but getting to that stage for many requires an affective engagement that motivates or interests them to gain that level of understanding. Many people that have been automatically enrolled are simply unaware that they are even saving into a pension: over half a sample of 4,000 working-age adults interviewed in research for ABI did not think they had a pension.

There are also significant challenges with understanding, low levels of financial literacy and capability. Pensions are complex. How realistic is it to expect that all employees will reach a level of understanding that means they can make their own decisions competently? Many will need to delegate significant decisions to an expert. However, ABI notes that over half (52 per cent) of all pension pots are accessed without either impartial guidance from Pension Wise or regulated financial advice [44] and only one fifth of 50-64 year-olds have spoken to a financial adviser when accessing their pension.[45] ABI research clearly highlights that nearly

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[42] ABI (2022) Pension providers and schemes join forces to boost the nation's engagement with pensions. News article 05/04/22. Available: https://www.abi.org.uk/news/news-articles/2022/04/pension-providers-and-schemes-join-forces-to-boost-the-nations-engagement-with-pensions/

[43] TPR (2013) Regulatory Guidance for Defined Contribution Schemes

[44] Ref 50 ABI https://www.abi.org.uk/globalassets/files/publications/public/lts/2021/supporting-customer-decisions-about-pension-withdrawals.pdf

[45] Ref 51 ABI https://www.smf.co.uk/wp-content/uploads/2022/02/A-Guiding-Hand-February-2022.pdf

three-quarters of people say they will not pay for financial advice.[46] Those that can afford to pay for financial advice are therefore benefitting more and are making more effective decisions about their pension saving as a result.

Behavioural engagement manifests in many ways - in looking at statements, making contributions, and monitoring funds. Many people are not actively behaviourally engaged, but are passively engaging at a low level because they are making default contributions. Many do not even engage with their annual statement. Aegon research reveals that while 43 per cent say they check in on their pensions online, almost one-third (31 per cent) say they wait for their annual benefits, and almost one-fifth (19 per cent) say they do not check at all. Younger people are more likely to check in online (50 per cent) and via an app (42 per cent) rather than wait for an annual statement (19 per cent) and also check in more frequently as well.

There is a need to find ways to help more people to engage more fully through cognitive and affective levers and to understand what these might be for different groups. The previous section highlights the issues people face in planning for the future. Having automatically enrolled people into a pension, they need to be given the tools to help them think about and plan for the future they want to achieve.

There is clearly a need for more straightforward and personalised information, education, and low/no-cost access to financial guidance and advice. Pensionwise is only available to individuals aged 50+. Pension dashboards should help people to find their pension information more easily, but information alone is not enough. Individuals need to understand the information and how to act on it. There also needs to be tools and functionalities available within the Pension Dashboards to enable people to make informed decisions. Research by Harrison and Waite examining the impact of online pension information and pension modellers pre-automatic enrolment[47] identified three segments: informed, empowered and paralysed. Only the empowered group felt confident enough to take action following greater access to online pension information alone. The Informed group felt they knew more and

[46] ABI calls for financial advice and guidance overhaul as polling reveals 72% of people will not pay for advice
[47] Harrison, T. & Waite, K. (2015) Impact of co-production on consumer perception of empowerment, The Service Industries Journal, 35:10, 502-520, DOI: 10.1080/02642069.2015.1043276

understood more about their pension, but did not feel capable of taking action, and the paralysed group felt more confused by the information and felt they had been given more control than they wanted.

In driving engagement, it is useful to consider what type(s) of engagement are desired and what actions or interventions may be needed:

- **Cognitive engagement** – interventions and actions aimed at improved/increased awareness and understanding of pensions and options available, such as awareness campaigns, better information, education, and more personalized guidance on which individuals can make informed choices. There is a role for the Government, pension providers and employers in increasing cognitive engagement.

- **Affective engagement** – interventions and actions aimed at increasing interest and motivation in saving for retirement and increasing the importance of longer-term saving. Also interventions to help people think about their future in a more positive way, thus reducing anxiety/worry about retirement, such as helping people to understand and feel good about the saving they have already done.

- **Behavioural engagement** – interventions aimed at encouraging individuals to take action. This could be nudges to encourage people to engage with pension statements and keep themselves informed (i.e. regularly checking pension statements/performance); remaining an active saver; attending information sessions; increasing contributions.

