

Autoenrolment

February 2017

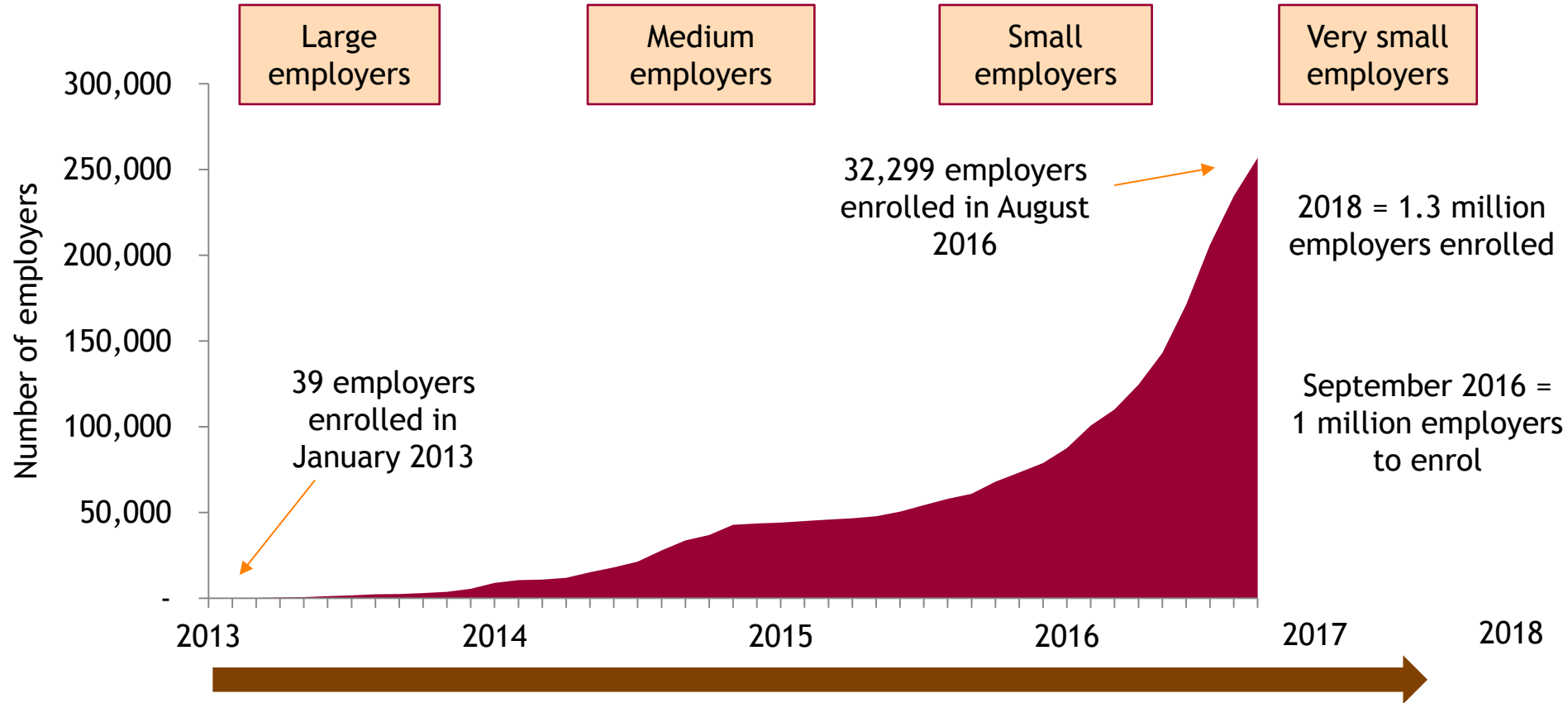
Dr Paul Cox

University of Birmingham Business School, UK

p.cox@bham.ac.uk

