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Who Saves for Retirement?

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Background to the Study

- Not enough people save into a pension
- Major pension reforms ongoing
- Debate over drivers of pension saving
 - Previous studies: mainly US, mainly scheme-specific, narrow focus.
- Auto-enrolment: uncertainty over who will be most likely to opt-out.
- Government has limited resources and limited policy levers to get people into pension saving
 - Need to understand drivers of pension saving
 - Need to target effort and interventions
 - High-quality evidence improves *design* and *targeting* of policy.

Why now?

- New data source: the Wealth and Assets Survey (WAS) for 2006-08.
- Representative, longitudinal household survey
- Unprecedented detail on income, wealth and related factors.
- Excellent opportunity to investigate: who saves for retirement?
 - Scope to include wide range of factors in a *single* study.
 - No previous study anywhere in world has been able to do what we have done.
- Core sample of employed individuals used in analysis: 25,995 individuals.

Research Outline

- Descriptive analysis:
 - What is the prevalence of pension saving in Britain?
 - What are the characteristics of pension savers?
- Regression analysis:
 - What factors are correlated with pension saving, *controlling* for effect of other factors?
- Focus is on participation, *not* contribution levels
- Separate analysis for men and women.
- Analysis distinguishes between:
 - Participation in occupational (workplace) pension
 - Personal (private) pension saving

Descriptive Analysis

How prevalent is pension saving?

Retirement saving activity	% of employees		
	All	Men	Women
Not saving into pension	45	42	45
Saves into personal pension only	5	8	4
Saves into occupational pension only	48	47	50
Saves into both types of pension	2	3	2
Total	100	100	100

- Gender differences are small (but we look at participation not amount of contributions)
- Around 2% of employees save to both occupational and personal pensions, but more typically they are used as alternatives.

Pension saving and the household

- Pension savers are on average older, in couples, of white ethnicity, highly educated with relatively high earnings, home-owners and have more assets than non-savers.
- Partners within couples typically adopt similar pension saving behaviour:
 - In three quarters of couples where the head of household was not saving into pension, the partner was also not saving into a pension.
 - When the household head was saving into a pension, the partner was more likely to be saving into the *same pension type*.
 - Therefore a non-saving partner may not be able to rely on their spouse's pension, and household pension arrangements exacerbate inequalities in pension saving.

Pension saving and the workplace

- Most pension saving is via occupational pensions
→ workplace is important in explaining participation rates.
- Eligibility for workplace pension is a key factor but differs widely across industries and workplaces.
 - Approx 40% of employees are eligible in the retail sector and in small workplaces
 - About 80-90% of employees are eligible in public administration and education and large workplaces.
- About 90% of eligible employees are offered employer contributions (similar proportions across industries and workplaces).
- Part-time workers less likely to save to pensions: 46% of PT women vs 60% of FT women.

