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The Science of Saving: Pensions

James Lloyd

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All errors and responsibility for this report rest with the author alone, and should not be attributed to any of the above individuals or organisations.

Executive Summary

Who Saves for Retirement? found the offer of employer contributions to those employees eligible for a workplace pension increases the probability of participation by 70.7%. Evidence on eligibility and employer contributions from this study suggest 2012 UK pension reforms will be highly effective in boosting rates of participation in workplace pension saving. Given evidence on the effect of external pension contributions, policymakers should explore how to best exploit further the effect of employer contributions, and 'government contributions', as incentives.

Despite worryingly low levels of liquid savings in the population, decisions on participating in pension saving appear to be relatively decoupled from liquid saving by individuals, and as such, pension policymakers should not seek to more closely link and integrate these two areas of policy. Having a student loan results in a 4.8% lower probability of saving into an occupational pension, even after controls for earnings and age. A detailed review must be undertaken into how student loans, and the design of the repayment system, affect financial decisions of graduates.

The findings of Who Saves for Retirement? suggest that to boost participation in pension saving, policymakers must: implement universal eligibility for occupational pensions and employer contributions; address the 'student loan effect'; promote financial education and positive attitudes to saving; and, make employers aware of their responsibilities. In order to reduce rates of opt-outs following 2012 auto-enrolment reforms, the findings of the research suggest policymakers should target: men; low-earners; individuals in mortgage arrears; graduates with student loans; and, individuals with negative attitudes to (retirement) saving.

This discussion paper accompanies the publication of Who Saves for Retirement?, which explores the prevalence of participation in pension saving across the employed population, and the independent effect of individual, household and employment factors in influencing pension saving. The drivers of the research derive from public policy: the need to raise participation rates in pension saving; radical new pension reforms in the UK from 2012; and, the clear need to optimally target and design policy to boost participation in pension saving.

Who Saves for Retirement? found the biggest single determinant of pension saving among the employed population is eligibility by employees for workplace pension saving. Findings on eligibility and employer contributions suggest UK pension reforms to be implemented from 2012 – in particular, the duty on employers to offer a workplace pension and the duty to offer employer contributions to – will be highly effective in boosting rates of participation in workplace pension saving.

The striking evidence in Who Saves for Retirement? on the effect of 'third-party' pension contributions on participation raises questions for policymakers about how pensions policy can best exploit the effect of matching contributions for encouraging individuals into pension saving. Policymakers should: review best practice for how employers present the offer of employer contributions, for example, as a per-month or annual aggregated total; review how frequently employees are reminded of employer contributions besides figures on their payslip; and, explore other measures to maximise the positive effect that employer contributions have on pension saving decisions.

Given the potential for framing income tax-relief as 'government contributions', policymakers should explore the scope for annual statements from the government showing aggregate 'government contributions' to a person's pension; and, explore the idea of incorporating fully the concept of 'government contributions' into information campaigns promoting pension saving and awareness of the availability of these 'incentives'.

As a way of encouraging *extra* employee contributions into a workplace pension on top of any '4%:3%' ratio or equivalent, employers could offer extra 'bonus' employer contributions at a less generous (and more affordable) ratio if employees sustain regular extra contributions and hit defined pension savings targets.

Who Saves for Retirement? found the effect of differences in earnings on pension is strong but somewhat limited, by comparison to other factors. Private (occupational and personal) pensions should therefore be framed as a universal activity by policymakers suitable for everyone, including those on lower incomes.

Despite worryingly low levels of liquid savings in the population, decisions on participating in pension saving appear to be relatively decoupled from liquid saving by individuals, and as such, pension policymakers should not seek to more closely link and integrate these two areas of policy.

Although housing costs (rent and mortgage payments) do not appear to reduce participation rates for pension saving, it does appear that the absence of housing costs can potentially result in higher participation in pension saving, i.e. among outright homeowners. Given this finding, policymakers should explore the potential for use as a 'trigger point' the point at which someone pays off their mortgage and owns their home outright, in order to target these individuals with information on pension saving and the offer of a financial review.

Having a student loan results in a 4.8% lower probability of saving into an occupational pension, even after controls for age, earnings, savings, employment sector, job characteristics and multiple other factors. A detailed review must be undertaken into how student loans affect financial decisions of graduates, and should consider the design of the repayment system, and specifically 1) no longer taking student loan repayments 'from the payslip'; 2) changing the earnings threshold for repayments for graduates who are paying into a pension, or 3) giving graduates a one-year student loan 'repayment holiday' when they begin saving into a pension.

Whereas 'over-spending' and being patient are not associated with pension saving, life-cycle consumption preferences, attitudes to saving and knowledge of pensions are. Added together, such attitudinal and knowledge factors can influence participation in pension saving by as much as 7.6%. As such, if effective, measurable policy interventions are available to influence these traits among workers, then policymakers should consider their implementation.

In conclusion, the findings of Who Saves for Retirement? suggest that to boost participation in pension saving, policymakers must: define the target group for pensions in universal terms; implement universal eligibility for occupational pensions; implement universal eligibility for employer contributions; address the 'student loan effect'; promote financial education and positive attitudes to saving, but recognise their limits; and, make employers aware of their responsibilities.

In order to reduce rates of opt-outs following 2012 auto-enrolment reforms, findings from Who Saves for Retirement? suggest policymakers should target: men; low-earners; individuals in mortgage arrears; graduates with student loans; and, individuals with negative attitudes to (retirement) saving.

1. Introduction

This policy discussion paper accompanies the publication of Who Saves for Retirement? by the Strategic Society Centre...

This discussion paper accompanies the publication of Who Saves for Retirement?[1] by the Strategic Society Centre.

Who Saves for Retirement? is a major research project undertaken by the Strategic Society Centre and the Institute of Social and Economic Research (ISER) at the University of Essex. The study, made possible by the support of Prudential, used data from the first wave (2006-2008) of the Wealth and Assets Survey (WAS), in order to explore:

- What is the prevalence of participation in pension saving across the employed population, and how does participation vary by age, gender, earnings and other factors?
- What is the independent effect of individual, household and employment factors in influencing whether or not someone participates in pension saving?

Who Saves for Retirement? focuses on participation in pension saving, and excludes consideration of contribution levels. It distinguishes between men and women and, because it is ultimately focused on decision-making processes, it applies a simple classification to types of pension saving: *occupational* (workplace) pension saving and *personal* (private) pension saving.

By exploiting the very large sample of employed individuals in the WAS panel – the sample for Who Saves for Retirement? comprises 25,995 workers – as well as the uniquely rich, comprehensive range of questions included in the WAS questionnaire, Who Saves for Retirement? represents one of the most comprehensive studies of the determinants of participation in pension saving ever undertaken in the UK or abroad. Rather than focus groups, theoretical modelling or attitudinal surveys, Who Saves for Retirement? was able to study in-depth the savings decisions of thousands of UK employees.

Why did we do this research?

The research questions underpinning Who Saves for Retirement? are interesting in their own right. However, the key drivers of the research are derived from public policy: the need to raise participation rates in pension saving; the introduction of radical new pension reforms in the UK from 2012; and, the clear need to optimally target and design policy interventions to boost participation in pension saving, especially in the context of the limited resources and 'policy levers' available to policymakers. In this context, policymakers need the best possible evidence to develop policy.

Determinants of Participation in Pension Saving: Academic literature

A recent review of the literature on participation in pension saving by Gough and Niza (2011)[2] found that a range of factors have been studied in academic research for their effect on participation in occupational pension saving: salary, age, education and job tenure, employer contributions, financial attitudes to risk and time, and financial education. Some studies have comprised econometric modeling, others have been qualitative, while some have used 'administrative data' derived from specific pension schemes.

