Beyond Auto-enrolment

Eligible non-savers and the opt-out opportunity

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Executive Summary

This discussion paper provides accompanying policy analysis to *Who Saves for Retirement? 2: Eligible non-savers*. This research examined the demographic, financial and attitudinal characteristics and predictors of 'eligible non-savers', i.e. workers who choose not to participate in a workplace pension schemes despite being eligible for employer contributions.

This discussion paper explores the implications of the findings of this research for the government's policy objective of maximising participation in workplace pension saving.

WSFR2 identified that during 2006-2010, around one in 10 eligible workers aged 45-64 did not save into their workplace pension scheme despite the availability of employer contributions. This proportion rises to around one in three for the youngest age groups.

To change the behaviour of such workers in the context of the 2012 pension reforms, the government is primarily reliant on auto-enrolment and the incidence of inertia among workers. However, as evidence published by DWP on post-2012 eligible non-saver 'opt-outs' has shown, auto-enrolment will be inadequate to result in pension saving in many cases.

The government therefore needs to develop a strategy beyond auto-enrolment to improve participation rates among those workers who will otherwise opt-out and become eligible non-savers. WSFR2 identified a range of significant predictors for someone being an eligible non-saver. These factors included:

- Level of earnings;
- Age;
- Level of education;
- Renting, as well as the life-event of buying a home;
- Attitudes around spending vs. saving;
- Attitudes to the best way to save for retirement;
- Financial management and behaviour, such as putting money aside, keeping on top of bills and being patient.

This report builds on these findings to develop potential policy interventions to minimise the number of eligible non-savers who opt-out of workplace pension saving in future. The report distinguishes two broad approaches:

- Macro, 'whole population' strategies relating to economic trends affecting the working population;
- Micro, 'individual-level' interventions focused on the 'opt-out journey' of individual workers.

Recommendations

The report recommends that the government should:

- Ensure the effect of incomes policy on rates of pension saving is fully considered, and explore whether rules on pension saving should be relaxed for some younger, low-earners, for example, relating to contribution levels.
- Give full consideration to the negative consequences for pension policy of declining owner-occupation rates as it develops UK housing policy, and note in particular that it will have to reverse declining trends in rates of home-ownership if it is to maximise rates of pension saving across the workforce.
- Ensure it fully exploits the 'opt-out journey' for the purposes of minimising the prevalence of eligible non-savers across the workforce. In particular, the government should use its powers to obtain the contact details of opt-outs, ensure these workers complete a short survey on the drivers of their decision - drawing upon WSFR2 and future research – and, allocate opt-outs to one or more groups related to common drivers for opting-out in order to target them with tailored interventions.
- Ensure that the opt-out process reaffirms the status of individuals as 'opt-outs', in order to frame their choice to opt-out, inform opt-outs of their future options and guide opt-outs to certain actions.
- Ensure that 'opt-outs' identified as having poorer financial management skills are offered appropriately designed financial management courses and financial counselling, organised around the explicit target of being in a position to opt back in to their workplace scheme.
- Explore how the unpaid employer contributions of opt-outs could be deployed as a 'bonus' incentive for these workers if they pre-commit to subsequently rejoining their workplace pension after a defined period, for example, once they have restructured and paid off their personal debts.
- Ensure those who opt-out of workplace pension saving and report a low knowledge of pensions, or a preference for alternative retirement savings vehicles, are invited to engage with appropriately designed information and education about pensions.
- Explore whether among those who want to opt-out, for whom auto-enrolment will be their first experience of pension saving, should then be offered a temporary, one-off 'stepping-stone pension', that allows them to familiarise themselves with pension saving, and could be cashed-in during the first six months, after which time it would be uprated into a full pension.
- Ensure – given the influence of financial attitudes, motivations and loss aversion in being an eligible non-saver - that workers who opt-out of their workplace pension scheme receive regular 'opt-out statements' on what the accumulated value of their pension pot and third-party contributions would have been worth if they had stayed in.
- Make full use of the power of social 'norms' in both encouraging individuals to remain in their workplace pension, as well as what actions opt-outs take during the opt-out journey and after.

1.Introduction

In October 2012, the UK government launched a rolling implementation of reforms to private pension saving, built around guaranteed access among eligible workers to a decent workplace pension scheme with employer contributions, and the automatic enrolment of workers into these schemes.

However, policymakers have long known that despite the enhanced incentives and 'nudges' toward saving provided by the reforms, some workers would choose to opt-out of their workplace pension scheme.

The reforms therefore define new a target group for policymakers seeking to maximise participation rates in pension saving: the '**eligible non-saver**', who chooses not to contribute to a pension despite being eligible for an approved workplace scheme with contributions from their employer.

Confronted with such pension 'opt-outs', policymakers need to develop further interventions to maximise participation rates among eligible non-savers for whom the key components of the auto-enrolment reforms are insufficient.

1.1. Who Saves for Retirement? 2: Eligible non-savers

Designing effective policy interventions that go beyond the measures contained in the 2012 reforms to workplace pension saving requires detailed evidence and understanding of the drivers of decision-making among workers who choose not to participate in workplace pension schemes.

In subsequent years, short questionnaire surveys of pension opt-outs will provide some indication of the subjective motivations of pension opt-outs, and by the early 2020s, large-panel social surveys will provide more detailed, objective data on their characteristics and motivations.

However, eligible non-savers who reject their workplace pension scheme despite employer contributions being available have existed for many years.

For this reason, the Strategic Society Centre and Institute for Social and Economic Research (ISER) collaborated on a quantitative research project into 'eligible non-savers', made possible by the support of Prudential.[1]

The research analysed data on eligible non-savers between 2006 and 2010, contained in the large-sample survey of UK households used for the first two waves of the Wealth and Assets Survey, which is a biannual social survey of around 40,000 people.

Who Saves for Retirement? 2: Eligible non-savers examined the demographic, financial and attitudinal characteristics of eligible non-savers, and what factors predicted being an eligible

non-saver. It also examined transitions into and out of this group: individuals who left their workplace pension scheme, and individuals who were eligible non-savers but subsequently joined their employer scheme.

1.2. Beyond Auto-enrolment

This discussion paper provides accompanying policy analysis to this research, and explores the implications of the research findings for the government's policy objective of maximising participation in workplace pension saving.

Chapter 2 provides an overview of the UK government's response to the challenge of boosting pension saving, and the emergent focus on 'eligible non-savers'.

The third chapter summarises the findings of *Who Saves for Retirement? 2: Eligible non-savers*.

Chapter 4 sets out recommendations for policymakers on minimising the prevalence of eligible non-saving in the context of the government's workplace pension reforms.

The fifth chapter concludes with key messages for policymakers around the 'opt-out opportunity'.

2. Meeting the Pension Challenge: The government's strategy

This chapter provides an overview of the UK government's response to the challenge of boosting pension saving, and the emergent focus on 'eligible non-savers'.

2.1. Background: The UK's pension saving problem

Successive governments have recognised the need to increase among UK workers both **participation rates** in pension-saving and **contribution levels**, in order to ensure that all workers have a decent pension income in retirement.

In particular, the government wants to reverse the long-term decline in participation rates in workplace pension saving which, between 2003 and 2012, saw the number of eligible employees participating in a workplace pension reduce from 12.3 million (65%) to 10.9 million (55%).[2]

2.2. Meeting the Pensions Challenge: The government's strategy

The Coalition government has adopted a multi-pronged approach to improving pension income in retirement incorporating changes to employment regulation, pension scheme design and welfare entitlements.

The principal tenets of the government's strategy focus on improving:

- **Access** to pension saving via:
  - A duty on employers to offer a decent workplace pension scheme;
  - The creation of the National Employment Savings Trust (NEST) so that all employers have recourse to a basic, low-cost workplace pension scheme provider;
- **Incentives** to save via:
  - Duties on employers to offer contributions to their employee pension pots;
  - Committing to implement a Single-Tier state pension from April 2016 for new retirees,[3] ensuring that all workers with sufficient National Insurance Contributions can expect a state pension income above the current 'Minimum Income Guarantee' and – crucially – be confident that it will 'pay to save' as a result;
- **Attractiveness** of pension saving for workers via:
  - Exploring so-called 'defined ambition' (DA) approaches to framing and apportioning investment risk associated with pension saving;[4]
  - Reviewing the charges paid by pension schemes for fund and investment management.
- **Choice frameworks** around voluntary decisions to save for a pension through the application of 'auto-enrolment' to workplace pension schemes.