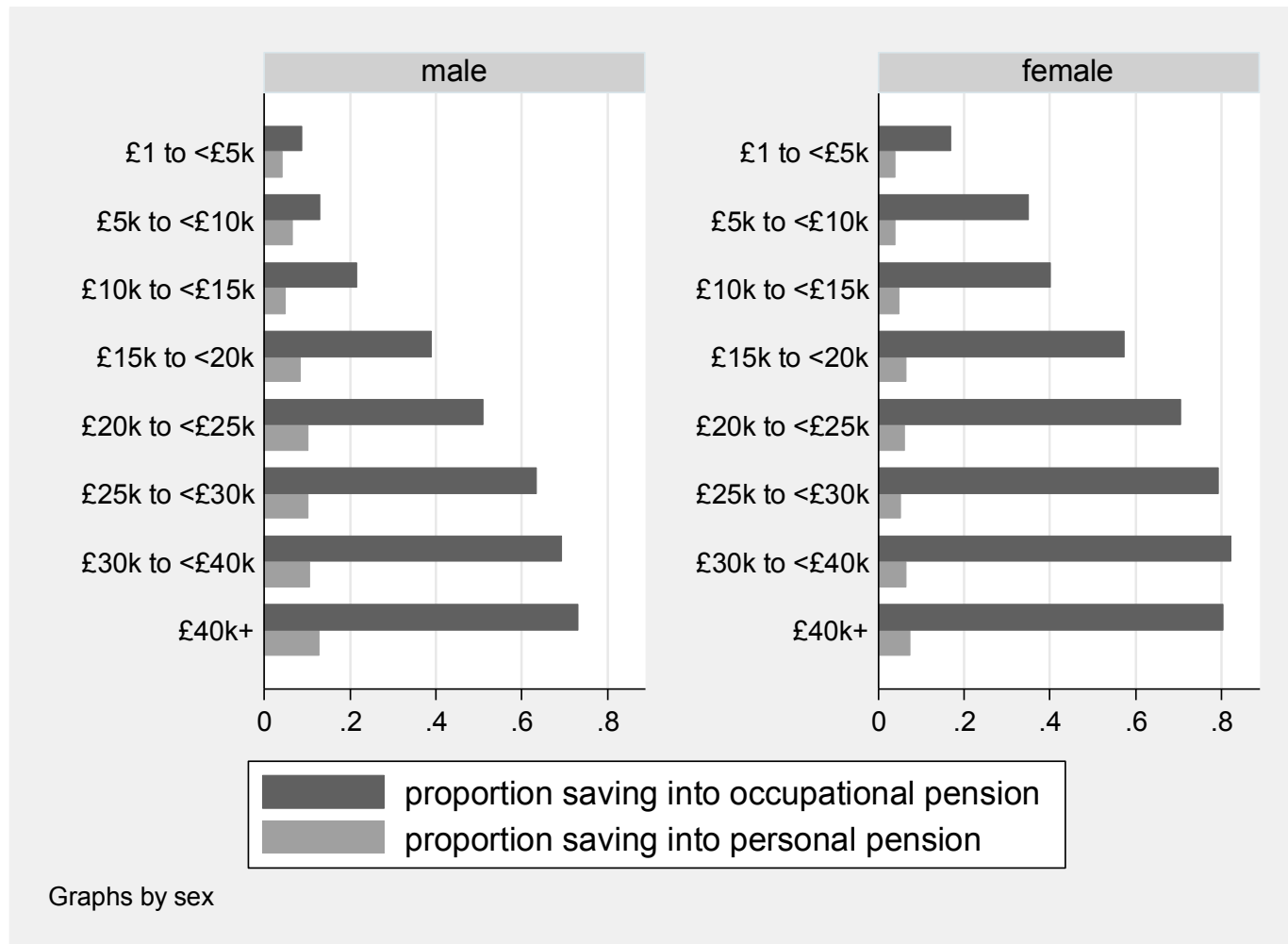
Pension saving and earnings

Distribution of gross annual earnings

Gross annual earnings	Male (%)	Female (%)	Total (%)
£1 to <£5k	2.7	10.7	6.6
£5k to <£10k	5.5	19.6	12.3
£10k to <£15k	12.6	20.6	16.5
£15k to <20k	18.8	17.2	18.0
£20k to <£25k	15.2	10.7	13.0
£25k to <£30k	11.5	7.0	9.3
£30k to <£40k	16.3	8.8	12.7
£40k+	17.4	5.5	11.6
Total	100.0	100.0	100.0

Notes: employees aged 16-65.