For UK pension policymakers considering how to improve rates of participation in pension saving, the academic literature on the determinants of participation in pension saving has several key features:

- Most studies look at limited sets of factors, e.g. gender and ethnicity;
- Most studies use US data, sometimes specific scheme data;

Although previous studies have focused separately on factors such as gender, earnings and employer contributions, Who Saves for Retirement? was able to examine all of these factors and others in a single, integrated study...

- Most studies examine workplace pension saving, but not personal pension saving, despite the fact that choices regarding both types of pension saving are likely to be interdependent;
- Many studies look at individual employees, not households, even though pension saving is likely to be a 'household-level' decision in many instances;
- Many studies involve small-scale surveys of targeted samples, rather than a sample representative of the whole population;
- The literature does not enable policymakers to directly compare the relative importance of different factors, particularly if studies use different data sources.

In this context, the availability of data from the first wave of WAS provided an opportunity to substantially improve the quality and detail of the evidence base for UK pension policymakers on participation in pension saving.

In particular, in addition to identifying a very broad range of factors that have an influence on participation in pension saving, the unique contribution of Who Saves for Retirement? is to be able to measure and compare the influence of different factors, controlling for the effect of other relevant variables.

Although previous studies have focused separately on factors such as gender, earnings and employer matching contributions, the use of the WAS enables Who Saves for Retirement? to examine all of these factors and others in a single, integrated study.

The Science of Saving: Pensions

The purpose of this discussion paper is to review the findings of Who Saves for Retirement? and provide accompanying policy recommendations as to how to boost participation in pension saving.

The next chapter reviews the evidence on participation rates for pension saving in the UK, outlines pension reforms due to begin implementation in 2012, and explores what insights the findings of Who Saves for Retirement? provide for this agenda.

Chapter 3 explores how policymakers can make the most of employer and government contributions in the context of the 2012 reforms.

The fourth chapter examines how different financial characteristics – such as earnings, mortgage repayments, savings and student loans – interact with participation in pension saving.

Chapter 5 explores how different financial attitudes and educational factors influence pension saving.

The sixth chapter concludes by exploring what Who Saves for Retirement? means for boosting participation in pension saving and reducing 'opt-outs' under auto-enrolment.

Key points:

- This discussion paper accompanies the publication of 'Who Saves for Retirement?, which explores the prevalence of participation in pension saving across the employed population, and the independent effect of individual, household and employment factors in influencing pension saving.
- The key drivers of the research are derived from public policy: the need to raise participation rates in pension saving; the introduction of radical new pension reforms in the UK from 2012; and, the need to optimally target and design policy interventions to boost participation in pension saving.

2. Where are we now and where are we going? UK pension reform and 2012

The findings of the Who Saves for Retirement can be used to evaluate the likely impact of UK pension reforms, phased in from 2012...

This chapter reviews the key tenets of UK pension reform that are to be introduced from 2012, and evaluates them in the context of Who Saves for Retirement?.

The principal types of voluntary pension saving comprise occupational pension saving in the workplaces of the public and private (and charitable) sector, and personal pension saving.

Who Saves for Retirement? provides extensive, cross-sectional descriptive analysis of participation in pension saving. It found that only 55.4% of UK workers (including part-time and full-time) saved into a pension, of whom 86.6% saved into an occupation pension only, 9.6% saved into a personal pension and 3.8% saved into both types of pension.

The long-term trend for participation in pension saving in the UK is negative. Data from the Occupational Pension Schemes Survey suggest the number of active members of private sector occupational pension schemes has declined from 6.3 million in 1995 to 3.5 million in 2008.[3] Of the 19 million people employed in the private sector, about 2.6 million were actively contributing to non-public service Defined-Benefit (DB) schemes in 2009, and a further million were active members of occupational Defined Contribution (DC) schemes.[4] A further 3 million more were covered by employer-sponsored group personal pensions.[5]

The percentage of households contributing to a personal pension declined across all age groups between 1995 and 2005.[6] Around 6.98 million people contributed to a personal pension in 2001-02, but this had declined to 6.04 million in 2009-10.[7]

Declines in participation and contribution levels for voluntary pension saving have been of particular concern for policymakers given increasing life expectancy. Recognition of the need to increase rates of participation in pension saving is universal among politicians and policymakers.

Pension Reform in the UK: What are the key tenets?

Reform to workplace pension saving in the UK is ongoing, and is focused on boosting participation rates among employees, as well as contribution levels from employees and employers.

At present, pension policy seeks to encourage voluntary pension saving through the use of incentives:

- Tax-relief on income: contributions to occupational or personal pensions are free of income tax payable on earnings;
- Tax-relief on capital growth: investment growth in the value of occupational and personal pensions are free of capital gains tax.

In addition, employers are encouraged to offer contributions to the workplace pensions of employees, as another form of incentive.

In the face of falling pension participation and contribution rates, and following the recommendations of the Pension Commission (2006), led by Adair Turner, the government passed the Pensions Act (2008). This laid the ground for a fundamental shift in the policy framework for occupational pension saving in the UK:

These reforms are built around eligibility for a workplace, incentives in the form of employer contributions, and a new choice framework for employed individuals...

	Before	After
Eligibility for workplace pensions	Voluntary – discretionary decision by employers to offer a workplace pension and define eligibility	Compulsory – all employers will have a duty to offer a decent workplace pension
Employer pension contributions	Voluntary – discretionary decision by employers	Compulsory – all employers will have a duty to offer contributions to workplace pensions.
Choice framework	Employees usually required to 'opt-in' to workplace pension scheme.	Auto-enrolment will see employers automatically enrolling employees into workplace pensions, with employees retaining the option to 'opt-out'.

In order to improve the availability of decent workplace pension schemes among those employers not currently offering such benefits, the government created the National Employment Savings Trust (NEST) to fill this gap in coverage and provide a low-cost, basic workplace pension scheme. NEST is particularly targeted at those employers who might otherwise struggle to offer a decent workplace pension scheme.

As such, pension policy in the UK is undergoing an historic shift from focusing primarily on *incentives* in the form of tax-relief, and instead taking a broader approach to focus on *eligibility* for a workplace pension (i.e. availability), *incentives* in the form of employer contributions, and a new *choice framework* for employed individuals around pension saving.

Policymakers hope that the outcome of these reforms will be significant increases in participation and contribution rates for occupational pension saving.

However, even while pension policy prioritises these factors as key to pension saving, there is limited evidence regarding whether these reforms to pension policy will be effective in raising rates of pension saving. Indeed, it may turn out that incentives, universal access to a decent workplace pension and an improved choice framework prove to be necessary - but not *sufficient* - conditions to raising rates of pension saving, and the overall impact of these far-reaching reforms may be limited.

Pension Reform in the UK: Insights from Who Saves for Retirement?

The comprehensive range of factors included in Who Saves for Retirement? provides an excellent opportunity to evaluate how effective UK pension reform will be in raising participation rates in pension saving.

Two key findings from Who Saves for Retirement? comprise:

- Eligibility

Eligibility for a workplace pension varies widely by employer size. Who Saves for Retirement? found that among organisations with more than 500 employees, around 90% are eligible for a workplace pension. However, the equivalent figure for organisations with 1-24 employees is around 40%.

The headline finding of Who Saves for Retirement? is the remarkably strong association between the availability of employer contributions, and participation in workplace pension saving...

Eligibility for a workplace pension also varies by industry sector. Who Saves for Retirement? found that among workers in public administration and defence (civil servants and the armed forces), around 90% are eligible for a workplace pension. However, in other sectors, the equivalent figure is much lower, for example: manufacturing (60%); retail (40%); and construction (50%).

As such, the biggest single determinant of pension saving among the employed population is eligibility for a workplace pensions, defined by what sector someone works in and the size of their employer.

Following the Pensions Act (2008), the duty on employers to offer a decent workplace pension – to be phased in from October 2012 – will significantly increase the coverage of eligibility for workplace pension saving. On the basis of Who Saves for Retirement?, it appears that this reform alongside other reforms will be highly effective at increasing participation in pension saving.