2.3. Workplace Pension Reform: An overview

At the heart of the government's pensions strategy is reform to workplace pension saving.

In October 2012, the government launched the staged implementation of historic reforms to workplace pension saving in the UK, based on the recommendations of the Pension Commission chaired by Adair Turner, which published its final report in 2006.[5]

The reforms are built around three central pillars:

- Ensuring **access** to a decent workplace pension scheme through a duty on employers;
- Improving **incentives** to save through employer duties to offer contributions to the pension pots of participating employees;
- Utilising **inertia** among workers in relation to pension saving by applying an 'automatic enrolment' choice framework to pensions saving in the workplace, thereby requiring workers to actively opt-out if they are not to participate.

The principal aim of these reforms is to increase participation rates in workplace pension saving by UK employees. As a result of increased participation, the government anticipates:

- Higher stocks of private pension saving;
- Higher retirement incomes among those subject to the reforms.

The government has said that once completed, workplace pension reform will:[6]

- Increase the number of individuals newly saving or saving more in a workplace pension by around eight million, within a range of six to nine million;
- Increase the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to £12 billion.

In particular, modelling by the Department for Work and Pensions suggests reforms to workplace pension saving will halve the number of people retiring with no private pension at all in 2050 from 27% to 12%.

2.4. Workplace Pension Reform: An overview

The legislative changes required of the reforms were set out in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011), as well as accompanying regulations.

The reforms require employers to automatically enrol new and non-participating eligible workers into a qualifying workplace pension scheme. To help those employers without adequate workplace pension schemes, the government created a new workplace pension scheme provider - the National Employment Savings Trust (NEST) – subject to a 'Public Service Obligation' to accept any employer that wishes to use NEST to fulfil its workplace pension duties.

Legal duties on employers to automatically enrol non-participating employees are being applied in stages. This process began in October 2012 with the largest employers, and will complete with the smallest qualifying employers in February 2018.

To be eligible for automatic enrolment, workers must be aged between 22 and State Pension age, and earn over £9,440 per year in 2013-14 terms. A worker's contributions are determined between a band of earnings. For the 2013-14 tax-year, the lower level is set at £5,668 and the upper level is set at £41,450. The government has said it will review these figures on an annual basis. A worker's earnings below the lower level and above the upper level are not taken into account when deriving a worker's pension contributions.

In relation to contribution levels, by October 2018, the total minimum contribution will be 8%, of which at least 3% must come from the employer and 1% will come from the government in the form of tax relief.[7]

Once automatically enrolled into a workplace pension, individuals have the right to opt out within a specified period of one month. Workers can also choose to cease active membership of the pension scheme after the opt-out period has closed.

If a worker opts out or stops paying into the workplace pension their employer has a duty to automatically enrol them back into their pension scheme at regular intervals, usually every three years. New employees will in future be automatically enrolled after three months whenever they start a new job, at which point they will need to complete the opt-out process again.

2.5. Workplace Pension Reform: Initial results

Following the launch of the reforms in October 2012, the Department for Work and Pensions (DWP) has reported that between October 2012 and October 2013, more than 1.9 million workers were automatically enrolled across nearly 3,000 employers. NEST membership at this time reportedly stood at over 600,000 individuals from around 1,800 employers.[8]

Throughout the launch of the reforms, the government has been clear that the changes will not result in 100% participation rates, and it has always expected some level of opt-outs following the application of automatic enrolment to workplaces.

The DWP therefore undertook research with 50 of the largest employers who had become subject to the auto-enrolment duties between October 2012 and April 2013 in order to understand the extent of opt outs and the effect of reform on participation rates.[9] The research found that:

- Across all the public and private sector employers in the study the average opt-out rate was 9%. Most individual employers had an opt-out rate ranging between 5% and 15% of the workers they had automatically enrolled;
- The proportion of workers choosing to leave the scheme after the opt-out period had closed was typically around one-fifth of the original opt-out rate;
- Overall participation in workplace pension saving among these employers increased from 61% to 83% following automatic enrolment of non-participating employees.

Interestingly, the DWP found that the most important factor influencing opt-out rates was contractual enrolment, i.e. whether or not an employer already included enrolment into a pension scheme as part of a worker's employment contract. The DWP found that where contractual enrolment was already in place, opt-out rates were nearly double the average.

2.6. Beyond Auto-Enrolment: The challenge to minimise eligible non-savers

Previously, declining participation rates in workplace pension saving in part reflected:

- Limited eligibility for pension schemes across UK workplaces, or the provision of poor-quality schemes;
- Limited or absent employer contributions.

However, following the completion of the automatic enrolment workplace pension reforms, all qualifying UK workers will have access to:

- A decent workplace pension scheme, i.e. one that meets certain minimum standards;
- Employer contributions.

In the long-term, these changes are expected to significantly boost pension saving participation rates and as policy design choices, were validated by the findings of *Who Saves for Retirement?* (2011), published by the Strategic Society Centre, which found that employer contributions in particular represent by far the most powerful influence on the pension saving decisions of workers.[10]

However, as described above, policymakers have always expected that some workers will choose to opt-out of their workplace pension scheme following automatic enrolment, despite access to a decent scheme and the availability of employer contributions.

In this way, given the need to maximise rates of voluntary pension saving among UK workers, the implementation of workplace pension reform creates a new policy challenge for the government: minimising the prevalence of '**eligible non-savers**'. These are qualifying UK workers who choose not to participate in workplace pension saving despite key elements of the post-2012 workplace pension reforms: **access** to a decent workplace scheme, and **incentives** to contribute through employer contributions. In effect, these are workers so resistant to pension saving that key tenets of the government's workplace pension reform are inadequate to ensure they save for retirement.

In this way, having begun implementation the auto-enrolment workplace pension reforms, the government needs to design and target policy interventions at eligible non-savers. Even reducing opt-out rates by a couple of percentage points will over time represent hugely different outcomes for many hundreds of thousands of people. To be effective, the interventions need to be based on strong evidence of the characteristics, motivations and attitudes of eligible non-savers.

The next chapter therefore describes research to inform policy development around eligible non-savers: *Who Saves for Retirement? 2: Eligible non-savers*.

3.Understanding Eligible Non-savers

This chapter summaries new research on eligible non-savers using waves one and two of the UK Wealth and Assets Survey.

The government wishes to minimise the number of workers who opt-out of their workplace pension scheme following automatic enrolment.

To achieve this, the government needs to **design and target policy interventions** at eligible non-savers, i.e. those employees who are resistant to the core elements of the post-2012 workplace pension reforms of **access** to a decent workplace scheme and **incentives** to contribute through employer contributions.

3.1. Pension Opt-outs: Evidence to date

In order to build a picture of who opts out and why following automatic enrolment, the DWP undertook research with a small number of employers subject to the new duties between October 2012 and April 2013.[11] The research found that:

- Opt-out rates were higher among those aged 50 and over than for other age groups;
- The opt-out rate also appeared to be slightly higher in a small number of employers where employee contributions were introduced above the minimum of 1%;
- Other factors such as gender, salary, full-time or part-time status and level of employer contributions did not appear to have an impact on opt-out.

As part of the research, a small number of workers were asked about the reasons for opting out:[12]

- The main reason given for opting out among those asked was **financial constraints**, particularly the affordability of contributing to a pension set against other priorities;
- Other reasons revolved around **life stage and career plans**, for example proximity to expected retirement and plans to change job in the near future.
- **Lack of trust and understanding in pensions or preference for other forms of saving** were also mentioned and one employer mentioned workers opting out on religious grounds.

With the number of pension opt-outs growing each month since October 2012, the government needs to formulate and implement appropriate policy interventions for this group as soon as possible.

By the early 2020s, policymakers will be presented with detailed social survey data on employees who opted-out of their workplace pension scheme following the staged implementation of the auto-enrolment reforms that began in October 2012.

However, ‘eligible non-savers’ – workers who reject participation in their workplace pension scheme despite the availability of employer contributions – have long existed.