Pension saving and earnings



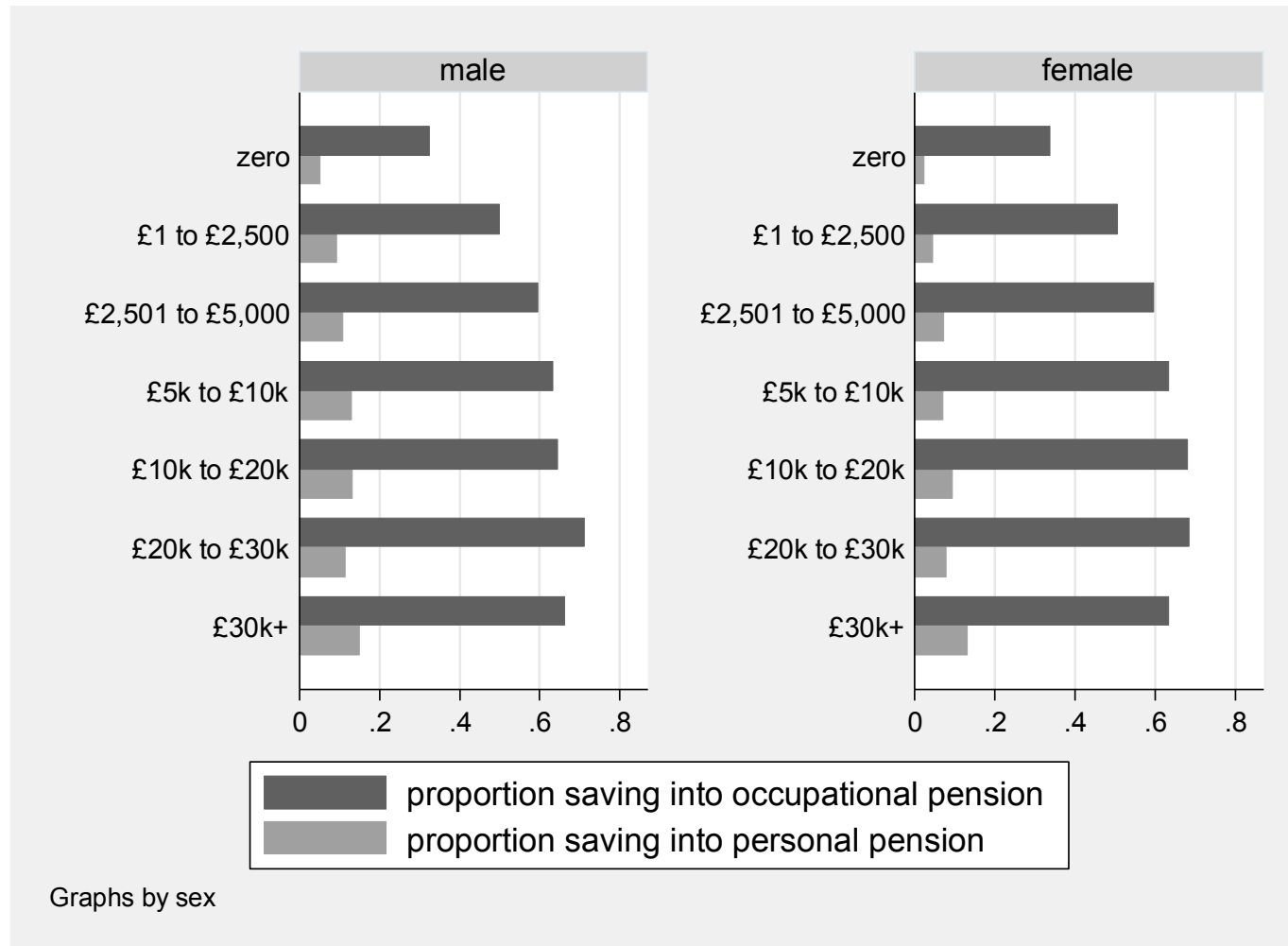
Pension saving and liquid saving

Distribution of liquid savings

Amount of liquid saving	Male (%)	Female (%)	Total (%)
zero	32.4	27.8	30.1
£1 to £2,500	31.7	35.2	33.4
£2,501 to £5,000	8.7	9.8	9.2
£5k to £10k	8.9	9.3	9.1
£10k to £20k	7.6	7.8	7.7
£20k to £30k	3.6	3.8	3.7
£30k+	7.2	6.4	6.8
Total	100.0	100.0	100.0

Notes: employees aged 16-65. Liquid savings include savings accounts, ISAs, National Savings products, PEPs.