- Employer contributions

At present, among employers offering workplace pensions, the majority offer employer contributions as a 'match' to employee contributions, and some employers do not.

Who Saves for Retirement? examined the influence that the offer of employer contributions has on decisions to participate in a workplace pension among eligible employees.

After controlling for the effect of multiple factors such as earnings, gender, tenure and attitudes to saving, the offer of employer contributions to those employees eligible for a workplace pension increases the probability of participation by 70.7%.

Employer contributions represent by far the most dominant influence on whether eligible workers participate in occupational pension saving.

Employer contributions have been found to be an important motivator of pension savings by previous studies using small surveys or qualitative research.[8]

However, what is most striking about this finding is that due to the strength of effect, individuals who have multiple negative characteristics for participation in pension saving identified in Who Saves for Retirement? – for example, being male, having a student loan, "living for today" – may still be more likely than not to participate in workplace pension saving if the offer of employer contributions is present.

As a 'policy lever' to encourage pension saving – and more generally in terms of public policy – employer contributions therefore represent a 'silver bullet', i.e. a simple, measurable, defined policy intervention that is very effective in achieving the target outcome: participation by employees in workplace pension saving.

Although this finding in Who Saves for Retirement?, derived from analysis of WAS data, may reflect unobserved factors not included in the WAS questionnaire – for example, how effectively employers promote their workplace pension scheme – policymakers can nevertheless be confident that the availability of employer contributions does represent a very substantial driver behind decisions to participate in workplace pension saving. On the basis of Who Saves for Retirement?, it appears that the duty on employers to offer contributions to workplace pension saving will be highly effective in boosting rates of participation in pension saving.

Evidence from the research suggests UK pension reforms will be successful in boosting participation in pension saving...

Conclusion: Using Who Saves for Retirement? to evaluate the 2012 reforms

Will the UK's historic pension reforms, which unfold from October 2012, succeed in boosting rates of participation in pension saving? The evidence on eligibility and employer contributions from Who Saves for Retirement? suggest these reforms – in particular, the duty on employers to offer a workplace pension and the duty to offer employer contributions to – will be highly effective in boosting rates of participation in workplace pension saving.

On this basis, the following recommendation can be made:

- The duty on employers to offer workplace pensions and pensions contributions should be brought in as soon as possible. The importance of these factors in determining whether workers save in a pension mean that any delays will have a direct consequence on participation rates, and the subsequent pension incomes of employees.

Key points:

- The biggest single determinant of pension saving among the employed population is eligibility for a workplace scheme, defined by what sector someone works in and the size of their employer.
- After controlling for the effect of multiple factors such as earnings, gender, job-type, tenure and attitudes to saving, the offer of employer contributions to those employees eligible for a workplace pension increases the probability of participation by 70.7%.
- Employer contributions represent by far the most dominant influence on whether eligible workers participate in occupational pension saving.
- Individuals who have multiple negative characteristics for participation in pension saving may still be more likely than not to participate in workplace pension saving if the offer of employer contributions is present.
- As a 'policy lever' to encourage pension saving employer contributions therefore represent a 'silver bullet', i.e. a simple, measurable, defined policy intervention that is very effective in achieving the target outcome: participation by employees in workplace pension saving.
- The evidence on eligibility and employer contributions from Who Saves for Retirement? suggest these reforms – in particular, the duty on employers to offer a workplace pension and the duty to offer employer contributions – will be highly effective in boosting rates of participation in workplace pension saving.

3. Contributions: Making the most of available incentives

Policymakers about how pensions policy can best exploit the effect of matching contributions for encouraging individuals into pension saving...

The headline finding of Who Saves for Retirement? is the sheer size of effect that employer contributions have on employee decisions to participate in workplace pension saving.

Previous research from the government has highlighted how employees welcome pension contributions by employers.[9] However, Who Saves for Retirement? was able to examine the actual behaviour of workers with or without the offer of employer contributions, thereby revealing the strength of the independent effect that employer contributions have on pension saving decisions.

Indeed, the size of the positive effect on pension saving decisions arising from employer contributions is more than enough to 'cancel out' the effect of multiple negative characteristics on decisions to participate in pension saving, such as 'living for today', and being male.

Given the disparity in the strength of influence of employer contributions on pension saving decisions compared to other observable factors identified in Who Saves for Retirement?, it would not be unreasonable to argue that a workable pension policy framework would be impossible without employer contributions – there is simply no other lever available to policymakers that is as powerful.

This striking evidence on the effect of 'third-party' pension contributions on participation raises questions for policymakers about how pensions policy can best exploit the effect of matching contributions for encouraging individuals into pension saving.

This chapter explores some ideas that policymakers could consider in light of this new evidence.

Employer Contributions: Extracting the most value for policy

In light of the evidence described above, the first task for policymakers is to ensure that the maximum potential effect of employer contributions on employee decisions to participate in workplace pension saving is achieved. If the availability of employer contributions is a key driver of workplace pension saving, are they always and everywhere being best exploited?

As such, policymakers should:

- Review best practice for how employers present the offer of employer contributions, for example, as a per-month or annual aggregated total;
- Review how frequently employees are reminded of employer contributions besides figures on their payslip;
- Explore other measures to maximise the positive effect that employer contributions have on pension saving decisions.

Reframing Income Tax-Relief on Pension Saving

Employee contributions to pension saving are free of income tax. For occupational pension schemes, tax-relief is provided at source. Individuals saving into personal pensions have the value of income tax paid reclaimed by providers.

However, strictly speaking, pension saving does *not* benefit from income tax-relief; rather, it is tax *deferred*. This is because although earnings-related contributions to a pension effectively occur before income tax is paid, the income payable from a pension in retirement is itself liable for income tax, although in practice there is wide variation in the amount of income tax payable by pensioners.

There remains considerable scope for the government to do more to recast tax-relief on personal pensions as ‘government contributions’...

The ‘framing’ of income tax-relief on pensions is subject to competing viewpoints across wider pension policy. In the context of policy debates on the future of higher-rate income tax relief on pension contributions, some stakeholders have sought to emphasise that higher-rate tax-relief should always be framed as deferred income tax. However, there remains uncertainty around how many higher-rate income tax payers making pension contributions subsequently pay higher-rate income tax in retirement. Indeed, given the 40-year time scales involved, it is ultimately very difficult to predict whether higher-rate tax payers making significant pension contributions in their 20s will subsequently pay higher-rate tax in retirement. Neither employees nor policymakers know what income tax will be liable on pension income decades into the future.[10]

In this context, the government has traditionally been careful in how income tax-relief on employee pension contributions is framed, given that for some individuals such tax-relief may merely be income tax deferred, but for others, not.

However, a notable feature of discourse around UK pension reform has been a stronger tendency to frame income tax-relief on pension contributions as a ‘government contribution’. Indeed, in defining the minimum level of contribution from qualifying earnings between £5,035 and £33,540 for workplace defined-contribution (DC) pensions, the government has set out that the employer must pay a minimum of 3%, in which case the employee will contribute 4% of earnings, with a further 1% paid as income ‘tax relief’ by the government.

In this way, the government has in recent years more frequently framed income tax-relief on pension contributions as a form of ‘contribution’ by the government, despite inevitable uncertainty over whether individual workers will in fact subsequently have to pay back such ‘government contributions’ in the form of income tax in retirement.

Exploiting Income-tax Relief on Pension Contributions: Can more be achieved?

Pension policy debate has recently explored the idea of reframing income tax-relief on pensions as a form of ‘matching contribution’ from the government, particularly given evidence of public misunderstanding about income tax-relief on pension contributions.[11]

Given evidence in Who Saves for Retirement? that the offer of contributions to pensions from employers has such a strong influence on employee decisions to participate – far more than other ‘levers’ available to policymakers - there is now a very compelling case for policymakers to explore the case for taking a stronger position on framing all income tax-relief on pension contributions as a ‘government contribution’ to a person’s pension.