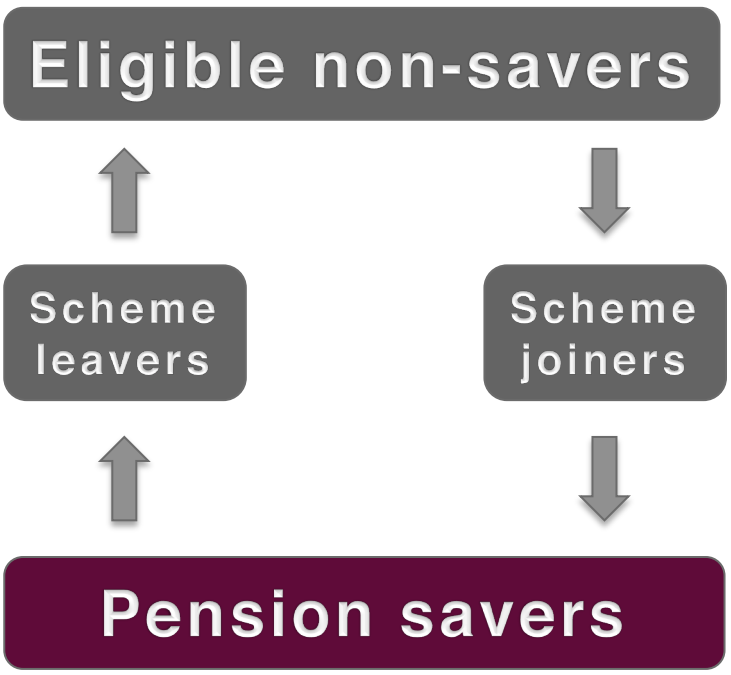
In order to inform policy development and provide a detailed evidence base on the characteristics, motivations and drivers of eligible non-savers, the Strategic Society Centre undertook research in partnership with the Institute for Social and Economic Research (ISER) at the University of Essex, into eligible non-savers who participated in the UK Wealth and Assets Survey. The study was entitled *Who Saves for Retirement? 2: Eligible non-savers* (WSFR2), and was made possible by the support of Prudential.

3.2. Who Saves for Retirement? 2: Eligible non-savers

The research exploited the availability of data from Waves 1 and 2 of the Wealth and Assets Survey (WAS). This government-funded social survey was launched in 2006, and follows households from wave to wave with a gap of two years between interviews. The WAS aims to capture the distribution of assets, debts and savings among British households, together with details of retirement saving and other financial planning. The first wave was collected between July 2006 and June 2008 and the second wave between July 2008 and June 2010. In its first wave, WAS interviewed approximately 53,000 adults (aged 16+) in 31,000 private households, while wave 2 achieved interviews with some 35,000 adults in 20,000 households.

WSFR2 comprised a detailed analysis of the factors that predict being an eligible non-saver, including socio-demographic, attitudinal, financial and employment characteristics. In addition, given the application of automatic enrolment to UK workplaces, the research had a particular focus on transitions:

- Employees who **become eligible non-savers** having previously saved into their workplace scheme with employer contributions;
- Employees who **cease being eligible non-savers** and join their scheme, and the differences between these individuals and those who remain eligible non-savers.



In this way, the research sought to not just describe eligible non-savers at a single point in time, but also explain the transition of workers into and out of this group. Specifically, the research examined:

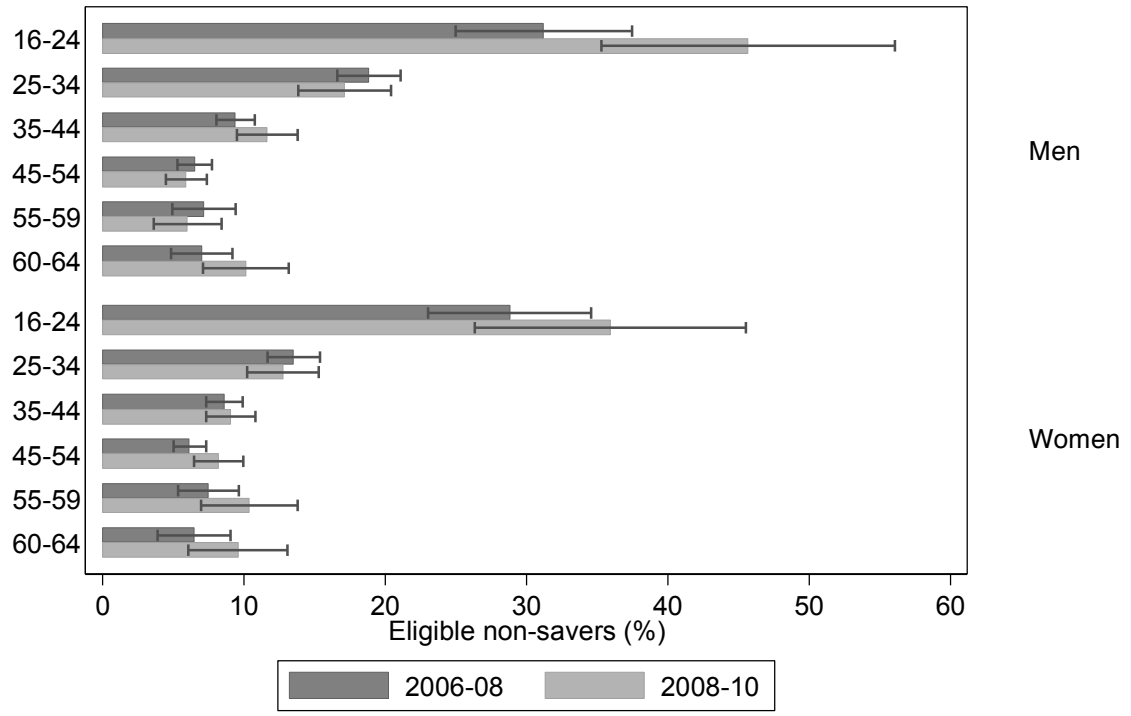
- Prevalence of eligible non-savers;
- Prevalence of transitions among eligible non-savers;
- Characteristics of eligible non-savers;
- Predictors of eligible non-saving;
- Predictors of transitions in eligible non-saving;
- Self-reported reasons for eligible non-saving.

The remainder of this chapter describes the findings of the research.

3.3. Prevalence of eligible non-savers

The following chart shows the prevalence of eligible non-saving across gender and age groups during 2006-08 and 2008-10, as a proportion of all employees eligible for occupational pensions with employer contributions.

Figure 1: Changes in proportion of eligible non-savers, 2006-8 to 2008-10



The chart shows that the prevalence of eligible non-savers is highly skewed across age, with young people much more likely not to save than older employees. In particular, some 35% of 16-24 year olds are eligible non-savers (compared to an overall average of only 11%).

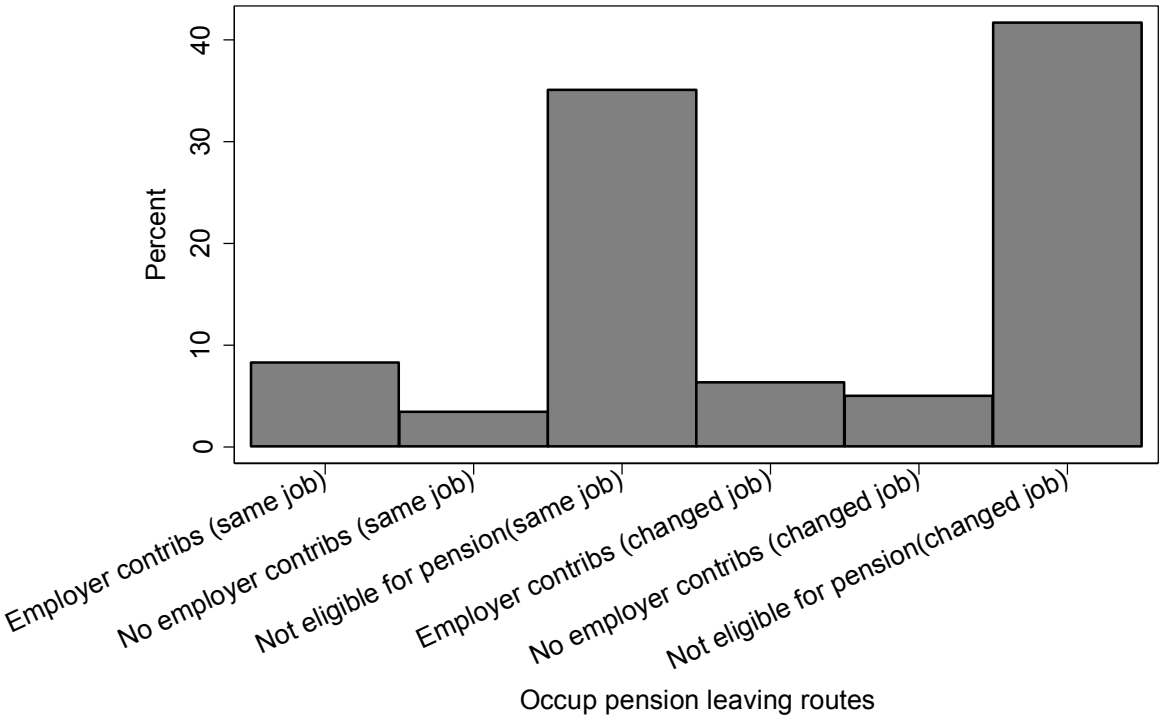
3.4. Prevalence of eligible non-saver transitions

WSFR2 explored how many eligible non-savers became pension savers across 2006-08 and 2008-10, and how many savers made the reverse journey.