Pension saving and liquid saving



Pension saving by largest expected source of retirement income

Pension saving by largest expected source of retirement income, by gender (51-65 years)



Regression Analysis

What do we want to know?

- To increase participation in pension saving, policymakers need to know:
 - What factors influence eligibility for occupational pension saving?
 - What factors influence participation in occupational and personal pensions?
 - What is the strength (+/-) of influence?
 - What is the relative importance of different factors?

What can regression analysis do?

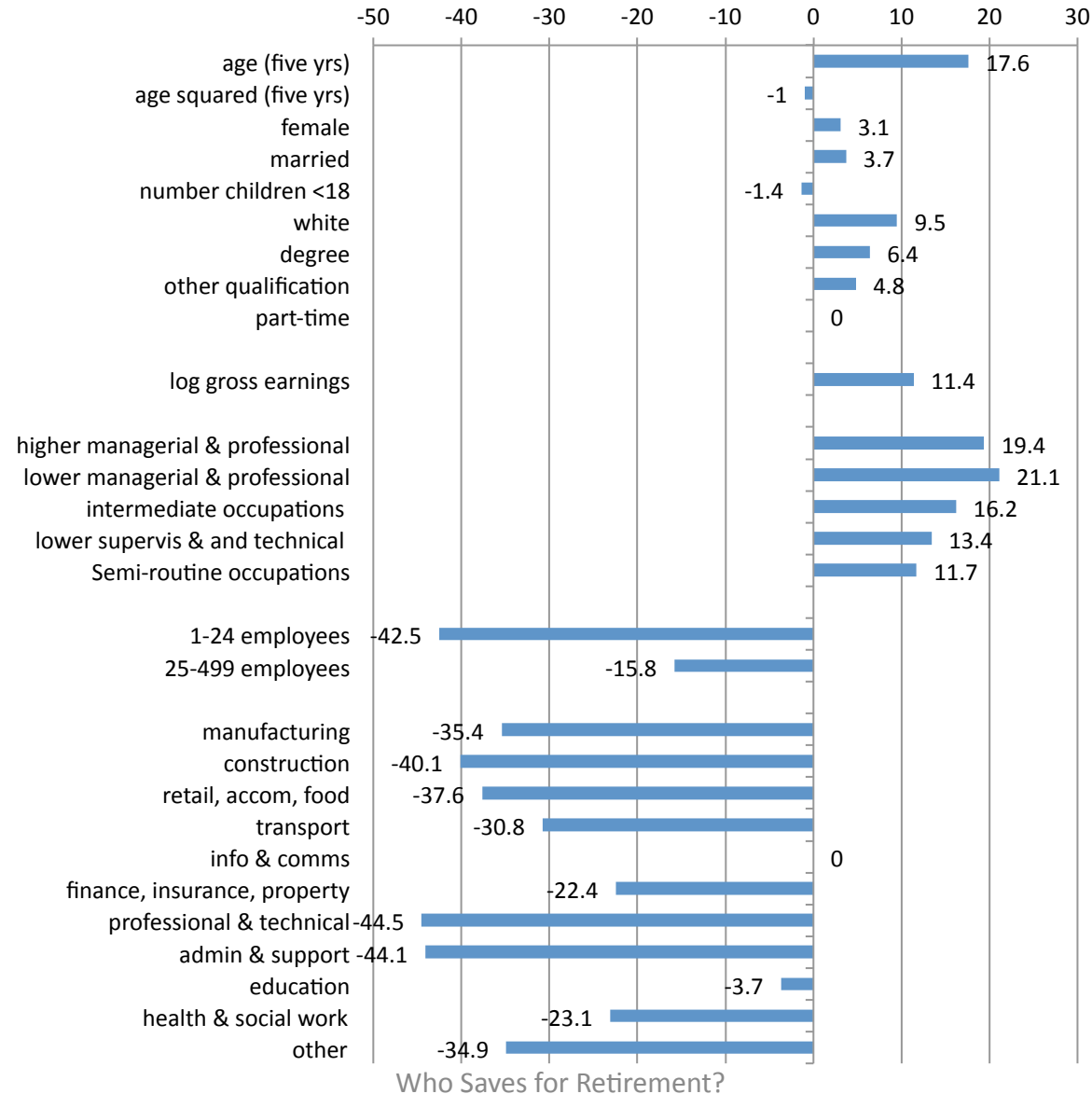
- Measure the influence of one factor, controlling for the effect of other factors (i.e. comparing otherwise identical individuals).
- “What is the effect of A on participation in pension saving, after controlling for B-Z?”
- How is this expressed?
 - Increase (+) or decrease (-) in percentage probability
 - “Someone with characteristic A is 4 percentage points less likely to save for a personal pension.”
 - Everyone in the employed population has all the characteristics we have analysed
 - The effect of different factors is additive.