It is important to recognise the interrelationships between cognitive, affective and behavioural engagement. Nudges that take advantage of passive participation and provision of information alone will not drive voluntary behaviour. A combination of nudges (that prompt people to take action), personalized information and guidance and tools to enable individuals to plan are necessary to overcome the inherent barriers to engagement. This also needs to be set within the wider context of the ecosystem and potential structural and other barriers to engagement.

How has automatic enrolment affected different groups?

What has been the impact of automatic enrolment on different groups of consumers at different stages of their pension journey? We look at Generations X, Y and Z and also women. Generation X (born 1965-1980) are either mid-way through their working lives or approaching retirement. Both Generation Y (born 1981-1996), more commonly known as Millennials, and Generation Z (born 1997-2009) are in the earlier stages of pension accumulation and may have been enrolled into a pension for the first time as a result of automatic enrolment.

Pension engagement is individual and subject to a range of influences in each person's own life course, career and family circumstances. Nonetheless, looking at patterns of engagement across these groups of consumers provides useful insights into where there are remaining challenges for automatic enrolment and some of the measures that could be applied to enable these groups to engage more fully with their pension savings and deliver better retirement outcomes for a greater proportion of the population.

Generation X - The Squeezed Generation

Generation X are the cohort after the Baby Boomers. Born between 1965 and 1980, they are now aged between 42 and 57 and are referred to as the 'Squeezed Generation' who are likely to still be funding children either of school age or young adults, and also have caring responsibilities for older parents. As a group of just under 14m, Generation X account for approximately a fifth of the UK population.

This cohort are of concern. While some have benefitted from defined benefit pension schemes for part of their working lives, 30 per cent will not accrue enough pension entitlement;[48] 1 in 4 of them will be completely dependent upon the state pension and a third of them will have to work longer than planned.[49]

Research by the ILC[50] highlights that despite the advances made by automatic enrolment, there are significant subgroups of the Gen X cohort who are "*slipping between the cracks*" of the system as they entered the workforce too late to have benefitted from defined benefit schemes and are unable to accrue sufficient defined benefit savings.

Pension participation among Gen X has risen to 73 per cent under automatic enrolment. However, this varies in line with earnings and is highest, at more than 90 per cent, among those earning £70-80k but less than 60 per cent of those earning £10-15k are in pension schemes.[51]

While many would like to save more for their retirement, Gen X have faced a number of barriers to doing so including wage stagnation, insecure employment or income, combined with house price and rent inflation.[52] Many have also been adversely affected recently by the pandemic and either dipped into savings, stopped saving or contributing to a pension, or borrowed. Over half (57 per cent)[53] reported that they would like to save more, but are struggling to do so. Other financial barriers identified are prioritising debt and having too many other priorities including the cost of childcare and supporting adult children.

As well as affordability, NEST research[54] reports other barriers that prevent Gen X from engaging with retirement planning are a sense of being overwhelmed and low confidence, leading a significant proportion of Gen X to feel they would rather not think about their

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[48] ILC (2021) Slipping Between the Cracks? Retirement Income prospect for Generation X. https://ilcuk.org.uk/wp-content/uploads/2021/03/ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf
[49] Kyriakou (2020) Pension pain for Generation X is 'national scandal'. FT Adviser. 6th February. Pension pain for Generation X is 'national scandal' - FTAdviser.com
[50] ILC (2021) Slipping Between the Cracks? Retirement Income prospect for Generation X. https://ilcuk.org.uk/wp-content/uploads/2021/03/ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf
[51] Ibid
[52] Ibid
[53] Ibid
[54] NEST Insight (2021) Small steps to a better future https://www.nestinsight.org.uk/themencode-pdf-viewer/?file=https://www.nestinsight.org.uk/wp-content/uploads/2021/10/Small-steps-to-a-better-future.pdf#zoom=page-fit

retirement. Similarly, research from Standard Life[55] identifies that Gen X are less likely than other generations to feel positive about their financial situation, or to feel confident that they will have saved enough for their retirement. Gen X women particularly are less likely than any other group to feel positive about their financial situation.