Among employees in an occupational pension (only) in 2006-08, about 7% had stopped saving by 2008-10. As the chart below shows, within this group, around three-quarters had moved jobs and were no longer eligible for a pension, or were no longer eligible in the same job. Just under one-in-ten were in the same job with the same entitlement to employer contributions.

Overall, 1.4% of employees who remained eligible for an occupational pension with employer contributions stopped saving between 2006-08 and 2008-10, declining to 0.8% for those who also stayed in the same job. This suggests that prior to the 2012 reforms, a 'natural' opt-out rate was observable of around 1%.

Figure 2: Routes out of saving: eligibility and employer contribution status (in 2008-10) of occupational pension savers who stopped saving between 2006-8 and 2008-10



In relation to pension scheme joiners, analysis found that among eligible non-savers in 2006-08, some 22% were in fact saving into an occupational pension scheme by 2008-10. Just over half of this group were employed in the same job, while the remainder had changed job.

The relatively high prevalence – more than one in five - of eligible non-savers who began saving into an occupational pension scheme during the period suggests many eligible non-savers may in fact be potential savers, and therefore amenable to further nudges or incentives to save, such as automatic enrolment, information and advice.

3.5. Characteristics of eligible non-savers

The following chart compares key individual and household characteristics of eligible non-savers to workers who do save into their workplace pension scheme.

Table 1: Personal and household characteristics of eligible non-savers

	Savers to occupational pensions	Eligible non-savers
Demographics		
Female	50.4%	47.2%
Age (yrs)	42.6	37.6
Married	77.9%	65.9%
Number of children under 18	0.75	0.70
Education		
Degree	40.5%	25.7%
Other qualification	54.5%	67.2%
No qualification	5.0%	7.1%
Housing, savings and earnings		
Owns home outright	17.2%	12.0%
Mortgage holder	69.7%	55.8%
Tenant	12.2%	31.0%
Gross annual earnings (£)[b]	26,244	18,995
Saved money in last year[a]	70.3%	53.5%
Liquid savings(£)[b]	2,058	224
Liquid debt (£)[b]	0	600
Owns 2nd property[a]	6.7%	5.4%
Mortgage loan to value[c]	44.4%	52.9%
Saves to personal pension	4.5%	5.9%
In mortgage arrears	0.0%	0.0%
In bill arrears	1.1%	4.1%
Base sample size	*19,396*	*2,175*

[a] Measured at wave 1 only (other characteristics measured at both waves); [b] Median values in 2010 prices; [c] Mortgage LTV for employees with mortgages; all differences are statistically significant (at 5%) except for 2nd property.

The tables shows that eligible non-savers are disproportionately male, younger (by about 5 years on average), single, and with fewer children. They are much less qualified than savers (only 26% have a degree compared to 41% of savers) and they earn correspondingly less (their median earnings are £19k compared with £26k for savers).

Nearly a third of eligible non-savers are tenants, compared with only 12% of occupational pension savers. If they do have a mortgage, eligible non-savers are more highly geared than savers (the respective loan-to-value ratios are 53% and 44%). They are also less likely to save into non-pension products, have lower levels of liquid savings, more liquid debt and are more likely to be in arrears with household bills. Thus overall it appears that eligible non-savers are in a financially more fragile position than occupational pension savers.

Employment characteristics

Further analysis found that only 21% of eligible non-savers are in the public sector, while occupational pension savers are split almost equally between the two sectors. They also disproportionately work in small organisations.

There are also differences in the distribution of eligible non-savers and savers across industries. Some 23% of eligible non-savers are in retail and catering, compared with just 8% of occupational pension savers. By contrast eligible non-savers are under-represented in public administration (5% versus 16% of savers) and education jobs (9% versus 17% of savers).

3.6. Predictors of eligible non-saving

Both for targeting and designing policy interventions, it is useful for policymakers to understand what factors potentially drive individuals to be eligible non-savers. The following multivariate model estimates the independent predictive power of various demographic and socio-economic factors in relation to being an eligible non-saver, after controlling for the effect of other factors.

Table 2: Predictors of eligible non-saving

Characteristic	Percentage points (pp)	
Female	-3.9	**
Age +5 yrs (at 30 years old)	-4.1	**
Age +5 yrs (at 50 years old)	-0.6	**
Married	-1.0	
Number of children under 18	-0.9	**
Degree	-5.2	**
Other qualification	-2.2	*
Owns home outright	2.4	
Tenant	8.3	**
Part time	-0.1	
Gross annual earnings +10%	-0.5	**
Saved money in last year	-3.1	**
Liquid savings +10%	-0.02	*
Liquid debt +10%	0.02	**
Mortgage loan to value +10pp	0.3	**
Mortgage payments +10%	0.0	
Mortgages repayments are burden	0.8	
Second property	1.4	
In bill arrears	3.4	

Average marginal effects from probit model. *N* = 10,562, wave 1. Age is entered as quadratic function. Omitted (reference) categories are: for education, no qualification; for housing tenure, buying with a mortgage (inc part rent). * Significant at 10%; ** significant at 5%.

As the table above shows, age, gender and education are all significant predictors of being an eligible non-saver.

Interestingly, by far the single strongest predictor of being an eligible non-saver is being a tenant (renter). Unsurprisingly, financial factors (earnings, savings behaviour) are independently associated with being an eligible non-saver, as are liquid debt and mortgage loan-to-value.

In addition to investigating the association between certain characteristics and being an eligible non-saver, the research explored attitudinal and behavioural predictors of eligible non-saving.

Table 3: Attitudinal and behavioural predictors of eligible non-saving

Characteristic	Percentage points (pp)	
Wave 1		
Tend to buy things when can't afford	0.3	
More a saver than a spender	-1.7	**
Tend to buy things on credit and pay later	-2.0	**
Money left at least sometimes end of week/month	-0.3	
Run out of money at least sometimes end of week/month	2.1	**
Prefer good standard living today to saving for retirement	3.1	**
Pension best way to save for retirement	-6.2	**
Property best way to save for retirement	1.3	**
Understand enough about pensions to make decisions about retirement saving	-1.4	**
Risk tolerant	2.0	**
Patient	-0.7	
Sample size	*10,255*	
Wave 2		
Prefer credit to saving and waiting	-0.9	
Very organised in day to day money management	0.3	
Lives for today	2.6	**
Has money for rainy day	-2.1	**
Prefer to spend than save for long term	0.1	
Personal pension safest way to save	6.8	**
Property safest way to save	7.5	**
Personal pension makes most of money	1.4	
Property makes most of money	2.8	**
Expect financial situation to be better in 2 yrs	1.6	*
Expect financial situation to be worse in 2 yrs	-1.5	
Sample size	*6,753*	

Average marginal effects from probit models, estimated separately at waves 1 and 2. Omitted categories for wave 2 pension variables are "employer pension is safest way to save" and "employer pension make most of money". Both models include controls for: gender, age (quadratic), marital status, number of children, qualifications, housing tenure, part-time work, earnings. * Significant at 10%; ** significant at 5%.

The chart above shows that broadly speaking, attitudinal factors (such as the best way to save for retirement), preferences (such as around standard of living in the present) and

behavioural factors (such as having money left over at the end of the month) are strong predictors of being an eligible non-saver

3.7. Eligible Non-savers: Comment

The analysis above has provided a detailed picture the characteristics and drivers of eligible non-savers.

Around **one in ten eligible workers** are eligible non-savers, but this rises to around one in three of the youngest workers. **Age** is clearly an important factor, although this could reflect both life-stage and cohort effects. **Education** levels are important, independent of earnings, suggesting that financial knowledge and motivations may be significant – and these are subsequently explored in analysis presented below.

As would be expected, level of **earnings** appears linked to decisions around eligible non-saving, suggesting affordability is a determining factor.