In particular, such a re-framing may be especially important for those workers not eligible for a workplace pension and those who use a private personal pension without employer contributions. There remains considerable scope for the government to do more to recast tax-relief on personal pensions as ‘government contributions’.

In this context, policymakers should:

- Explore the scope for annual statements from the government showing aggregate ‘government contributions’ to a person’s pension;
- Explore the idea of incorporating fully the concept of ‘government contributions’ into information campaigns promoting pension saving and awareness of the availability of these ‘incentives’.

Policymakers should explore whether there are further ways in which employees could be encouraged to save more through the deployment of employer contributions...

Staging Matched Contributions: Rewards for achieving contribution targets

Who Saves for Retirement? shows that employees respond to the financial incentive of employer contributions. Given employer contributions have such a powerful effect on individual pension decision-making, policymakers should explore whether there are further ways in which employees could be encouraged to save more through the deployment of employer contributions. For example:

- As a way of encouraging *extra* employee contributions into a workplace pension on top of any '4%:3%' ratio or equivalent, employers could offer extra 'bonus' employer contributions at a less generous (and more affordable) ratio if employees sustain regular extra contributions and hit defined pension savings targets.

Enabling Employees to Opt-out, but Retain Employer Contributions

Previously, employer pension contributions were a discretionary part of an employee compensation package, offered by some employees.

However, by placing a duty on employers to offer employer contributions, ongoing pension reforms are, in the eyes of some stakeholders, reframing employer contributions from being a discretionary reward by employers to a 'right' for workers. On this basis, some commentators have argued that following reforms, individuals should be enabled to 'opt-out' of their workplace pension, but retain the employer contributions they would have received.

On the basis of the findings of Who Saves for Retirement?, several comments can be made. If employees opting-out of a workplace pension could only retain their employer contributions as a contribution to another (personal) pension, this proposal may have some merit, in that individuals with personal pensions moving jobs would no longer have to switch out of their personal pension into a workplace pension in order to access employer contributions. In the long-run, this may have the advantages of reducing administration and the prevalence of problematic 'small pots'. However, policymakers would have to weigh such benefits against the risk that the retention of employer contributions among 'opt-outs' would reduce participation in – and threaten the viability of – workplace schemes.

But, some proponents of employer contribution retention by employees argue that it should be up to the individual employee to determine where employer contributions are directed, whether to a personal pension, ISA or other savings product. On this approach, since employer contributions will be a 'right', individuals should also have the right to decide how this part of their remuneration package is allocated.

The findings of Who Saves for Retirement? suggest this would have a potentially very negative effect on pension saving. Employer contributions are by far the single most effective 'policy lever' available to pension policymakers to boost participation, and if workers were able to direct employer contributions into liquid savings vehicles, the effect on pension saving may be highly negative. In effect, pension policymakers would be 'giving away' their most effective policy for encouraging pension saving.

Conclusion: How can pension policymakers make the most of incentives?

Within pension policy debate, commentators regularly propose new, eye-catching ways in which policymakers can stimulate greater levels of pension saving. Significant amounts of effort and thought have gone into devising ideas for revising rules on pension

There are simply no other available levers for policymakers to encourage take-up of occupational pension saving that are anywhere near as effective as employer pension contributions...

saving, renaming and re-branding pensions, creating new 'trigger points', as well as financial education and engagement schemes.

However, by analysing data on the saving choices of more than 25,000 UK workers, the findings of Who Saves for Retirement? suggest that it is ultimately cash incentives in the workplace to save for retirement that workers respond most to. As described above, the 'silver bullet' nature of employer contributions is such that it is strong enough to cancel out the effect of multiple other factors that reduce the probability of someone saving for a pension.

This has implications for debate on pensions policy: much greater recognition deserves to be made of the importance of employer contributions. It also has implications for employers: no matter what challenges employers confront in financing pension contributions, particularly small employers, it is nevertheless a responsibility that employers must accept, because there are simply no other available levers to policymakers to encourage pension saving that are anywhere near as effective as eligibility for workplace pension saving and employer pension contributions.

More widely, policymakers should do more to exploit the potential incentive effect of government tax-relief on participation in pension saving by clearly and consistently framing this as 'government contributions'.

Key points:

- The striking evidence in Who Saves for Retirement? on the effect of 'third-party' pension contributions on participation raises questions for policymakers about how pensions policy can best exploit the effect of matching contributions for encouraging individuals into pension saving.
- Policymakers should: review best practice for how employers present the offer of employer contributions, for example, as a per-month or annual aggregated total; review how frequently employees are reminded of employer contributions besides figures on their payslip; and, explore other measures to maximise the positive effect that employer contributions have on pension saving decisions.
- Given the potential for framing income tax-relief as 'government contributions', policymakers should explore the scope for annual statements from the government showing aggregate 'government contributions' to a person's pension; and, explore the idea of incorporating fully the concept of 'government contributions' into information campaigns promoting pension saving and awareness of the availability of these 'incentives'.
- As a way of encouraging *extra* employee contributions into a workplace pension on top of any '4%:3%' ratio or equivalent, employers could offer extra 'bonus' employer contributions at a less generous (and more affordable) ratio if employees sustain regular extra contributions and hit defined pension savings targets.

4. Financial Characteristics: What should be the target of pension policy?

> The decision to contribute to a pension is just one of a long list of financial decisions relating to household spending and saving...

Pension policymakers have long been concerned with how pension saving is affected by household finances and spending decisions.

The decision by an individual to contribute to a pension is just one of a long list of financial decisions relating to household spending and saving, and as such, cannot meaningfully be considered in isolation.

In the context of declining pension saving rates over the last decade, various factors and trends relating to household finances have been cited in debate as contributing to these negative trends, such as persistently high inflation in UK house prices.

In this context, policymakers need to understand how the decision to save for an occupational or personal pension is affected by household financial circumstances and commitments.

Using WAS, Who Saves for Retirement? was able explore how much key financial characteristics and decisions of individuals were associated with participation in different types of pension saving. This chapter considers these findings and their implications for policymaking.

Earnings

It is intuitive to expect that pension saving will be influenced by the level of a person's earnings. Individuals with higher earnings are likely to find it easier to set aside regular contributions from earnings, compared to lower-income earners.

Who Saves for Retirement? did indeed find that pension saving varies by income, and that participation in occupational pension saving was highest among those earning £40,000 or more, compared to lower income bands. For example, among men with gross annual earnings of £15-20,000, 40% saved into an occupational pension, compared to around 70% among men earning £40,000 each year.

However, by controlling for the effect of other factors, the analysis found – roughly speaking - that a 10% increase in earnings, compared to an equivalent person results in a 0.46% increase in probability that someone will save in an occupational pension. For personal pensions, the effect was somewhat smaller.

As such, the effect of differences in earnings on pension saving for otherwise identical individuals is strong but somewhat limited, by comparison to other factors.

Indeed, the effect of differences in earnings across the spectrum of possible earnings does vary. Beyond gross annual earnings of £20-25,000 for men, and £15-20,000 for women, there is relatively little difference in participation rates. Among those below these earnings bands – around 40% of male employees and 50% of female employees – participation rates in occupational pensions do track differences in earnings more closely.

Nevertheless, a key insight from Who Saves for Retirement? is the extent of pension saving among lower income bands. For example, among male employees with gross annual earnings of £10-15,000 per year – around 13% of men in employment – one in five save into an occupational pension. Among female employees earning £5-10,000 per year – around 20% of women in employment, reflecting higher part-time employment rates – more than one in three participate in an occupational pension.