What factors affect eligibility for occupational pension saving?

Probability of eligibility for occupational pensions

- Not surprisingly, main determinants are job and employer characteristics.
- Size of employer: compared to 500+ person employer:
 - 1-24 employees -42.5%
 - 25-499 employees -15.8%
- Sector: compared to 'Public Administration and Defence':
 - Construction -40.1%
 - Professional and technical: -44.5%
 - Admin & support -44.1%
- But showing that policy is working:
 - Being part-time 0%

Factors affecting whether or not employees are eligible for occupational pensions



What factors affect participation in occupational pension saving?

Personal Characteristics and Probability of Occupational Pension Saving

- Being female +4.6%
- Having children 0%
- Being white 0%
- Having degree +5.6%

Tenure and Probability of Occupational Pension Saving

Compared to private renters:

- Owning outright +3.2%
- Owning with a mortgage 0%
- Social housing tenant 0%
- No difference in participation in occupational schemes between private renters and mortgage-owners.

Household Finances and Probability of Occupational Pension Saving

- Gross earnings (10% ↑) +0.5%
- Spouse earnings (10% ↑) 0%
- Liquid savings (10% ↑) 0.03%
- Mortgage payments (10% ↑) 0.1%
- Mortgage LTV ratio (10% perctge ↑) -0.8%
- Mortgage 2+ months arrears -15%
- Bills 2+ months arrears 0%
- Has student loan -4.8%

Financial Attitudes and Probability of Occupational Pension Saving

- Prefers living for today to saving for retirement -3.4%
- Tends to buy when can't afford 0%
- Saver not spender +2.3%
- Prefers to take risks -2.4%
- Patient 0%
- Knows enough about pensions +1.9%

Did we find a silver bullet for occupational pension saving?