Most interestingly, **being a tenant** is the single strongest household characteristic predicting being an eligible non-saver. This may reflect the cost of renting and its effect on discretionary pension saving, workers prioritising saving for a deposit for a house purchase over saving for retirement, or the fact that those workers who expect to rent throughout their life may be dis-incentivised to save in a pension because of the potential loss of means tested state support for rental costs in retirement.

In addition to these characteristics, attitudinal and behavioural factors are useful predictors of being an eligible non-saver.

3.8. Predictors of transitions in eligible non-saving

In order to understand what factors drive workers to become eligible non-savers, or non-savers to start saving, WSFR2 explored what factors predicted changes in being an eligible non-saver across 2006-08 and 2008-10.

The research used multivariate analysis to explore the independent power of individual factors that predict eligible non-saving behaviours relating to:

- Individual and household characteristics;
- Financial motivations, attitudes and knowledge.

The analysis comprised two models:

- **Transitions out of an occupational pension** with employer contributions to become an eligible non-saver, i.e. what factors predict someone leaving their workplace pension scheme and becoming an eligible non-saver?
- **Transitions into saving in an occupational pension** with employer contributions after being an eligible non-saver, i.e. what factors are associated with eligible non-savers becoming savers?

3.9. Predictors of transitions in eligible non-saving: individual and household characteristics

The table below (column 2) identifies key, statistically significant factors that independently predict someone leaving their workplace pension scheme to become an eligible non-saver. Besides changing jobs, important factors include:

- Age - the young are more likely to become eligible non-savers (with stronger effects at younger ages). For instance, a 25 year old is 0.7pp more likely to leave an occupational pension than a 30 year old;
- Savings - a 10% increase in savings leads to a 0.01pp decrease in the probability of leaving an occupational pension.

However, overall, individual and household characteristics have a relatively low predictive power in relation to individuals leaving their workplace pension scheme.

Table 5: Predictors of transitions in occupational pension saving

Characteristic	Leaving (becoming ENS) Percentage points (pp)		Joining (no longer ENS) Percentage points (pp)	
Female	-0.3		-0.4	
Age +5 yrs (at 30 years old)	-0.7	**	-2.5	
Age +5 yrs (at 50 years old)	0.2	#	-2.4	
Married	-0.5		-2.5	
Number of children under 18	0.2	#	7.3	**
Has new child			-1.5	
Degree	1.3		7.1	
Other qualification	1.5		1.5	
Owns home outright	0.0		6.7	
Tenant	0.8		-26.5	**
Buys house	-0.6		23.4	#
Gross annual earnings +10%	-0.1		1.1	**
Liquid savings +10%	-0.01	**	0.09	
Liquid debt +10%	0.0		0.02	
Mortgage loan to value +10pp	0.1		-1.4	
Second property	0.4		-6.5	
Changes jobs	3.0	**	14.8	**
Sample size	*5,780*		*319*	

Average marginal effects from probit model. Age is entered as quadratic function. Omitted (reference) categories are: for education, no qualification; for housing tenure, buying with a mortgage (inc part rent). # Significant at 20%; * significant at 10%; ** significant at 5%.

Turning to column 3, the table details the predictive power of individual and household characteristics in relation to the differences between those eligible non-savers in 2006-08 who did start pension saving by 2008-10, and those who didn't. The key factors comprise:

- Number of children - each extra child is associated with a 7pp higher chance of joining a pension. This may reflect that those with children are more concerned for the future;
- Earnings - additional earnings also increases the joining probability, by 1pp for a 10% increase in earnings, suggesting that affordability may play a role in joining decisions;
- Changing jobs - as for exits, job changes are also associated with a higher chance of joining a pension, by 15pp;
- Housing tenure - the largest effect in the model is from being a tenant. An employee who is a tenant has a 27pp lower probability of joining their employer's occupational pension than a mortgage holder. This again coheres with the idea that people prioritise buying a home over starting a pension. The model also includes an indicator for buying a house (between waves 1 and 2) after being a tenant. The effect is very imprecisely estimated and is only significant at the 20% level. Nevertheless, it is positive and of very similar size to the tenancy effect (23pp), consistent with the idea that when a person stops being a tenant their chance of joining an occupational pension jumps to the level of mortgage holders.

3.10. Predictors of Transitions: Financial motivations, attitudes and knowledge

Having examined the potential role of individual and household characteristics in relation to transitions around being an eligible non-saver, the table below sets out equivalent analysis exploring the effect of financial motivations, attitudes and knowledge.

Table 4 shows the independent, predictive power of different, statistically significant factors (including significance at the 20% level, which represents only weak evidence of an effect).

In relation to those who leave their workplace pension scheme and become an eligible non-saver, column 2 shows that significant factors include:

- Attitudes to saving vs. spending;
- Attitudes to the best way to save for retirement e.g. pensions vs. property;
- Motivations around living for today, and being financially patient.

Table 5: Attitudinal determinants of pension transitions

Characteristic	Leaving (becoming ENS) Percentage points (pp)		Joining (no longer ENS) Percentage points (pp)	
Tend to buy things when can't afford	-0.2		8.3	
More a saver than a spender	-0.4	#	-2.6	
Tend to buy things on credit and pay later	-0.5	#	7.9	
Money left at least sometimes end of week/month	0.4		13.7	**
Run out of money at least sometimes end of week/month	0.2		3.1	
Prefer good standard living today to saving for retirement	0.7	*	-9.9	*
Pension best way to save for retirement	-0.5	#	5.0	
Property best way to save for	0.8	**	-3.8	

retirement				
Understand enough about pensions to make decisions about retirement				
saving	-0.4		-11.9	**
Risk tolerant	-0.2		9.5	#
Patient	-0.9	**	15.8	**
Sample size	*4985*		*292*	

Average marginal effects from probit models. Models also include controls for: gender, age (quadratic), marital status, number of children, new child in household, qualifications, housing tenure, whether buys house, earnings.
* Significant at 10%; ** significant at 5%.

Turning to those eligible non-savers who join their workplace pension scheme, Table 5 shows that compared to those who remain eligible non-savers, they are:

- More likely to have money left over at the end of the month;
- Less likely to prefer a good standard of living today to saving for retirement; and more likely to report they are patient.

3.11. Determinants of Transitions: Comment

WSFR2 examined transitions in pension saving status: factors that might predict exit from a workplace scheme, and factors that might make eligible non-savers more likely to join.

As preceding analysis found, **age** is a significant factor, although interestingly, in an echo of DWP research on opt-outs,[13] there appears to be a higher propensity to become an eligible non-saver among those at the start and end of their working life, suggesting a potential U-shape age-distribution in the effect of age.

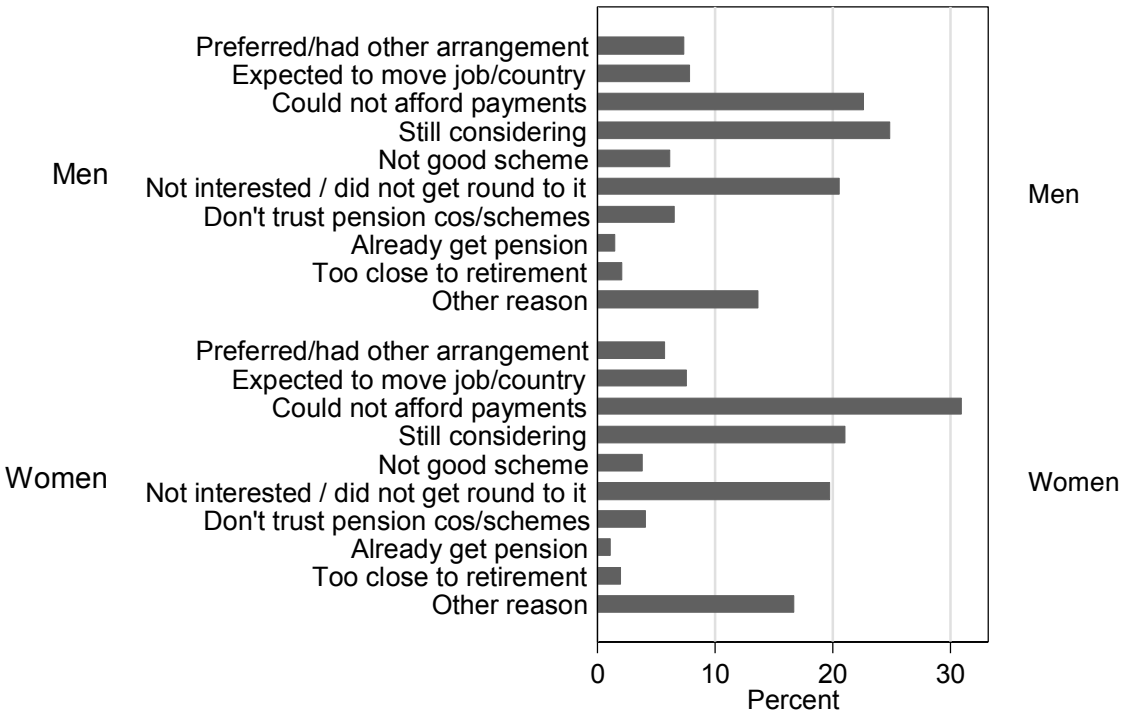
Once more, **housing** status is revealed as highly important, with eligible non-saver tenants found to be less likely to join a workplace pension scheme, and those eligible non-savers who buy a home found to be marginally more likely to join their workplace pension, suggesting that renting non-savers may prioritise property purchases over pension saving.