As such, a key lesson from Who Saves for Retirement? is that low-earners are able and willing to save for a pension, including those in part-time employment. Although levels of earnings are an important determinant of pension saving, it is not the single most important factor, and indeed, is somewhat weak by comparison to the effect of employer contributions, gender or other financial characteristics. Crucially, it appears that substantial proportions of low-earning part-time female workers are willing to save for a pension.

The principal recommendation for policymakers that can be derived from these findings is therefore that:

- Private (occupational and personal) pensions should always be framed as a universal activity suitable for everyone, including those on lower incomes.

Competing Expenditure: Children

Raising children imposes a range of costs on parents. With recent increases in the cost of living, and a perception that parents are under increasing 'peer pressure' to buy toys and other goods for their children, policymakers have been concerned that having children may push individuals out of pension saving.

In fact, Who Saves for Retirement? found that there is no association between having children in a household and participation in occupational pension saving, with only a very small (-0.4%) effect of children on participation in personal pension saving.

This suggests that households do not treat the 'costs' of child rearing and pension saving as substitutable. The costs of having children do not appear to affect decisions to saving in a pension.

Alternative Saving: Liquid savings

Policymakers and the pensions industry have in recent years voiced concern at the effect that low liquid saving among households has on pension saving. For example, one driver of a recent government consultation on enabling 'early access' to pension saving was a perception that a preference for liquid savings may make individuals reluctant to 'lock away' their money in a pension.[12]

As expected, Who Saves for Retirement? found that rates of pension saving were higher among individuals with greater levels of liquid saving; previous research has also found that different types of savings and wealth are correlated.[13]

However, from the point of view of policymakers, the key question is: to what extent do levels of liquid savings influence participation in pension saving? Does having more liquid saving - and a larger 'buffer' against unexpected events - make workers more willing to 'lock' savings into a pension? If the answer to these questions is positive, this would suggest that broader savings policy would itself become an important part of pensions policy; policymakers would need households to build up liquid savings before encouraging them into pension saving.

In fact, a key finding of Who Saves for Retirement? is that a 10 percentage point increase in the level of a person's savings results in only a 0.03% increase in the probability that someone will participate in occupational or personal pension saving.

So, while different forms of savings behaviour are positively correlated, it does not seem that more liquid savings results in more participation in pension saving beyond low levels of liquid saving, nor that individuals require particular levels of liquid savings in order to save into a pension.

Explore the potential for use as a 'trigger point' the point at which someone pays off their mortgage and owns their home outright, in order to target these individuals with information on pension saving...

Indeed, a striking finding of Who Saves for Retirement? is that around 60% of the population report liquid savings of less than £2,500. However, among this group, around half of male and female employees save into an occupational pension.

Thus, while policymakers may be concerned by the low levels of liquid savings that households possess – and hence, their limited protection against unemployment and other unforeseen events – this does not of itself appear to affect pension saving substantially.

These findings have strong implications for policy debate and proposals to more closely integrate savings and pensions policy. For example, the results suggests that proposals for enabling employer contributions to be directed toward liquid savings products, in order to boost liquid saving as a passport to pension saving, may be misdirected, as liquid saving and pension saving decisions appear to be relatively decoupled. As such:

- Despite worryingly low levels of liquid savings in the population, decisions on participating in pension saving appear to be relatively decoupled from liquid saving by individuals, and as such, pension policymakers should not seek to more closely link and integrate these two areas of policy.

Alternative Accumulation: Tenure

In the wake of UK house price inflation over the last decade and declining affordability, there has been some concern that these trends will result in declining participation in pension saving. First, because individuals with 'windfall' property wealth may feel that they no longer need to save for a pension. Second, because the increasing costs of home-ownership may see younger individuals prioritising home-ownership over pension saving, resulting in lower rates of participation. Third, because as an 'asset class', property is perceived to have outperformed other types of investments, including those used by pension funds.

Who Saves for Retirement? contains several findings that shed light on the impact of tenure and home-ownership on pension saving.

First, individuals who own their home with a mortgage are no more likely to save for retirement than private renters. As such, it does not appear that getting on to the 'property ladder' increases the probability that someone will participate in pension saving, i.e. individuals are not deferring pension saving in order to direct savings towards buying a property. So, while declining affordability of home-ownership is a problem for policymakers in its own right, it does not appear that this will necessarily depress rates of participation in pension saving (although it should be underlined that no conclusion can be drawn from about pension contribution levels). One explanation may be that many private renters are confident of eventually being able to get on the property ladder, and as such, do not feel the need to defer pension saving and lose associated tax-relief and employer contributions. In other words, while individuals may be keen to get on the property ladder, the incentives associated with pension saving are enough to see them participate even while they continue to rent.

However, among individuals who own their own home outright – i.e. without a mortgage - the probability of saving for a personal pension is 4.3% higher, and the probability of saving into an occupational pension is 3.2% higher. This may reflect a life-stage effect: individuals paying off their mortgage pre-retirement, and at the same time becoming more aware of the need to boost their retirement income. Alternatively, this may reflect a 'substitution' effect, in that when individuals no longer have to make mortgage

Lower property prices, which enable lower LTV ratios among buyers, will have a positive effect on participation in occupational pension saving...

repayments, they see pension saving as a worthwhile use for their spare income. Although falling outside the scope of Who Saves for Retirement?, it may be that the substitution effect observable for participation in pensions also exists for contribution levels, i.e. individuals save more into a pension when they have paid off their mortgage.

For this reason, some of the concern among pension policymakers and stakeholders regarding the effect that rising house prices may have on pension saving appears to be misplaced, especially when compared to other factors, such as student loans (see below).

As such, although housing costs (rent and mortgage payments) do not appear to reduce participation rates for pension saving, it does appear that the absence of housing costs can potentially result in higher participation in pension saving.

Given this finding regarding how households allocate income, policymakers should:

- Explore the potential for use as a 'trigger point' the point at which someone pays off their mortgage and owns their home outright, in order to target these individuals with information on pension saving and the offer of a financial review.

Mortgage Repayments and Mortgage Debt

Who Saves for Retirement? was able to unpick several aspects of how mortgage debt and repayments interact with participation in pension saving.

Among eligible workers, being two or more months in arrears with a mortgage is associated with a 15% lower probability of saving into an occupational pension. Such a result is intuitive, but fortunately, the proportion of people in severe arrears for their mortgage is relatively low.

In terms of the value of mortgage repayments, a 10% increase in the size of mortgage repayments is associated with a 0.1 percentage point *increase* in pension take-up. As such, the proportion of household income spent on mortgage repayments appears to have very little influence on decisions to participate in occupational pension saving, and households with larger mortgage repayments are also more likely to save into an occupational pension.

It is reasonable to hypothesise that individuals with high-value mortgages compared to the value of their property – a high 'LTV ratio' – will be less likely to participate in pension saving. This could be because individuals prefer to build up an 'equity cushion' in their property over contributing to a pension.

Who Saves for Retirement? did find that LTV ratios influence pension saving. It found that a 10 percentage point increase in LTV is associated with a 0.75 percentage point decrease in pension take-up.

A widely noted feature of the extended inflation in UK house prices that ended in 2007-08 was the prevalence of individuals purchasing properties with high LTV ratios. The median LTV ratio for first-time buyers in 2006 was 90%, but this had dropped to 75% by 2009, (albeit mirroring a drop in the number of new mortgages for first-time buyers each year from 100,000 to 50,000).[14]

Ultimately, trends in LTV ratios are a function of trends in credit allocation and rationing by banks, and household decisions, as much they are a function of trends in property prices. However, Who Saves for Retirement? does suggest that lower property prices, which enable lower LTV ratios among buyers, will have a positive effect on participation in occupational pension saving.

Detailed research must be undertaken as soon as possible into how student loans affect the financial decisions of graduates...

Nevertheless, these observations should be placed in context. Overall, analysis for Who Saves for Retirement? found that the relationship between mortgage repayments and size, and participation in occupational pension saving was weak, compared to other factors.