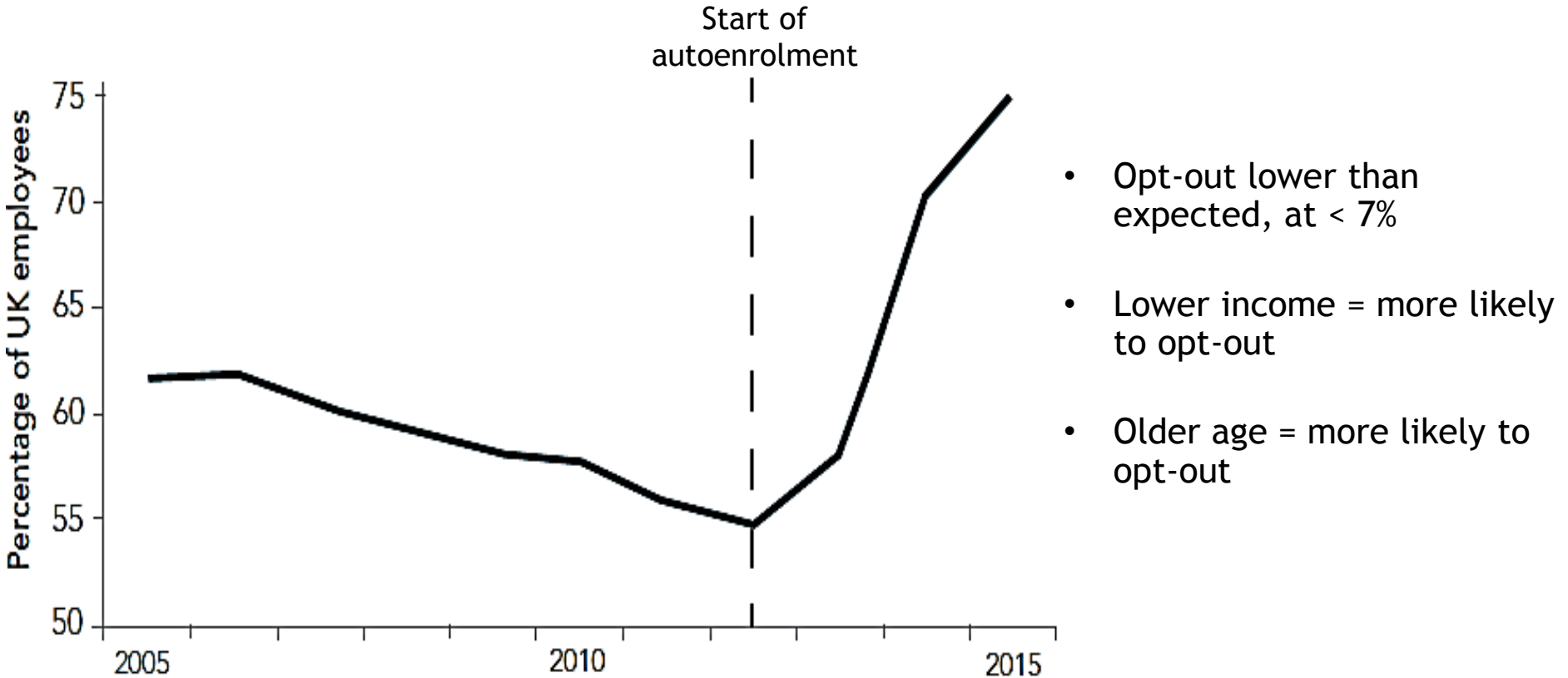
paul.cox@nestcorporation.org.uk

UK autoenrolment a success: employers comply

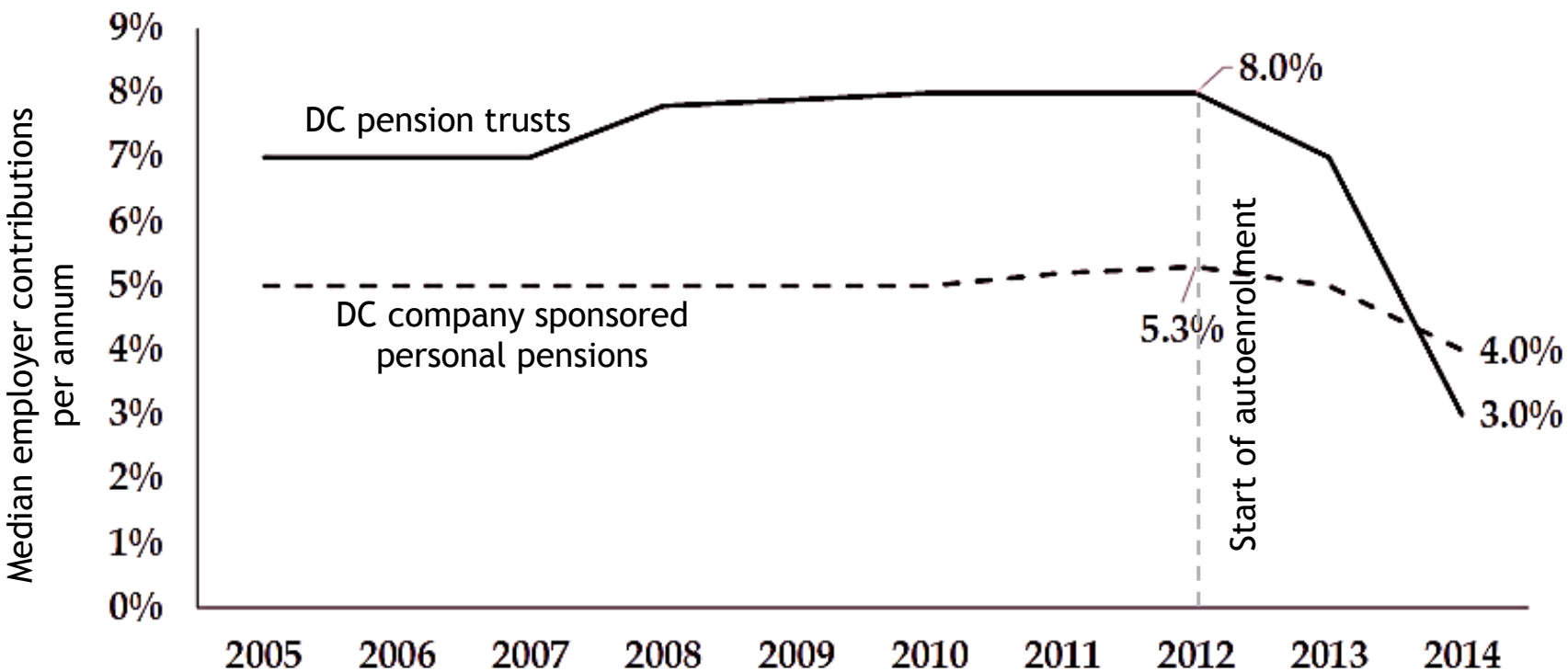