Over one third (39 per cent) of Gen X[56] report that they don't feel confident about planning for retirement and want more information. Key demands are for information on how much they need to save and how to keep track of multiple pension pots that have been built up with changes to pensions. They also report low awareness levels around tax relief and available guidance.[57]

Recent research by Aegon highlights that those aged 34-54 were less likely than both older and younger groups to feel confident about their retirement savings and more likely than other age groups to report being worried that they would not have enough money when they retire (53 per cent).

> ***"I was never brought up from a really financially savvy background ... It's all been very haphazard, and I've only taken it pretty seriously in the last two or three years. I'm looking forward to never having to go work again, definitely, but the rest of it is a bit of a worry."*** **(Simon, age 51)**

A significant proportion of Gen X expect to work beyond the State Pension Age into their 70s and 80s, to help address the shortfall in their retirement savings, but a combination of poor health, a lack of employment opportunities for older workers and caring responsibilities will limit the capacity of many to do so. Some of our focus group participants exemplified this, discussing that they intended to keep working as long as they were able to do so.

When asked about their attitude to savings in general, Aegon research finds that 37 per cent said that they are more keen to save generally since being automatically enrolled. However, when asked how automatic enrolment had influenced their attitude to pension saving, 38 per cent reported that automatic enrolment had had no impact on their attitude to pension

[55] Standard Life (2021) Consumer Attitudes Report https://blog.standardlifeworkplace.co.uk/gen-xers-finances/#_ftn1
[56] ILC (2021) Slipping Between the Cracks? Retirement Income prospect for Generation X. https://ilcuk.org.uk/wp-content/uploads/2021/03/ILC-SLIPPING-BETWEEN-THE-CRACKS-3rd-March-Final.pdf
[57] Ibid

saving; 30 per cent had not thought about their retirement much or at all; and only 11 per cent felt that they were more aware of how much they needed to save to fund retirement.

> ***"My youngest will be just leaving school so likely to have university fees etc. so certainly won't be retiring. Think we'll be financially quite strapped at that point."*** **Wendy (age 49)**

This perhaps illustrates the extent to which this generation are squeezed and feel they need to focus on other more immediate financial priorities. This was evident in focus group discussions. When asked how they thought things would look 10 or more years ahead, Gen X respondents, women in particular, tended to base their responses on key life events or stage their children would be at and what this would mean for their finances.

Mortgages were also seen as a priority and part of longer-term planning. However, others reported that they have been more squeezed by the costs of bringing up a family and been unable to buy their own home.

> ***"We've always considered that the house would be our pension part if you like, so putting the mortgage on an even keel is really a way of almost investing in the future in addition to the pension. So I do definitely see the mortgage as being a priority for that reason."*** **Lorna (age 57)**

Several sources have highlighted the need to do more to help Gen X to prepare better for retirement. Former Secretary of State for Work and Pensions, Lord Hutton, commented: *"many people still find it very hard to save sufficient money to cover their retirement needs. We will need a very significant focus on Generation X as we consolidate the enormous progress we have made since 2005 in establishing an effective and inclusive pension savings policy."*[58]

To make the system more inclusive as Lord Hutton suggests will require structural changes. However more could be done in terms of tailored guidance and information and how this is accessed to help disadvantaged groups in this age cohort to better understand how much they need to save and the options available to them.

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[58] Quoted in Ferris (2020) Gov't urged to offer pension support to Gen X. European Pensions, 30/11/20. Govt urged to offer pension support to Gen X - ILC - European Pensions

Generations Y and Z

Thanks to automatic enrolment, many more young people are now saving in a pension than previously, but the minimum age threshold of 22 still leaves a considerable gap for 16-21 year olds who are five times less likely to have a workplace pension as middle-aged employees.[59]

The younger age groups are the least experienced when it comes to retirement planning. Eight in 10 (88 per cent) of Gen Z and Millennials[60] said they had no idea about how much money they will need in retirement to live comfortably (compared with 67 per cent generally). Yet perhaps more worrying is that only 38 per cent reported feeling worried about this.

There is some evidence to suggest that simply being automatically enrolled in a pension is having a positive impact on some young people's attitudes towards saving for retirement. Aegon research shows that, since being automatically enrolled, around half of 18-34 year olds (51 per cent vs 49 per cent overall) are more likely than older age groups to say they are more interested in saving for retirement and say they are taking a more active role in considering their future and whether they are saving enough for retirement (62 per cent vs 56 per cent overall). In focus groups, Generation Y participants all expressed the view that automatic enrolment had been a good thing for them in getting them to start saving for their retirement where otherwise they would have spent this money on other things.