Indeed, equivalent analysis for personal pension saving found no association at all between participation and mortgage arrears, mortgage repayments and mortgage debt.

Student Loans

As the availability of publicly-funded grants for young people to meet the costs of going to university have retrenched over recent decades, more graduates are entering the labour market with student loans, and of a higher value. Currently, student loan interest rates are set in line with inflation, and therefore have a zero real interest rate.

Student loans can be Tuition Fee Loans and Maintenance Loans, and the loans are made on an annual basis. The number of new loans in the UK was 180,000 in 1990-91, rising to 780,000 in 2000-01.[15] For 2010-11, around 1.7 million loans were made in England, of which 823,000 were Maintenance Loans and 885,000 were for Tuition Fees. The average value for a Maintenance Loan was £3,000 and £2,757 for Tuition Fee loans.[16] At the end of the 2010-11 financial year, 2.3 million people in England had student loans, of which 66% were liable to make repayments on these loans.[17]

Who Saves for Retirement? found that someone with a student loan is 4.8% less likely to save into an occupational pension. This negative effect on participation in pension saving is entirely independent of the effects of age, gender, earnings, savings and multiple other factors, as well as other liquid debts.

As such, this new evidence from Who Saves for Retirement? suggests having a student loan has a strong negative effect on participation in occupational pension saving. It appears that in the financial decisions of employed individuals, student loan repayments are highly substitutable with pension saving. In short, it appears that employees with student loans identify pension saving as one form of 'expenditure' that it is acceptable to defer, in light of the need to make repayments on student loans.

Very little research has been undertaken into the effect that student loans have on the financial decisions of graduates, in particular, saving for a pension. Indeed, concern within pension policy debate regarding low rates of pension saving among younger people has tended to ignore the role of student loans, in comparison to other issues such as the cost of home-ownership.

However, this crucial finding in Who Saves for Retirement? suggests that:

- Detailed research must be undertaken as soon as possible into how student loans affect the financial decisions of graduates.

After university, graduates confront various types of expenditure. However, it is striking that student loans reduce the probability of participating in pension saving far more than other potential forms of expenditure, such as mortgage repayments or having children. In part, this may reflect the design of student loan repayments, which occur at the point of the 'payslip'. For this reason:

- A detailed review must be undertaken as soon as possible into how the design of the student loan repayment system affects the perceptions and behaviour of graduates, in order to explore how possible changes to this design may reduce the

Policymakers should explore no longer taking student loan repayments 'from the payslip', and changing the earnings threshold for student loan repayments for graduates who are paying into a pension...

negative effect that student loans have on participating in a pension. Possible changes might include: 1) no longer taking student loan repayments 'from the payslip'; 2) changing the earnings threshold for repayments for graduates who are paying into a pension, or 3) giving graduates a one-year student loan 'repayment holiday' when they begin saving into a pension.

Reform to tuition fees and student loans

The current Coalition Government has proposed that from 2012-13, a real interest rate will be charged when a graduate's income reaches an earnings threshold, reaching a maximum of 3.0% above inflation when earnings reach a higher threshold of £41,000. As such, the cost of servicing Maintenance and Tuition Fee loans for future graduates will be higher. In addition, the Coalition Government has determined that the cap on annual university tuition fees will increase to £9000, meaning that in future, the value of student loans that graduates possess will also be higher. In short, reforms to university tuition fees are likely to result in the proportion of the future employed population that has student loans being higher (particularly because loans will take longer to repay), and for the average value of student loans across the employed population to be higher.

Given this context, and the strong negative relationship between having a student loan and participating in an occupational pension, policymakers must:

- Ensure that all policy and impact evaluation of ongoing reforms to tuition fees and student loans take account of the subsequent effect of changes on pensions and savings behaviour among graduates.

Conclusion: What financial characteristics should pension policy target?

The comprehensive range of questions in WAS enabled Who Saves for Retirement? to take a detailed look at how different financial characteristics and outcomes influence participation in pension saving.

Despite concern within pension policy debate that workers may value liquid saving over pension saving – and hence, rules on access to pension saving should be revised - levels of liquid saving have negligible influence on whether people save into a pension.

Although rising house prices in the UK have pushed up the cost of home-ownership and reduced affordability, it does not appear that private renters delay pension saving before getting on to the property ladder, nor that the costs of mortgage repayments squeeze people out of pension saving.

Having children does not influence participation in pension saving. Nor, as noted in the Appendix of Who Saves for Retirement? does liquid debt appear to be correlated with decisions to save into a pension.

What these findings may show is that on average, households do not treat pension saving as substitutable with these other types of financial decisions, which may make a claim on income. A key factor explaining this this lack of substitutability may simply be the financial incentives available to pension savers.

Although each of these financial characteristics may influence pension contribution levels – and this would benefit from further study - Who Saves for Retirement? found that there are really only two important financial determinants of pension saving: earnings and student loans.

Possibly because of financial incentives available to pension savers, it appears that various other items of household spending are not interchangeable with pension contributions...

Earnings

Household earnings fall outside the scope of pension policy, and indeed, there is only a limited amount that any policy interventions can do to influence earnings levels directly. However, growth and declines in the value of real incomes will have an important effect on participation in pension saving, and declining real incomes occurring at the time of the current study are likely to have a significantly negative effect on pension saving.

Student loans

Whereas it was reasonable to expect that earnings would have a notable influence on participation in pension saving, one of the most revelatory findings of Who Saves for Retirement? is the strong effect that having a student loan has on pension saving, even after controlling for the effects of earnings, gender, savings and other characteristics.

The growing prevalence of student loans among graduate employees is outlined in the administrative data cited above. Although pension policy commentators have repeatedly cited the cost of house prices – and broader financial attitudes - as explaining low rates of participation in pension saving among younger age groups, it appears from Who Saves for Retirement? that stakeholders may have been 'looking in the wrong direction'. Indeed, it appears that it may in fact be that the creeping prevalence of student loans among younger workers best explains depressed levels of participation in pension saving. Understanding this effect and how it can be ameliorated must be an urgent priority for policymakers.

Key points:

- The effect of differences in earnings on pension participation is strong but somewhat limited, by comparison to other factors. Private (occupational and personal) pensions should always be framed as a universal activity suitable for everyone, including those on lower incomes.
- Despite worrying low levels of liquid savings in the population, decisions on participating in pension saving appear to be relatively decoupled from liquid saving by individuals, and as such, pension policymakers should not seek to more closely link and integrate these two areas of policy.
- Although housing costs (rent and mortgage payments) do not appear to reduce participation rates for pension saving, it does appear that the absence of housing costs can potentially result in higher participation in pension saving. Given this finding, policymakers should explore the potential for use as a 'trigger point' the point at which someone pays off their mortgage and owns their home outright, in order to target these individuals with information on pension saving and the offer of a financial review.
- Having a student loan results in 4.8% lower probability of saving into an occupational pension, even after controls for age, earnings, savings, employment sector, job characteristics and other factors. A detailed review must be undertaken into how student loans affect financial decisions of graduates, and explore 1) no longer taking student loan repayments 'from the payslip'; 2) changing the earnings threshold for repayments for graduates who are paying into a pension, or 3) giving graduates a one-year student loan 'repayment holiday' when they begin saving into a pension.

5. Financial Attitudes and Education: Their role in pension policy

Given the key strategic decision in pension policy to maintain private pension saving as a voluntary activity, policymakers remain interested in how financial attitudes and behaviour interact with pension saving...

Even in the context of 'auto-enrolment' reforms to be phased in from 2012, private pension saving in the UK will remain a voluntary choice, ultimately resting on a decision by individuals to save into a pension or not to save.