An increase in **earnings** makes eligible non-savers marginally more likely to join their employer pension scheme; however, a range of **attitudinal and behavioural factors** have been shown to be important, suggesting affordability is a nuanced issue. Specifically, spending/saving behaviour and being patient are important determinants in transitions around pension saving. Conversely, believing property is the best way to save for retirement makes workers more likely to become eligible non-savers.

3.12. Self-reported reasons for being an eligible non-saver

The next stage of WSFR2 examined subjective, self-reported reasons among eligible non-savers included in the Wealth and Assets Survey regarding why they do not save for a pension.

Figure 3: Reasons for not saving to occupational pension among eligible non-savers



As the chart above shows, among both men and women, the principal reasons given are:

- Affordability;
- Still considering whether to save;
- Not being interested in pensions/not getting round to it;
- Other reasons.

Interestingly, some eligible non-savers do cite pension quality or preferred alternatives, as reasons for not joining, although the proportions are small: around 6-8% say they prefer or have other arrangements, 3-6% say that the scheme offered is not good, and 4-7% say they do not trust pensions.

3.13. Eligible non-savers and affordability

Given affordability was so frequently cited by eligible non-savers as a reason for not saving into a pension, and the preceding analysis did identify earnings as a significant predictor of being an eligible non-saver, WSFR2 next compared the annual earnings of eligible non-savers who cited affordability versus other reasons for not saving into a pension.

Table 6: Earnings of eligible non-savers, by reason for not saving

Gross annual earnings	Other reasons	Can't afford
£1 to <£5k	3.8%	5.2%
£5k to <£10k	10.0%	12.5%
£10k to <£15k	16.1%	18.2%

£15k to <20k	22.8%	24.3%
£20k to <£25k	15.2%	17.3%
£25k to <£30k	10.7%	11.1%
£30k to <£40k	11.0%	7.8%
£40k+	10.3%	3.7%
Total	100%	100%

As the table above shows, there is relatively high overlap between these two groups, suggesting affordability is not simply a matter of earnings levels, i.e. affordability relates to expenditure and outgoings, rather than just income. It is also interesting to note that the median earnings of these two eligible non-saver groups – around £19,000 and £18,000 per year – is not very substantially different from the median earnings of workers saving into an occupational pension scheme – identified above as £26,000 per year.

WSFR2 therefore next examined differences between these two groups in relation to individual and household characteristics, as well as financial attitudes and motivations, in order to explore the extent to which affordability is a genuine, rather than just a 'stated' reason for not saving into an eligible workplace pension scheme.

Table 7: Personal and household characteristics of eligible non-savers, by reason for not saving

	Other reasons	Can't afford	
Demographics			
Female	44.4%	55.0%	**
Age (yrs)	37.7	37.3	
Married	65.7%	66.6%	
Number of children under 18	0.65	0.83	**
Education			
Degree	27.6%	20.7%	**
Other qualification	65.5%	72.2%	**
No qualification	6.9%	7.1%	
Housing, savings and earnings			
Owns home outright	14.7%	4.6%	**
Mortgage holder	55.4%	57.0%	
Tenant	28.7%	37.4%	**
Gross annual earnings (£)[b]	19408	17994	**
Saved money in last year[a]	59.7%	36.3%	**
Liquid savings(£)[b]	547	7	**
Liquid debt (£)[b]	328	2033	**
Owns 2nd property[a]	6.0%	3.7%	*
Mortgage loan to value[c]	52.6%	65.0%	**
Saves to personal pension	7.4%	1.6%	**
In mortgage arrears	0.0%	0.0%	
In bill arrears	2.7%	7.6%	**
Base sample size	*1,626*	*543*	

[a] Measured at wave 1 only (other characteristics measured at both waves); [b] Median values in 2010 prices; [c] Mortgage LTV for employees with mortgages * Significant at 10%; ** significant at 5%.

As the table above shows, eligible non-savers who report they cannot afford to save into a pension, as opposed to other reasons, are:

- More likely to be female, have more children, and have lower qualifications;
- More likely to be a tenant, or if a mortgage holder, to have a higher loan-to-value mortgage;
- Have much lower levels of liquid saving;
- Less likely to save money, and more likely to hold liquid debt;
- More likely to be in arrears with bills.

This suggests that the affordability of pension saving for eligible non-savers is indeed a function of earnings, but also of financial management and behaviour.

WSFR2 therefore compared the financial attitudes and motivations of the two groups of eligible non-savers.

Table 8: Spending/saving behaviour and attitudes of eligible non-savers, by reason for not saving

	Other reasons	Can't afford	
Measured at wave 1			
Tend to buy things when can't afford[a]	16.2%	26.5%	**
More a saver than a spender[a]	35.0%	23.7%	**
Tend to buy things on credit and pay later[a]	20.0%	27.0%	**
Money left at least sometimes end of week/month	71.0%	35.0%	**
Run out of money at least sometimes end of week/month	32.0%	59.9%	**
Prefer good standard living today to saving for retirement[a]	42.0%	53.5%	**
Pension best way to save for retirement[a]	42.3%	46.3%	
Property best way to save for retirement[a]	62.7%	58.6%	
Understand enough about pensions to make decisions about retirement saving[a]	38.5%	31.6%	**
Risk tolerant[b]	29.4%	24.3%	*
Patient[c]	22.2%	12.8%	**
Measured at wave 2			
Prefer credit to saving and waiting[a]	13.6%	20.9%	**
Very organised in day to day money management[a]	77.9%	76.6%	
Lives for today[a]	43.4%	55.9%	**
Has money for rainy day[a]	63.7%	40.1%	**
Prefer to spend than save for long term[a]	48.3%	53.4%	
Employer pension safest way to save	29.2%	33.3%	
Personal pension safest way to save	12.2%	8.8%	**

Property safest way to save	25.8%	30.8%	
Employer pension makes most of money	22.2%	26.6%	
Personal pension makes most of money	7.0%	3.3%	
Property makes most of money	39.5%	45.3%	
Expect financial situation to be better in 2 yrs	47.4%	46.7%	
Expect financial situation to be worse in 2 yrs	11.6%	12.4%	
Fin situation got worse over last 2 yrs	20.6%	29.1%	**
Could make ends meet <3m if income dropped a quarter	32.4%	68.1%	**

[a] Proportions refer to respondents who "strongly" or "tend to" agree with these statements (as opposed to expressing no opinion, tending to disagree or strongly disagreeing). [b] Prefers a 1-in-5 chance of £10k to a guaranteed payment of £1k. [c] Prefers £1.1k next year to £1k today. * Significant at 10%; ** significant at 5%.

As the chart above shows, eligible non-savers who report they cannot afford to save into a pension are:

- More likely to buy things they can't afford, buy things on credit, and run out of money before the end of the month;
- Less likely to describe themselves as a saver, or to have money leftover at the end of the month;
- Prefer a good standard of living today to saving for retirement;
- Less likely to describe themselves as patient;
- Less likely to have money for a rainy day, and less likely to be able to make ends meet for more than three months if their income dropped by a quarter.

3.14. Eligible Non-savers and Affordability

By comparing eligible non-savers who report that pension saving is unaffordable with those who cite other drivers, WSFR2 was able to identify significant factors that could be expected to influence affordability, such as education levels and having more children. However, the findings also suggest that self-reported issues with affordability of pension saving is associated with poor financial management, such as lower levels of liquid savings, living for today and having lower everyday savings.