Source: The Pensions Regulator, 2016,

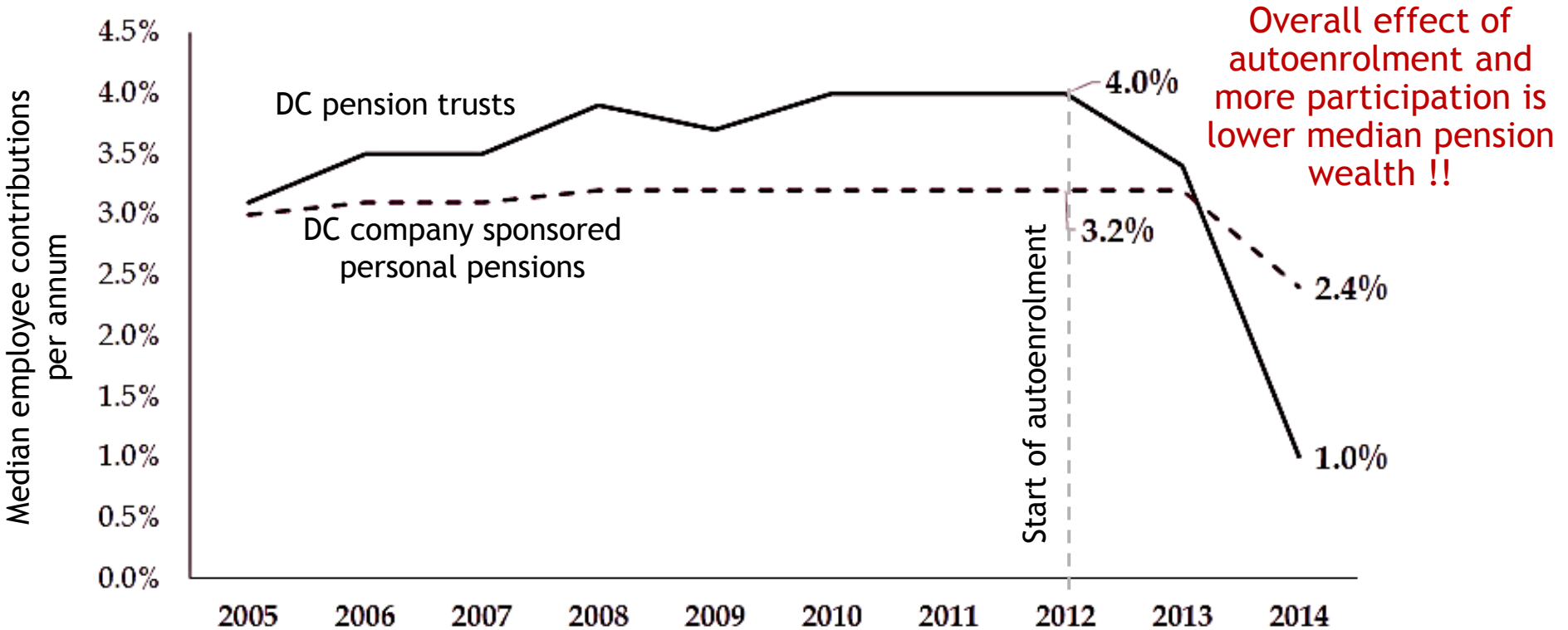
Participation a success, opt-out very low