Given this important strategic decision by policymakers to maintain private pension saving as a voluntary activity, there has been extensive discussion within UK pension policy debate in recent years around the role of attitudes to pensions and retirement, as well as financial education, in encouraging people to save for retirement. Multiple organisations have made recommendations to policymakers for improved education and awareness around pensions. Extensive research has been undertaken into the decision-making process around pension saving.[18]

The inclusion in the WAS questionnaire of a range of variables relating to financial behaviour and attitudes enabled Who Saves for Retirement? to explore how these factors interact with decisions to save for a pension.

Education, Intelligence and Pension Saving

It is first worthwhile highlighting that a notable finding of Who Saves for Retirement? is that participation in pension saving is strongly positively correlated with education. After controlling for age, earnings, sector and job-type, having a degree makes someone 5.6% more likely to participate in occupational pension saving, than someone with no qualifications. Similar findings were identified for personal pension saving.

Clearly, the fact of having a degree does not cause someone to save for a pension, and the above findings control for the effect of higher earnings and eligibility that a having a degree may result in. Rather, level of education provides an indicator of intelligence and cognitive performance, and it is this that is positively associated with participation in pension saving.

The findings of Who Saves for Retirement? therefore support the contention that pension policy must take account of variations in intelligence and cognitive performance across the population. Put bluntly, differences in intelligence and decision-making processes affect participation in pension saving.

Who Saves for Retirement? includes detailed descriptive and associational analysis, exploring patterns of attitudes and pension knowledge across the population, and the interaction of these patterns with pension saving. With the above comments in mind, it is possible to review how these factors influence pension saving decisions, and therefore explore what these findings mean for how ongoing financial education and engagement policies seek to boost participation in pension saving.

Financial Management: Tending to buy things when you can't afford them

Who Saves for Retirement? found that 15% of male employees and 19% of female employees report that they tend to buy things when they can't afford them.

However, after controlling for multiple factors, including earnings, age and education, Who Saves for Retirement? found no relationship between being a person who tends to buy things they can't afford, and saving into an occupational or personal pension.

Given this finding, and the relatively low proportion of the population who report this behaviour, it appears that policy measures to improve budget expenditure decisions and financial management by households will have little effect on participation in pension saving.

A preference for 'living for today' does have a clear, measurable effect on probability of pension saving, so does merit a potential policy response..

Financial Behaviour: Patience and deferred consumption

Who Saves for Retirement? found that 25% of male employees and 20% of female employees reported patient characteristics in relation to financial rewards. This was measured by someone being willing to wait one year to receive £1100, instead of receiving £1000 in the present.

Clearly, this variable is highly relevant to pension saving in that in relates to 'deferred consumption', and a person's willingness to receive income in the future, instead of the present.

Some stakeholders have previously argued that improved financial education would increase the willingness of the population to engage in deferred consumption (indeed, given the 10% reward for patience proposed in the relevant WAS question, the proportion of respondents reporting that they would be willing to delay receipt is arguably surprisingly low).

However, after taking account of the effects of earnings, education, gender and job-type, Who Saves for Retirement? found that self-reported patient individuals were no more likely to engage in pension saving that non-patient individuals.

By comparison with the strong effect of incentives on pension saving, in the form of employer contributions, this finding regarding patience may reveal something about the limits to boosting pension saving by encouraging workers to become more patient.

Financial Behaviour: Preference for living for today rather than saving for retirement

Who Saves for Retirement? found that 36% of men and 38% of women report that they would prefer a good standard of living today rather than saving for retirement. Previous analysis of WAS by the ONS, found that this attitude was much more prevalent among younger age-groups than older ones.[19]

Exploring how this attitude interacts with pension saving, Who Saves for Retirement? found that being someone who reported such an attitude was 3.4% less likely to save into an occupational pension, and 1.9% less likely to save into a personal pension.

Given these results control for the effects of age, tenure, gender and earnings, and the target population is the entire employed population, these results can be considered large effects. These findings show that prioritising 'living for today' is unsurprisingly associated with a reduced probability of saving for a pension. As such, these results merit:

- A review by policymakers should be undertaken regarding what policy measures can be deployed to influence the preference of the population for spending today rather than saving for retirement, and:
- Conditional on reliable evidence about the effectiveness of related policy interventions, policymakers should seek to influence the preferences of the population relating to spending today rather than saving for retirement.

Further detailed analysis of the WAS could be used by policymakers to target policy interventions to specific groups.

Financial Behaviour: Being a saver not a spender

Who Saves for Retirement? found that 41% of men and 38% of women report that they are more of a saver than a spender, and found that a self-reported 'saver' is 2.3% more likely to save into an occupation pension, after controlling for the effects of earnings, gender, liquid savings and other factors. However, no

A preference for 'living for today' does have a clear, measurable effect on probability of pension saving, so does merit a potential policy response...

relationship was observable for personal pension saving.

Although such an association with pension saving may be 'bi-directional' (e.g. someone regards themselves as a 'saver' because they have already taken the decision to save for a pension), this finding does highlight how self-determined savings attitudes and conceptions of 'self' do have a measurable influence on pension saving. As such, policymakers should:

- Explore how to encourage positive saving attitudes among the population, as a means to boost participation in pension saving.

Financial Behaviour: Preferring to take risks

Who Saves for Retirement? found that being someone who prefers to take risks does influence choices around pension saving, but in different ways for different types of pension saving.

Preferring to take risks was associated with a 2.4% *lower* probability of participating in an available occupational pension scheme, and a 1.5% *higher* probability of participating personal pension saving.

At least in part, this suggests that attitudes to risk may influence choice of pension type, with those who prefer risk opting for personal pensions, presumably because personal pensions are all defined-contribution (DC) in nature, and typically therefore feature higher levels of investment risk – as well as investor control - compared to defined-benefit (DB) workplace pensions.

It is not clear that it would be feasible for policymakers to influence attitudes to risk across the population, nor to target individuals who would be expected to opt for personal or occupational pensions.

Instead, this finding may instead reveal something about shortcomings in how pensions are perceived: personal pensions as risky, and occupational pensions as not risky. It may be that policymakers would prefer to target 'risk-neutrality' in how different types of pensions are perceived as an outcome for pension policy, in order that attitudes to risk do not negatively influence participation.

Knowing enough about pensions

Who Saves for Retirement? explored data on whether people felt they knew enough about pensions to be able to make a decision to save into one.

After controlling for education, knowing enough about pensions was associated with a 1.9% higher probability of saving into an occupational pension and a 1.1% increased probability of saving into a personal pension.

These findings are at some risk of 'bi-directionality': for example, individuals who already save into a pension believing that they know enough about pensions precisely because they save into a pension.

However, it is noticeable that the proportion of employed men (50%) and women (33%) who report knowing enough about pensions is actually lower than average rates of pension saving among men and women - 64% and 62% respectively. As such, it appears that large numbers of employees in the UK save into a pension without feeling they know enough about pension saving.

This outcome could be interpreted as a failing: pension savers do not feel they know enough regarding pensions and their participation in pension saving may therefore be 'insecure'. Alternatively, this could be interpreted as a success: pensions is an inherently complex topic and individuals may always struggle to

Together, attitudinal and knowledge factors can influence participation in pension saving by as much as 7.6%, and so if effective, policy interventions to influence these traits should be considered...

'know enough'; but, if individuals are nevertheless saving into a pension, then policy measures to encourage pension take-up are being effective.

Reviewing this issue, policymakers will wish to consider how effective policy measures are at improving knowledge of pensions; and indeed, whether a person's perception that they 'know enough about pensions' is in fact linked to their level of knowledge.

Conclusion: The role of financial education, behaviour and attitudes in pension policy

As various studies have found, research and recording differences in financial attitudes and behaviour is necessarily an inexact science.