"When they take choices away from you, you may not be happy…. But a year or two years down the line when you see the pension statement comes through, then you will feel, OK that's brilliant. It was money that I haven't missed and it's parked away from me somewhere."
(Bruce, age 28)

[59] Onward (2022). Levelling Up Pensions: How Pension Reform can Boost Opportunity for Poorer Workers and Regions
[60] Schroders Personal Wealth. Money and Mind II Report (2022)

> ***"The last three or three, four years have kind of been unprecedented. There's too many unstable variants to really be able to plot a course and actually think you're gonna achieve it."* (Georgie, mid 30s).**

When asked about planning for the future, focus group participants in their 20s and 30s reported that they found it difficult to plan for 10 or 20 years ahead because of the uncertainty created by the pandemic followed by an impending cost of living crisis.

While they feel they are unable to plan for 10 or 20 years ahead they were focused on the need to save for their retirement. Some in their 30s expressed concern that they would not be able to save enough having been only enrolled in their mid to late 20s and wished they had started saving at an earlier age.

Research by the Pensions Management Institute,[61] which polled 1,000 employees aged between 18 and 22 found: 82 per cent of those in work believe pension saving should start before age 22; 61 per cent of those surveyed think that an individual's entire salary should be counted when calculating pension contributions; 59 per cent think that the statutory minimum contribution rate of 8 per cent is too low, and wanted a minimum rate of 12 per cent.

Cushon[62] also reports that attitudes to money among Millennials had changed since the pandemic, with 18-24 year olds being twice as likely to be interested in saving for the future than they were before 2020. There does therefore seem to be an appetite for long-term savings among younger employees.

Aegon research also highlights that younger employees in pension schemes are more likely than other age groups with pensions to be aware of how much they contribute to their pension, with 58 per cent knowing the exact amount. They are also more likely to use apps to keep up to date with their pension (42 per cent versus 16 per cent overall) and also to check in more frequently. So, potentially younger groups are more likely to benefit from the pension dashboards and as a result are more likely to be informed of how much they are saving.

[61] PMI Research (2022) reported in https://www.pensions-expert.com/DC-Auto-enrolment/Eight-out-of-10-young-adults-demand-earlier-pension-saving?ct=true
[62] Cushon Whitepaper (2021) Pensions to be Proud of

> *"They give you they give you information and all the booklets and the only reason why I know anything about it is because I've worked in financial services…. But for a lot of people, it's kind of indecipherable. It would be quite nice to have somebody actually talk it through and just explain like what this means and if there are better options, you can make your own decision." (Claire, early 30s)*

But, this doesn't necessarily mean they will understand more or take action, and there is still a need for education and support, including more personalised guidance to underpin this. In focus groups there was a sense from respondents of feeling they should be doing more but not feeling they understood enough to do so.

There were also calls from focus group respondents for more communications specifically from employers about their pensions.

Aegon research indicates greater evidence of inertia among younger age groups with 56 per cent saying they pay less attention to their pensions because it happens automatically (vs 45 per cent overall); 52 per cent are less inclined to take any action because it's taken care of for them (vs 48 per cent overall). They are also more likely to report that they feel confident they will have saved enough to fund the lifestyle they would like in retirement (62 per cent vs 52 per cent overall).

> *"I wish there was a bit more communication with my pension scheme … I've never had a person at work explain any of it to me and so it's kind of all your own research and it's all online and then you don't get kind of e-mail updates. It's not very regular. And then because I'm busy at work, I forget to go out of my way and look up the pension scheme … I think I'd really benefit from more communication" (Amelia, age 28)*

There is therefore a need to build greater engagement with younger age groups who are at the earlier stages of their pension journey to help more of them make informed decisions in order to benefit from their pension savings. There is also work to be done with the 22 per cent of 18-34 year olds in Aegon research who say they begrudge paying into a pension.