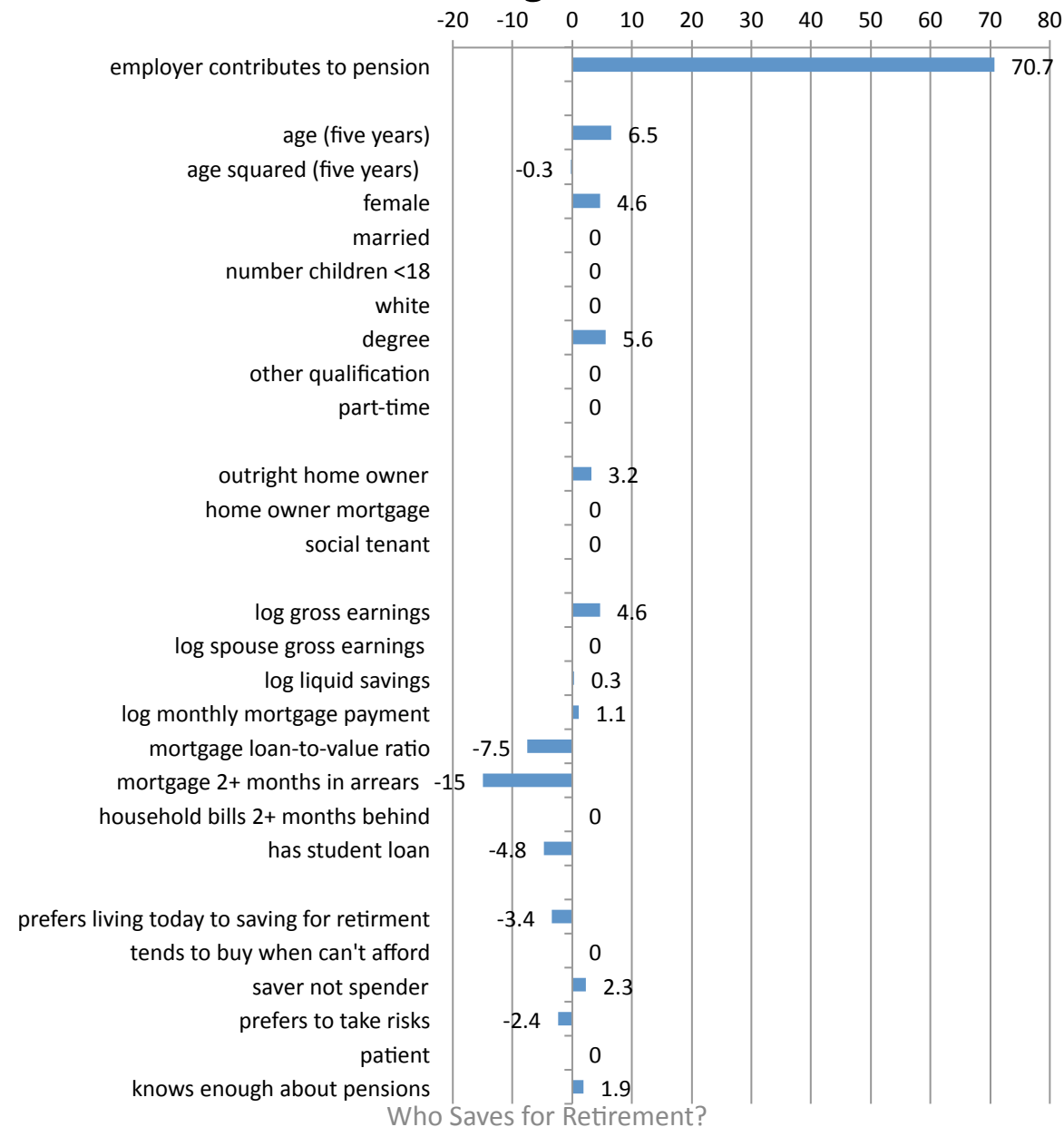
Did we find a silver bullet for occupational pension saving?

- After controlling for all other factors, one variable increased the probability of saving into an occupational pension far more than other factors:
- Employer contributions +70.7%

Employer contributions in context

- Some caveats: we cannot observe how much an employer 'sells' the workplace pension
- Rare to see such a strong association in multivariate regression analysis.
- Far stronger effect (+/-) than any other variable
- Someone could have multiple negative characteristics for participation in occupational pension saving...
 - But still be more likely than not to save *if* employer contributions are available.

Factors affecting whether people save into an occupational pension, if eligible



What factors affect participation in personal pension saving?