However, using the questions in WAS, Who Saves for Retirement? found that whereas over-spending and being patient were not associated with participating in pension saving, life-cycle consumption preferences, attitudes to saving and knowledge of pensions did influence pension saving. Added together, such attitudinal and knowledge factors can influence participation in pension saving by as much as 7.6%, which is a very large amount in the context of the whole UK workforce. As such, if effective, measurable policy interventions are available to influence these traits among employees, then policymakers should consider their implementation.

However, when policy outcomes rely on voluntary choices and 'good decisions', the principal levers deployed by policymakers are typically information and awareness campaigns designed to change attitudes and knowledge on a topic. All such campaigns confront a similar set of advantages and disadvantages. On the one hand, public information and awareness campaigns are relatively straightforward to organise and implement. On the other, it is very difficult to evaluate the effectiveness of particular information and awareness campaigns, particularly given the presence of multiple other factors that will determine public attitudes, perceptions and knowledge about a topic.

This is one reason why the strategic decision has been taken to bypass efforts to improve purely voluntary good decisions, and apply 'auto-enrolment' to workplace pension saving in the UK.

As such, policymakers seeking to boost pension saving will have to evaluate carefully policy measures designed to encourage individuals to have a more positive view of saving for retirement, and to know more about pensions. It is very difficult to evaluate the cost-effectiveness of measures such as information campaigns, and policymakers will wish to consider this issue carefully.

Ultimately, poor attitudes to saving and life-cycle consumption, as well as limited knowledge, may act as a deterrent to participation in pension, but while significant, their effect is limited, and auto-enrolment on its own may be sufficient enough to counteract their effects.

Key points:

- Whereas over-spending and being patient are not associated with pension saving, life-cycle consumption preferences, attitudes to saving and knowledge of pensions are. Added together, such attitudinal and knowledge factors can influence participation in pension saving by as much as 7.6%. As such, if effective, measurable policy interventions are available to influence these traits among employees, then policymakers should consider their implementation.

6. Conclusion: How to boost participation in pension saving and reduce opt-outs?

On the basis of the findings in Who Saves for Retirement?, it appears that UK pension reforms that begin phased implementation from 2012 will be effective in boosting participation rates...

Who Saves for Retirement? was made possible by the availability of new data from the first wave of the Wealth and Assets Survey (WAS).

As a large sample survey of income and wealth, WAS is the most comprehensive study of its kind anywhere in the world.

Although Who Saves for Retirement? does not look at factors that determine pension contribution levels among workers - which would require a very different type of study to achieve similar levels of reliability – the research provides an opportunity to test the direction of UK pension policy against new insights regarding the prevalence of pension saving across the population, and the factors that drive participation in pension saving.

The overall assessment is positive. On the basis of the findings in Who Saves for Retirement?, it appears that UK pension reforms that begin phased implementation from 2012 will be effective in boosting participation rates.

Although there will always be some factors that inhibit individuals from saving for a pension that policymakers will struggle to address – for example, 'random barriers' such as people losing forms they are required to fill in – auto-enrolment should overcome many of these issues.

In this context, this chapter concludes by taking a look across the full range of findings of Who Saves for Retirement? to explore how policymakers should:

- Boost participation in pension saving;
- Reduce the prevalence of 'opt-outs' following the introduction of 'auto-enrolment'.

Who Saves for Retirement?: How to boost pension saving?

On the basis of the findings of Who Saves for Retirement, the key strategic interventions to boost participation in pension saving would be:

1) Define the target group for pensions in universal terms

When pension saving is lower among some groups, there is a tendency among pension commentators to declare pensions as 'unsuitable' for these groups.

However, Who Saves for Retirement? shows that pension saving can be suitable for everyone. Contrary to perceptions among some stakeholders, women are more likely than men to save into a pension. Ethnicity has no bearing on participation in workplace pensions. Saving into a pension is observable across part and full-time employees, and even among the lowest earnings brackets.

As such, the first direction to policymakers seeking to boost participation in pension saving is to target the whole employed population, i.e. to define the target group for pensions in universal terms.

2) Universal eligibility for occupational pensions

Who Saves for Retirement? supports existing assumptions and research that the workplace is a highly effective location for encouraging individuals into pension saving, and encouraging individuals to keep saving as part of their 'employment contract'. Following the phased implementation of reforms in 2012, any limits on duties on employers to offer workplace pensions will also limit participation in pension saving, and it is clear from Who Saves for Retirement that policymakers do not have equivalently effective policy levers available. Notwithstanding barriers and

As the most likely 'opt-outs' following auto-enrolment, policymakers should target men; low-earners; individuals in mortgage arrears; graduates with student loans; and, individuals with negative attitudes to (retirement) saving...

problems for small employers, policymakers should aim for universal eligibility for an occupational pension.

3) Universal eligibility for employer contributions

Employer contributions are the 'silver bullet' of pensions policy. As a 'policy lever', its effect on boosting participation in pension saving is simply far stronger than any other measure available to policymakers.

As such, any limits on duties on employers to offer pension contributions will also limit take-up of pension saving, and there are no similarly effective alternative 'policy levers' available to policymakers. As with eligibility for occupational pension saving, notwithstanding barriers and problems for small employers, policymakers should aim for universal eligibility for employer contributions.

4) Address 'student loan effect'

Having a student loan has a strong, predictable, negative effect on participation in pension saving. Very little research or analysis has been undertaken into this effect and how it can be ameliorated. Addressing the effect of student loans on participation in pension saving would have a clear positive effect on participation rates.

5) Promote financial education and positive attitudes to saving, but recognise their limits

Knowledge of pensions, attitudes to life-cycle saving all influence participation in pension saving. To the extent that effective policy interventions are available in relation to these factors, deploying them will improves rates of participation in pension saving.

6) Make employers aware of their responsibilities

Who Saves for Retirement? identified that the most powerful levers to encourage pension saving available to policymakers are eligibility for occupational pension saving and employer contributions. As such, if the UK is to achieve adequate levels of pension saving as a society, employers have a unique responsibility and must play their role. Policymakers must ensure that employers understand this responsibility.

Who Saves for Retirement?: How to reduce opt-outs from auto-enrolment?

On the basis of Who Saves for Retirement?, which individuals will be most likely to 'opt-out' of workplace pension saving following 2012 introduction of 'auto-enrolment', and how should the government target them:

- Men

Being male reduces to probability of engaging in occupational pension saving, by as much as 4.6%. So, notwithstanding men having higher incomes, efforts to reduce opt-outs should prioritise men over women.

- Low earners

Low-earners are less likely to engage in pension saving, and those not currently eligible for workplace pension should be targeted with information via their employers.

- Mortgage arrears

Unsurprisingly, those in two or more months arrears on their mortgage repayments are 15% less likely to save for a pension. Policymakers should use the period before the phased introduction of auto-enrolment in October 2012 to work with mortgage lenders and help those in arrears catch up with their payments, and improve their financial situation.

- Graduates with student loans

Having a student loan reduces the probability of saving into an occupational pension by 4.8%, even after earnings and job-type are taken account of. Policymakers should seek to use the Student Loan Company itself to promote information to graduates with student loans about the benefits of pension saving.

- Attitudes to retirement saving

Those who prioritise ‘living for today’, see themselves as spenders rather than savers, and feel they don’t know enough about pensions are significantly more likely to opt-out following the introduction of pension reforms. Information and communications

Key points:

- In conclusion, the findings of Who Saves for Retirement? suggest that to boost participation in pension saving, policymakers must: define the target group for pensions in universal terms; implement universal eligibility for occupational pensions; implement universal eligibility for employer contributions; address the ‘student loan effect’; promote financial education and positive attitudes to saving, but recognise their limits; and, make employers aware of their responsibilities.
- In order to reduce rates of opt-outs following 2012 auto-enrolment reforms, Who Saves for Retirement? suggests policymakers should target: men; low-earners; individuals in mortgage arrears; graduates with student loans; and, individuals with negative attitudes to (retirement) saving.

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