Women

The 2004 Pension Commission highlighted the lack of pension provision among women and concluded that future arrangements must enable more women to accrue pensions in their own right, moving away from historic structures that assumed women would depend on their husbands' pensions.[63]

Automatic enrolment has been successful in increasing participation among women,[64] but there are groups of women still excluded from automatic enrolment because of their low earnings and/or part-time work, including those with multiple part-time jobs.[65]

Additionally, studies continue to report significant differences in pension fund values between men and women, known as the Gender Pension Gap.[66] This gap is acknowledged as being the result of several structural issues including wage inequality, different working patterns and career paths often linked to family and caring responsibilities. The gender pay gap in the UK is still around 15 per cent.[67] Over time, this pay gap contributes to a significant difference in the value of accrued retirement savings. Men also benefit more from pension tax relief accounting for 71 per cent of relief claimed as they tend to earn more.[68] At retirement, men's pension wealth is as much as double that of women, (£130,000 versus £260,000) but the differences in accrued wealth are also evident at much younger ages.[69] Focus group participant Wendy, is typical of those whose careers – and thereby

> ***"Well, my personal pensions are a bit of a mess to be honest, 'cause I've worked in various companies and I've had maternity breaks. …And with my husband's pension, if there's an option to pay extra, we've kind of struggled a little bit more so that we can put extra into that pot."*** **(Wendy, age 49)**

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[63] Pension Commission Report (2004)
[64] ONS (2021) Employee workplace pensions in the UK: 2021 provisional and 2020 final results.
[65] Hansard (2021) Pension Gender Gap Debate. House of Lords, 13th July. https://hansard.parliament.uk/Lords/2021-07-13/debates/40EB7E4B-2172-431C-9426-81B4CC661026/PensionsGenderGap?highlight=gender per cent20pension per cent20gap#contribution-C71C566E-3877-4A4C-9538-1648AA392933
[66] House of Commons, Scottish Widows (2021) & TUC
[67] ONS (2021)
[68] ABI (2022) Automatic Enrolment: What will the next decade bring? www.abi.org.uk, 21 June 2022.
[69] Scottish Widows 2021 Women and Retirement Report

pensions - have been disrupted by having children and so are dependent upon their husband's pension savings.

The impact of this difference in accrued pension wealth is exacerbated by the fact that women typically live longer and so have to fund a longer period in retirement. They are also more likely to require some form of care in later life, with further cost implications. Scottish Widows estimates that this could amount to a gap of £185,000 for women taking account of lower available funds and their increased cost of retirement.[70]

It is therefore important that more women are able to engage with their pensions and make informed decisions in order to achieve better retirement outcomes. However, evidence suggests that women also engage less than their male counterparts. Previous research by Foster and Heneghan,[71] and the Scottish Widows Women and Pensions series has shown that women's pension engagement is limited by a lack of confidence in and understanding of the pension product (cognitive), combined with a lower risk tolerance in relation to their pension (attitudinal), which has constrained active decision making (behavioural).

A further barrier to pension engagement for women is a tendency to have more linear approach to financial planning and to leave pension planning to later in life, with resources used in earlier years to pay off debt, and then to support their families.[72]

In behavioural terms, women tend to report saving a lower percentage of their income (13.5 per cent) than men (16 per cent). Data from NEST schemes shows that in monetary terms, average annual contributions from women are 29 per cent lower than those of men.

In terms of mindset, recent research by Aegon explored people's attitudes since being automatically enrolled into a pension. While equal proportions of men and women agreed that saving for the future was important. More women than men were worried that they would not have enough money when they retire (52 per cent /44 per cent). Despite being more likely to be concerned, fewer women (48 per cent) than men (63 per cent) said they

[70] Scottish Widows 2021 Women and Retirement Report
[71] Foster, L. and Heneghan, M. (2018) 'Pensions planning in the UK: A gendered challenge', Critical Social Policy, 38(2), pp. 345–366. doi: 10.1177/0261018317726639.
[72] Foster & Heneghan, 2019; Age UK, 2018

were taking a more active role in considering their future and whether they are saving enough for retirement.

So, while automatic enrolment has increased numbers of women in pension schemes, there is still work to be done to extend access to pension saving among women. Furthermore, as many who are enrolled in schemes are set to have woefully inadequate funds, more needs to be done to move these women beyond the inertia of passive participation to being more actively engaged. This calls for more tailored information and guidance that is accessible and relevant to women's lives. The DWP and PPI have both highlighted that using purely digital approaches risks disadvantaging some groups, including women, who may be less likely to be comfortable accessing this information online. There is therefore an opportunity for a broader approach to communications across different media.