Median employer contribution rates in DC plans higher than expected

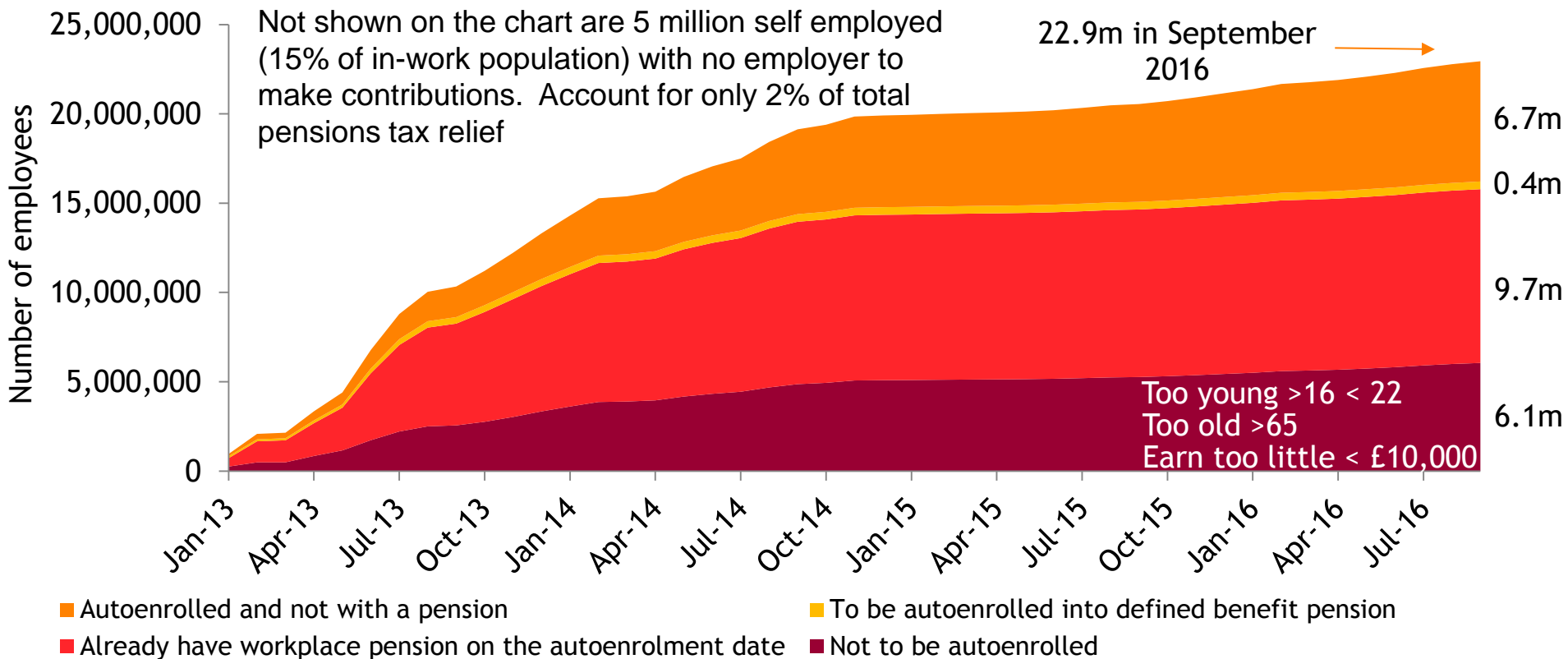


Median employee contribution rates in DC plans as expected

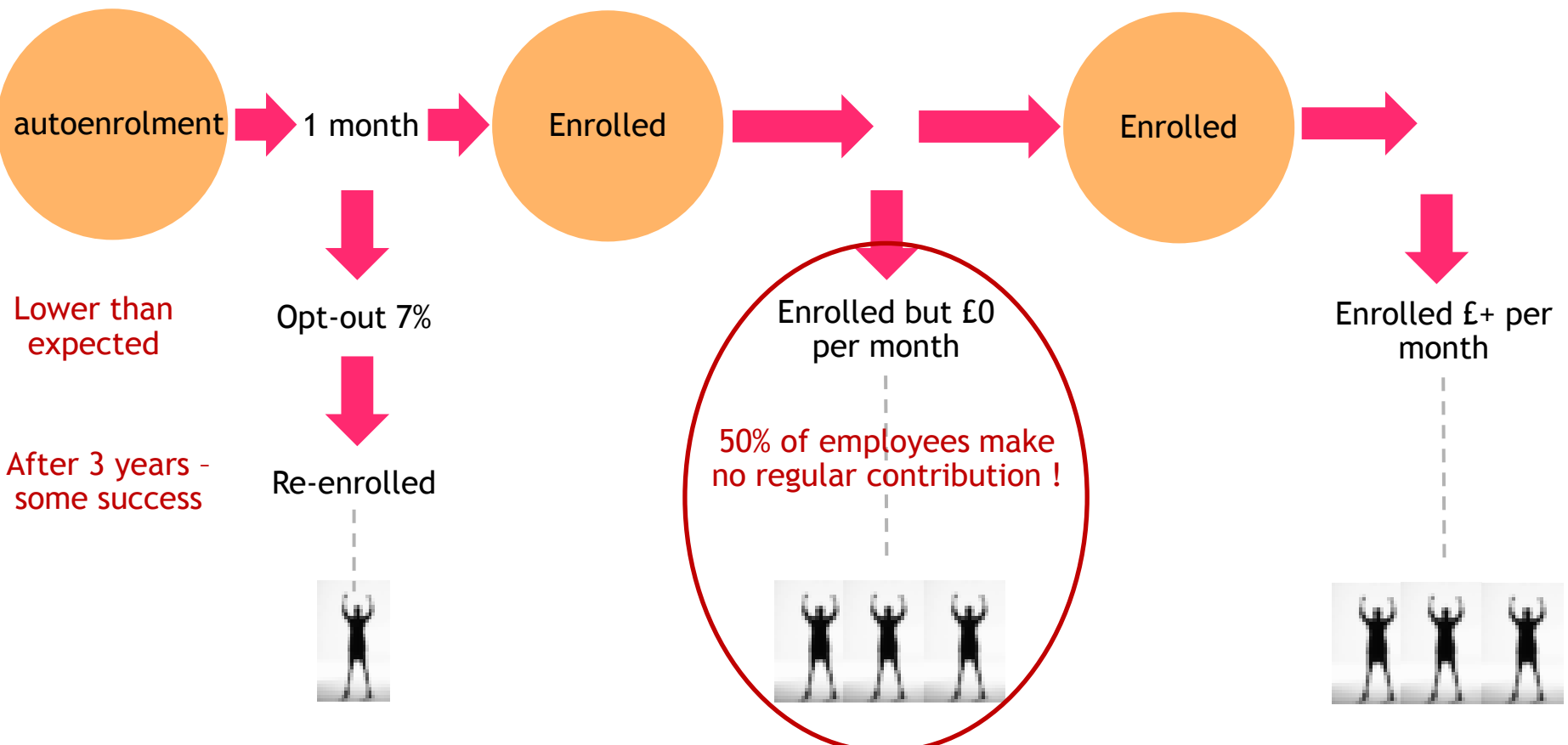


Overall effect of autoenrolment and more participation is lower median pension wealth !!

But autoenrolment not for everyone, there are many kick-outs



Opt-out and contribution rate data are pleasing, so why are total contributions less than expected?



Policy strengths:

- Policy improves pension wealth of employed workers.
- Non-savers now saving.
- Under-savers saving more.
- 100% of employers contributing.
- \approx 93% autoenrolment success
- $>$ 50% increase in likelihood that worker now participates in pension plan.
- No levelling down in existing employer contributions.
- Unexpectedly, employers not previously contributing gone straight to 3% contribution.

Policy weaknesses:

- Kick-outs.
 - Self employed.
 - Young: in work >16 and < 22 years old.
 - Old: in work >65 years old.
 - People earning $< \text{£}10,000$.
 - Workers with > 1 job whose total income $> \text{£}10,000$.
- Total contributions and flows to capital markets less than expected.
- Significant numbers of autoenrolled making $\text{£}0$ monthly contributions.
- Aggregated nature of information masks assessment of pension policy to all but the most informed.

Further discussion

- Scale needed to achieve - mostly private sector cost (though NEST in UK addressed clear market failure).
- Evidence that industry responds to major competitive threats but does not voluntarily innovate for better societal outcomes.
- Government cost is writing legislation, compliance and enforcement (see next slide).
- State already has autoenrolment with State (tier 1) pension - typically no opt-out.
- Solution for self employed needed - compulsion through tax system. More incentives to build pension wealth than property wealth.

- We remain unsure about effects on?
 - Employer hiring decisions.
 - Saving elsewhere.
 - How participation rate will react to increase in employee contributions to 4%.

UK autoenrolment compliance and enforcement

Pensions Schemes Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2008, Data Protection Act 1998,