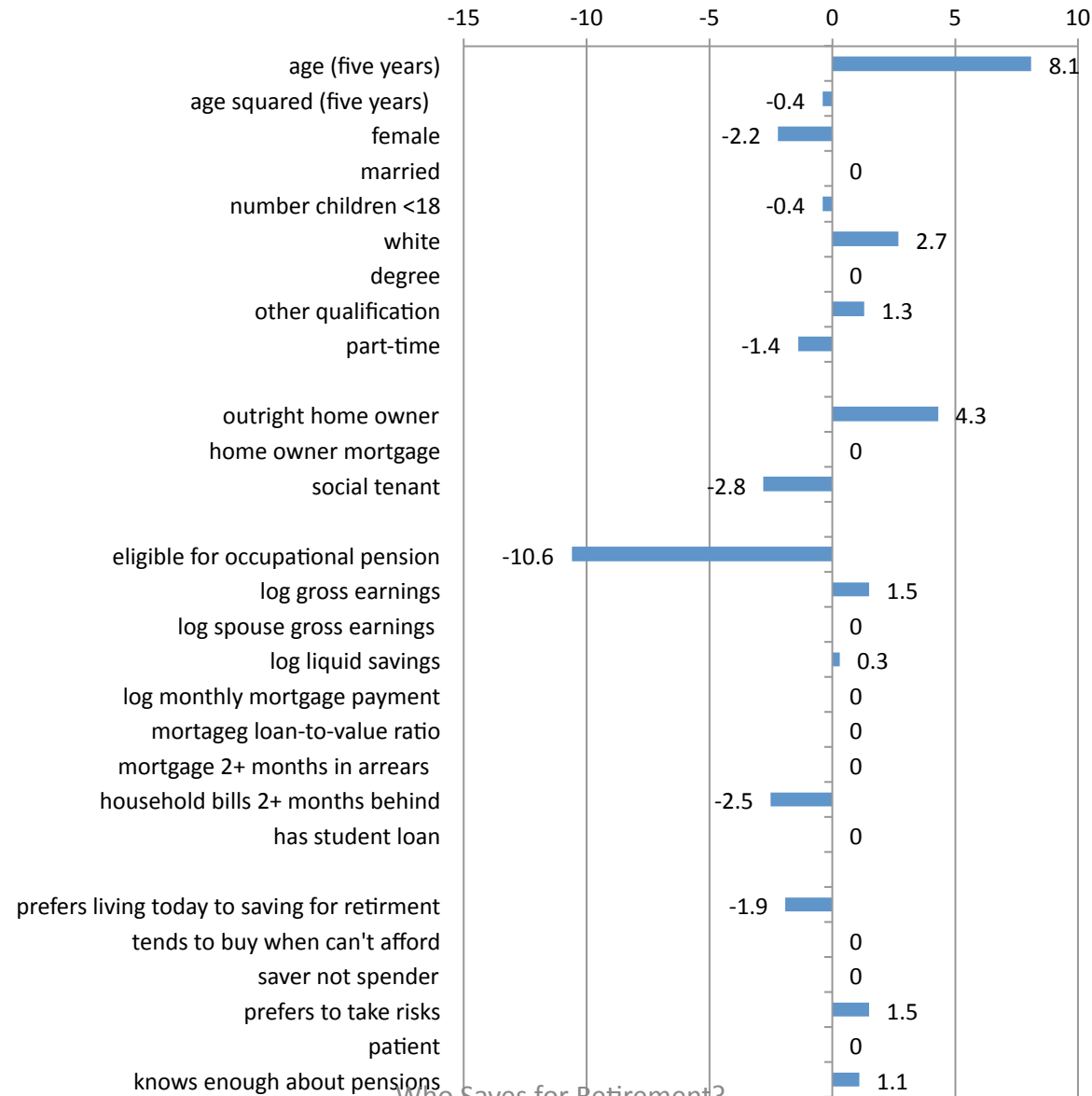
Personal pension saving

- Some factors have a similar effect to occupational pension saving...
 - But others are different.

Notable factors affecting Probability of Personal Pension Saving

- Being female -2.2%
- Being white +2.7%
- Degree 0%
- Outright home owner +4.3%
- Mortgage LTV ratio 0%
- Having a student loan 0%
- Household bills arrears -2%
- Eligible for occupational pension -10.6%

Factors affecting whether people save into a personal pension



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