As such, the findings of WSFR2 suggest the affordability of pension saving for some eligible non-savers could be improved through changes in financial behaviour and attitudes. Potential policy interventions to achieve these and other changes are explored in the next chapter.

4. Beyond Auto-enrolment: Meeting the challenge of eligible non-Savers

Faced with the challenge of minimising the prevalence of eligible non-savers across UK workforces, the government needs to develop interventions beyond auto-enrolment.

Building on the insights of WSFR2, this chapter sets out some ideas to achieve this aim.

4.1. Eligible Non-savers: Developing a strategy

WSFR2 identified that during 2006-2010, around one in 10 eligible workers aged 45-64 did not save into their workplace pension scheme despite the availability of employer contributions. This proportion rises to around one in three for the youngest age groups.

To change the behaviour of such workers who have already rejected an eligible workplace scheme with employer contributions, in the context of the 2012 pension reforms, the government is primarily reliant on auto-enrolment and the incidence of inertia among workers. However, as evidence published by DWP on post-2012 eligible non-saver 'opt-outs' has shown, auto-enrolment will be inadequate to result in pension saving in many cases.

The government therefore needs to develop a strategy beyond auto-enrolment to improve participation rates among those workers who will otherwise opt-out and become eligible non-savers.

The previous chapter reviewed evidence from WSFR2 on a range of factors identified as significant predictors for someone being an eligible non-saver. These factors included:

- Level of earnings;
- Age;
- Level of education;
- Renting, as well as the life-event of buying a home;
- Attitudes around spending vs. saving;
- Attitudes to the best way to save for retirement;
- Financial management and behaviour, such as putting money aside, keeping on top of bills and being patient.

The research also found that although eligible non-savers frequently cited affordability as the reason for not saving, these individuals were:

- More likely to buy things they can't afford, buy things on credit, and run out of money before the end of the month;
- Less likely to describe themselves as a saver, or to have money leftover at the end of the month;

- Prefer a good standard of living today to saving for retirement;
- Less likely to describe themselves as patient;
- Less likely to have money for a rainy day, and less likely to be able to make ends meet for more than three months if their income dropped by a quarter.

These behavioural and attitudinal findings suggest that for some eligible non-savers, affordability of pension saving is not an objective problem but one linked to individual characteristics and behaviour.

Overall, WSFR2 identified a range of individual, behavioural and economic drivers for eligible non-savers that can inform policy development to minimise opt-outs, following the government's auto-enrolment reforms.

This chapter builds on these findings to develop ideas for potential policy interventions to minimise the number of eligible non-savers in future. The chapter distinguishes two broad approaches:

- Macro, 'whole population' strategies relating to economic trends affecting the working population;
- Micro, 'individual-level' interventions focused on the 'opt-out journey' of individual workers.

WHOLE POPULATION STRATEGIES

4.2. Earnings

WSFR2 found that being an eligible non-saver, and the transition to becoming a pension saver, were significantly associated with level of earnings. However, the impact of earnings on the affordability of pension saving will clearly be mitigated by living costs (travel, food, etc.) and expenditure requirements (e.g. childcare).

The role of earnings in determining whether someone is an eligible non-saver suggests two points. First, the government should ensure the development and evaluation of incomes policies, notably the Minimum Wage and income support within the welfare system for working people, take account of the effect of earnings levels on pension saving.

Second, notwithstanding the mediating effect of living costs, expenditure requirements and individuals attitudes and behaviour, the government should consider whether special provision should be made for some lower-income workers in the design of rules on pension saving. For example, for younger, low-income earners, rules on contribution levels could be relaxed, recognising that such workers have had fewer years in the labour market to accumulate liquid 'buffer' savings.

Recommendation: The government should ensure it considers the effect of incomes policy on rates of pension saving, and explore whether rules on pension saving should be relaxed for some younger, low-earners, for example, relating to contribution levels.

4.3. Housing policy

WSFR2 revealed that even after controlling for other factors such as age and earnings, eligible non-savers were more likely to be renters. Indeed, being a renter was found to be among the very strongest predictors of being an eligible non-saver.

Several different explanations can be posited for the influence of housing tenure on being an eligible non-saver:

- Affordability - renters cannot afford to save into a pension, due to the cost of their rent;
- Prioritisation – renters choose to direct their spare income to liquid saving vehicles as a deposit to fund a property purchase, rather than directing spare income into illiquid pension saving. In fact, WSFR2 found that eligible non-saver renters who subsequently buy a home are marginally more likely to join their workplace pension;
- Incentives – those renters who expect to be tenants in old age engage in a rational, informed choice not to save for a pension in order not to reduce their future entitlement to means-tested state-funded financial support for rental costs during their retirement.

The findings related to tenure in WSFR2 are potentially worrying for pension policymakers in light of projections that more UK households will rent in future. For example, it has been forecast that the proportion of people living in owner occupied homes in England will fall from a peak of 72.5% in 2001 to 63.8% in 2021.[14]

Since being a renter appears to increase the probability of being an eligible non-saver, this suggests that trends in tenure will continue to exert a downward pressure on participation rates, undermining the government's workplace pension reforms.

Although policy measures to boost owner-occupation rates do not fall under the control of pension policymakers, it is clear that potential consequences for pension policy should be considered in the development of housing policy. In particular, the results of WSFR2 suggest the risks to the success of UK pension policy and the retirement incomes of workers represent another reason for policymakers to seek to reduce the cost of UK housing, for example, through increasing house-building.

Recommendation: The government should give full consideration to the negative consequences for pension policy of declining owner-occupation rates as it evaluates options for UK housing policy, and will have to reverse declining trends in rates of home-ownership if it is to maximise rates of pension saving across the workforce.

INDIVIDUAL-LEVEL INTERVENTIONS

4.4. Exploiting the opt-out journey

In developing a strategy to address the challenge of eligible non-savers who 'opt-out' of workplace pension saving, the first step for policymakers must be to reframe and re-think this 'opt-out journey'.

The auto-enrolment reforms to workplace pension saving transform a passive decision not to save into an active one, reversing the 'do nothing' default outcome for workplace pension saving.

However, by requiring individuals to make an active choice to opt-out, the government is presented with a significant opportunity to exploit and use the process of opting-out: the 'opt-out journey'. The government could do this in a number of ways.

For example, individuals who opt-out are self-identifying themselves as eligible non-savers, and thereby positioning themselves as the target of further policy intervention. As such, the government should ensure it obtains the contact details of opt-outs for use in the delivery of further interventions to encourage individuals to opt back in to pension saving.

In addition, confronted with the target group of eligible non-savers, policymakers can - drawing on evidence from WSFR2 and research on opt-outs produced in future years - make informed assumptions about the drivers leading workers to opt out and become eligible non-savers, to target appropriate subsequent interventions.

In particular, drawing directly on WSFR2 and future research produced about workplace pension opt-outs, the government could design and implement a short survey for individuals, in order to allocate opt-outs to one or more groups relating to common drivers for opting out, such as the need to pay off liquid debt. Having allocated opt-outs to different groups, the government can then target these workers with specific tailored interventions, including some of the measures proposed below.

Recommendation: The government should ensure it fully exploits the opt-out process for the purposes of minimising the prevalence of eligible non-savers across the workforce. In particular, the government should use its powers to obtain the contact details of opt-outs, ensure these workers complete a short survey on the drivers of their decision and allocate opt-outs to one or more groups related to common drivers for opting-out, in order to target them with tailored interventions.

4.5. Exploiting the 'opt-out status' of workers

In addition to exploiting the opt-out process, the government can ensure it exploits the new, self-defined status of workers who deliberately choose to withdraw from pension saving, thereby positioning themselves in the new category of 'opt-outs'.

In particular, the government should ensure the 'opt-out journey' re-affirms the status of workers as pension opt-outs, in order to frame their choice to opt-out in both positive and negative terms, inform opt-outs of their future options and guide opt-outs to certain actions.

For example, in communicating with opt-outs, this could involve presenting norms around the behaviour of other 'opt-outs': "One-third of people who opt-out of their workplace pension like you, subsequently sign-up for a free, personalised financial review. Is this something you would like to do?"

Recommendation: The government should ensure that the opt-out process reaffirms the status of individuals as 'opt-outs', in order to frame their choice to opt-out, inform opt-outs of their future options and guide opt-outs to certain actions.