A recent House of Commons research briefing[73] acknowledges that the design of automatic enrolment contributes to the gender pension gap by widening the gap between lower and higher earners and disadvantaging those in part-time/ multiple jobs. There are also therefore structural changes needed to enable the system to work for those who do not have continuous and full-time career path. Removing the earnings trigger and the lower earnings band would particularly benefit women.

Further evidence that participation is not enough can be seen in the Australian Superannuation system, where despite compulsory contributions, the connection to paid work results in average retirement funds for women that are 37 per cent less than men at retirement and significant numbers of women over age 60 are living in poverty.[74]

Summary

This section has explored how different groups have fared after 10 years of automatic enrolment. It seems there is still work needed to meet the original objectives of enabling more women to have adequate provision in their own right. The younger age cohorts present an

[73] Prabhakar, R. (2022) The Gender Pensions Gap. House of Commons Research Briefing Paper, 4th April. https://researchbriefings.files.parliament.uk/documents/CBP-9517/CBP-9517.pdf

[74] Cambourne (2019) What it means to be an older, single woman today. The Stand, Sept 25 2019. Available: https://www.uow.edu.au/the-stand/2019/what-it-means-to-be-an-older-single-woman-today.php

opportunity to further increase pension participation as attitudes shift from living for the moment to taking a greater interest in their longer-term finances following the pandemic. Generation X who are the next cohort to approach retirement and may have had little benefit from automatic enrolment, give cause for concern as many of them are still supporting families whilst expecting to carry on working for longer to improve their own retirement prospects.

The groups discussed in this section have their own experiences of automatic enrolment but there are a few common themes emerging across these groups. Firstly, there is increasing recognition of the importance of retirement saving across age cohorts, which leads to an anxiety for many over whether they will be able to accrue adequate fund. Secondly, there are calls for more guidance as people feel they should be doing more but do not feel they have the necessary understanding. Thirdly there were also calls for more communications specifically from employers from both Generation X and Y, with some focus group participants expressing the view that as the pension is an important part of the reward package it seems strange that they only receive communications about it from the provider. This suggests there is an opportunity for employers to play a role in building pension engagement. Finally, there were calls for a shift from purely digital communications across both Generation X and Y.

Looking ahead – what does the next ten years and beyond look like for auto-enrolment?

The following recommendations seek to build on the success to date of automatic enrolment and aim to expand **pension participation** and **increase pension saving**.

If implemented the recommendations highlighted will lead to even more people saving through a workplace pension, specifically an increase in younger employees, lower earners, part-time workers and women (who are over-represented among part-time and lower paid employment) meaning higher pension participation, and will lead to all individuals saving higher contributions, leading to **more households achieving a better retirement income**.

Moving beyond solely looking at the number of workers who are a member of a workplace pension scheme as a marker of success and towards a landscape in which individuals are actively engaged in making decisions about their pension saving and planning for later life. Our research shows that more people are saving now compared to before the introduction of automatic enrolment but are doing so without making conscious and active saving decisions, and are simply following the status quo. So, while automatic enrolment has helped many more people than before, our overarching vision for the policy is to **equip people to not just be savers, but *competent* savers.**

Recommendations for Government and policy

Two year aims

Urgently put in place a timeline, within a two year timeframe, to implement key proposals outlined in the 2017 auto-enrolment review.

- **Lower the minimum age** for automatic enrolment from age 22 to 18, allowing younger employees to start saving for retirement from the first day of work.
- **Remove the lower earnings limit** using a phased approach**,** so that after a transition, pension contributions are calculated from the first pound paid in (to the upper earning threshold).

Remove the upper age limit (currently State Pension Age) for those saving through auto-enrolment

- Allow employees to continue to accrue pension savings while working into later life, recognising changes to working patterns to accommodate gaps in pension saving over the course of a working life, which would particularly benefit women.

Ambition for the next 5 – 10 years

In the next decade there needs to be greater flexibility to save through auto-enrolment in order to empower workers to make active decisions towards saving for retirement.

Decoupling of employee and employer contributions for lower earners.