4.6. Financial management, advice and training

WSFR2 found significant evidence that eligible non-savers are more likely to display poorer financial management and behaviour, for example, in relation to putting money aside, keeping on top of bills and being patient.

The opt-out journey provides an opportunity for seeking to improve such behaviour among those choosing not to save for a pension, once individuals have been surveyed and identified as reporting such behaviours.

Various mechanisms could be used to influence financial behaviour among opt-outs, such as online courses, telephone consultations, etc. For those reporting problematic debt, and immediate financial difficulties, one-on-one financial counselling and advice could be made available.

Importantly, in order to maximise rates of subsequent 'opt-in', financial management advice and counselling offered to workplace pension opt-outs could comprise structured processes that are explicitly organised around the target of workers becoming able to opt back in to their workplace pension scheme, and which conclude with workers making this decision over whether to opt-in. For example, this could take the form of a six-month debt repayment plan, put together after someone has opted-out with the help of a third-party debt counsellor.

Recommendation: In future, 'opt-outs' identified as having poorer financial management skills should be offered appropriately designed financial management courses and financial counselling, organised around the explicit target of workers being in a position to opt back in to their workplace scheme.

4.7. Employer re-join bonuses

WSFR2 found that some eligible non-savers were more likely to have chaotic personal finances, for example, higher levels of personal debt, being behind with bills and running out of money for six months.

As an additional incentive to organise and improve their personal finances – for example, through the financial management courses described above, or personalised debt-restructuring and repayment plans – opt-outs could be invited to pre-commit to rejoining their workplace pension scheme after a defined period, such as six months. As an incentive to make this commitment, workers could be offered a guarantee that they would receive the six months of employer contributions they would have received while opted-out, if they remain an active contributor to their pension for at least six months after rejoining.

Recommendation: The government should explore how the unpaid employer contributions of opt-outs could be deployed as a 'bonus' incentive for these workers if

they pre-commit to subsequently rejoining their workplace pension after a defined period, for example, once they have restructured and paid off their personal debts.

4.8. Targeted information and education about saving for retirement

WSFR2 found that 55% of men said they knew enough about pensions to make retirement decisions in 2006-08, increasing to 60% in 2008-10. Among women, 35% of said they knew enough about pensions in 2006-08, increasing to 40% in 2008-10.

Although these changes suggest an increase in knowledge of pensions – potentially as a result of the government's public information campaigns around the 2012 reforms – these figures suggest further improvement is impossible.

In this context, it is important to note that WSFR2 found that eligible non-savers are more likely to view pensions as a less preferable way to save for retirement, and to report low knowledge of pensions.

The opt-out journey therefore provides an opportunity for seeking to improve knowledge of and attitudes to pensions, once individuals have been surveyed and identified as reporting such attitudes and knowledge levels.

Such educational interventions might involve a pre-arranged call with organisations such as the Pensions Advisory Service, or an invitation to complete an online course about pensions, so workers can ascertain for themselves whether they have adequate knowledge of pensions to make an informed choice about whether to save into their workplace scheme.

Recommendation: The government should ensure those who opt-out of workplace pension saving and report a low knowledge of pensions, or a preference for alternative retirement savings vehicles, are invited to engage with appropriately designed information and education.

4.9. 'Stepping-stone pension'

WSFR2 found that both lower earnings and lower knowledge of pensions were associated with being an eligible non-saver. Indeed, it is likely that following auto-enrolment, some workers will opt-out and become eligible non-savers because they feel unable to afford the contributions, are wary of locking their money away, or remain unfamiliar with the concept of third-party contributions from their employers and the government.

In this context, the government could ensure individuals who are automatically enrolled into a pension for the first time in their working-life but then wish to opt-out have recourse to a temporary, one-off, introductory 'stepping-stone pension' explicitly pitched as an intermediate form of saving. In particular, this option could be targeted at younger workers and those with earnings below a defined level.

A 'stepping-stone pension' would see workers able to make any contribution level they chose, for six months, with full employer contributions and tax-relief, with the additional condition that the pension could be cashed-in at any time during the first six months, and the worker's

savings would be returned minus the value of tax-relief and employer contributions. If the worker chose not to cash-in the 'stepping-stone pension' during this period, it would then automatically be converted into an orthodox pension, and the worker's pension contributions uprated appropriately.

Recommendation: The government should explore whether those who want to opt-out, for whom auto-enrolment will be their first experience of pension saving, should then be offered a temporary, one-off 'stepping-stone pension', that allows them to familiarise themselves with pension saving, and could be cashed-in during the first six months, after which time it would be uprated into a full pension.

4.10. 'Opt-out statements'

The findings of WSFR2 showed that being an eligible non-saver was associated with various financial attitudes and behaviours, such as not being patient, and preferring a good standard of living for today to saving for retirement.

This finding echoed the results of *Who Saves for Retirement?* (2011), which found that the offer of employer contributions to a workplace pension scheme represented by far the strongest predictor of workers choosing to participate in pension saving. In effect, workers display 'loss aversion' both in relation to employer contributions, and in relation to the income they have to give up to participate in a pension.

Given the apparently strong influence of financial motivations and loss aversion on eligible non-savers, and the strong influence of third-party pension contributions, the government should develop measures to minimise the prevalence of eligible non-savers based on these behavioural drivers.

In particular, the government should seek to ensure that all workers who opt-out of their workplace pension scheme are provided with a regular 'opt-out statement' every six months. This would set out clearly what the accumulated value of employer contributions, 'government contributions' and the total value of their pension pot would have been if they had chosen to remain in their employer's pension scheme.

In this way, the government could counteract the tendency of eligible non-savers to prioritise consumption by deploying 'loss aversion' in relation to the third-party contributions and investment gain they are missing out on by opting to be an eligible non-saver.

Recommendation: To address the influence of financial attitudes and motivations, and loss aversion in being an eligible non-saver, the government should ensure workers who opt-out of their workplace pension scheme receive regular 'opt-out statements' on what the accumulated value of their pension pot and third-party contributions would have been worth if they had stayed in.

4.11. Workplace pension norms

Research in behavioural economics has identified that people respond to norms, i.e. individuals are strongly influenced by what others do.

Among employers with relatively high participation rates in workplace pension saving, the government could seek to use the power of social norms by communicating to those wishing to opt-out the proportion of colleagues – i.e. peers – who are saving for a pension. Additionally, employers could exploit the power of norms by communicating to opt-outs the choices of other opt-outs in their firm, local area or region, for example, around participation in financial advice schemes.

Recommendation: The government should make full use of the power of social norms in both encouraging individuals to remain in their workplace pension, as well as what actions opt-outs take during the opt-out journey and after.

5.Conclusion: The opt-out opportunity

Although policymakers have long expected workers to opt-out of pension saving following auto-enrolment, this decision point for workers also represents an opportunity for further policy intervention.

5.1. Beyond Auto-enrolment: The opt-out opportunity

The 2012 reforms to workplace pension saving in the UK represent one of the most far-reaching changes of its kind, affecting many thousands of employers and tens of millions of workers.

However, the 2012 reforms remain built around voluntary private pension saving, and despite using access, incentives and inertia to encourage saving, the reforms were never expected to result in the maximum possible participation rates.

Indeed, WSFR2 identifies that a significant number of eligible non-savers have long rejected workplace pension saving even when employer contributions are available, leaving policymakers reliant on auto-enrolment as the primary means of encouraging participation among this group.

WSFR2 represents a major addition to the evidence base on why eligible non-savers reject the opportunity to save into a workplace pension scheme with employer contributions.

However, the insights of WSFR2 also suggest the scope for targeted, nuanced policy interventions that exploit the self-definition of workers as ‘opt-outs’, and the availability of the ‘opt-out’ journey.

It is therefore important that policymakers see the point that workers opt-out of their employer pension scheme as an opportunity, in particular, to help workers who are self-identifying themselves and who could potentially be brought back into pension saving far ahead of their next auto-enrolment date, around three years later.

For example, many eligible non-savers display poor financial management, or financial attitudes that prioritise living for today. The decision of workers to opt-out provides an opportunity to engage with them and move them through a process of behaviour change that may ultimately result in their return to pension saving.

By understanding eligible non-savers as a dynamic group with certain key characteristics and drivers, the government can focus on direct interventions to change the pension saving behaviour of this group.

In short, policymakers should not see opt-outs as a failure of the 2012 reforms, but rather, as an opportunity to further raise participation rates. The proposals set out in this report describe some of the practical ideas that could be deployed to achieve this.

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