- Enable employees (earning below a predetermined threshold) to opt out of paying the employee mandatory 5% contribution temporarily whilst continuing to benefit from an employer contribution, for reasons of short-term affordability.
- Introduce re-enrolment every year rather than every three years for those who may have chosen to opt out.

Support the majority of households to achieve better retirement outcomes

- Commitment to increasing the total minimum automatic enrolment pension contribution rate to 12%, with caveats in place for lower earners.
- Equal mandatory contributions from employers and employers (e.g. 6% from the employee, matched by a 6% employer contribution), with allowances and provisions for lower earners.
- A committed timeline for phasing in the increases over no more than 10 years from 2030 to ease the financial impact on employers and employees.
- Implement a pension solution for the self-employed making use of HMRC's Making Tax Digital initiative by the mid-2020s.
- Introduce mid-life MOTs for all employees to nudge people in their 40s and 50s to make more active planning in work, wellbeing and money, including pensions.

Empower pension providers to give more personalised support to pension savers

- As a priority, the DWP should work closely with the Treasury and FCA to introduce a more personalised form of guidance, taking account of an individual's personal and financial circumstances, and investment risk appetite. This would enable regulated firms to offer greater tailoring of guidance, and greater uses of earlier nudges, without crossing into FCA regulated advice, from the start of people's working life up to and beyond retirement, leading to better retirement planning, including making voluntary pension contributions above the mandated level.

A collaborative approach between Government, Regulators, Pensions Industry and Employers

To **shift people's mindsets**, and increase pension awareness, the pension eco-system needs to work collaboratively in order to **increase awareness and public understanding** of pensions.

- In 2022, a first of its kind campaign launched, led jointly led by the PLSA and ABI to spotlight pension saving. This welcomed initiative named 'Pension Attention' aimed to increase awareness of pensions through a marketing campaign aimed at consumers. This three-year campaign includes building awareness of pension dashboards in 2024. Consideration needs to be given to how to build on the Pension Attention campaign and what follows after the three-year campaign ends, including how the focus can be extended to unengaged savers, those not saving for retirement and the self-employed.
- Agree a definition of engagement that includes recognition of cognitive, affective and behavioural dimensions with clear expectations and indicators that can be used to track improvements in engagement over time.

An increased focus on the role and expectations of employers

Employers are a key channel through which employees access information about their pension savings and as such have an important role to play in supporting their employees' financial wellbeing and driving pension awareness.

- Expand the role of employers encouraging them to go beyond simply auto-enrolment compliance.
- Empower and enable employers to provide more contextualised information and guidance to employees, with the support of providers and advisers, throughout the customer journey.

Recommendations for Employers

Greater and broader focus on awareness raising, increasing general understanding and provision of information and guidance on planning for later life - enabling workers to make more informed decisions

- Work with providers and advisers to run annual campaigns using employer's insights, linked to employer's wider wellbeing activities such as the flexible benefits windows to encourage employees to engage with their pension .
- Encourage savers to sign-up so they can see their pension online at the time of their choosing, allowing then to access online pension planning tools and receive timely nudges and personalised information from their provider.
- Increase signposting to free guidance and regulated advice to enable employees to make sense of the pension information they are provided with so they can make informed decisions and take appropriate actions.

Implementation of measures to encourage employees to increase their short-term and long-term savings

- Introduce annual nudges to encourage employees to engage with their pension and make active decisions relating to it, for example during flexible benefit windows.
- Consider pension contributions as part of annual salary reviews to nudge employees to consider raising their pension contributions when they receive salary increases.
- Consider introducing matching employer contribution schemes, or save more tomorrow initiatives to encourage employees to regularly review and increase their pension contributions as they progress through their career.
- Introduce wider workplace savings, such as ISAs, into the workplace to increase employees' financial resilience and flexibility in how they save and when they access their benefits.

Recommendations for Providers

Providers have a key role to play in making it straightforward for savers to access information

- Consumers need to be empowered to make informed decisions through access to easy-to-understand information about their pension saving. By enabling savers to up their pension contributions when they want to, providers can support them to take action.

Adopt a targeted and timely approach to communications

- Government, providers and employers to take learnings from knowledge of consumer behaviour to drive engagement and active decision making. Consumers are more likely to engage with saving at certain times of the year such as the first week of the new year and prior to milestone birthdays, therefore providers should tailor their communication to educate and remind consumers of their options at this time.