Who Saves for Retirement?

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Background

- Low pension savings rates (participation and levels)
- Major pension reforms ongoing
- Debate over drivers of pension saving
- 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.
Research questions

- What is prevalence of occupational and personal pension saving in Great Britain?
- How is pension participation related to personal, job, and household characteristics, and to other financial behaviour?
- What are the main drivers of pension participation?
- Rich data allow us to consider many factors, including financial knowledge and attitudes, and employer pension provision.
- Outcome to be explained is participation in pension savings (not amounts saved), distinguishing between:
  - Eligibility for occupational pensions (DB/DC combined)
  - Take-up of occupational pensions
  - Saving into individual personal/stakeholder pension

Data

- Use Wealth and Assets Survey, wave 1, collected 2006-08: approx 32,000 households (55,000 individuals).
- Interviews with all family members aged 16+, collecting rich information on savings, assets, secured and unsecured credit, financial attitudes etc., as well as socio-economic characteristics.
- Focus on employees (to allow analysis of workplace pensions). Sample is 25,995 employees aged 16-64.
- Descriptive results weighted to allow for survey design (wealthy hhs oversampled) and non-response.
How prevalent is pension saving?

<table>
<thead>
<tr>
<th>Retirement saving activity</th>
<th>All</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not saving into pension</td>
<td>45</td>
<td>44</td>
<td>45</td>
</tr>
<tr>
<td>Saves into personal pension only</td>
<td>5</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Saves into occupational pension only</td>
<td>48</td>
<td>47</td>
<td>49</td>
</tr>
<tr>
<td>Saves into both types of pension</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

- 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 offer and take-up

- Employer has occ pension scheme
- Eligible for occ pen if employer has
  - Joined occ pension
- Has personal pension
  - Saves into personal pension
  - Saves into pers & occ pension
- Employer has occ pension scheme
- Eligible for occ pen if employer has
  - Joined occ pension
  - Has personal pension
  - Saves into personal pension
  - Saves into pers & occ pension
Characteristics of pension savers

- Raw data indicate that pension savers are on average older, in couples, of white ethnicity, highly educated with relatively high earnings, home-owners and have more assets (inc second property) than non-savers.
- Steep educational gradient in occupational pension membership (approx 65% of men & women with degrees have occup pension, compared to 30% with no qualifications).
- Those qualified to less than degree level are more likely to rely on personal pensions (e.g. 8% of men with “other qual” have personal pension only, compared to 5% with degree). Could indicate lack of access to occup pensions among lower qualified.
- Little relationship between children and pension participation for men, much stronger for women: women with no pension have 0.8 kids in hh on average, compared to 0.6 kids for women with personal pension (though 0.75 kids for women with occup pension only).

Pension participation within couples

Couples with employed household heads (aged 16-64). Sample includes non-employed partners. Vertical labels denote pension status of household head. 76% of household heads in partnerships are males.
Pension saving and the household

- Partners within couples typically adopt similar pension saving behaviour:
  - In three quarters of couples where the head of household was not saving into a 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 savings and earnings

Graphs by sex
Pension saving and financial position

- Pension participation increases with earnings, esp at moderate earnings levels (though only weakly for personal pensions among women).
- But, significant participation even at low earnings, e.g. 40% women on £10-15k (role of public sector).
- Pension participation increases with savings, though less so above £2.5k. Suggests level of buffer savings required to start pension saving may be quite low.
- Significant pension saving (35%+) among those with no savings (30% of employees).
- Suggests pension saving is possible even for low earners/savers if right structures in place.
Main expected sources of retirement income (51-65 yr olds)

- Women
- Men
- No pension
- Personal pension only
- Occupational pension only
- Occ & pers pension

Expected sources of retirement income

- Private pensions are only one component of a “portfolio”. Only 57% of older savers expect private pensions to be main income source.
- About 15% of older employees expect property or inheritances (or “other”) to be main income source.
- State pension expected to be important even among private pension savers (esp women and those relying on personal pensions).
- Around 1/5 non-saving older employees appear to be relying on past (or future?) pension contributions.
- Younger employees (not shown) expect less of state pensions, and more from private savings, property and inheritances.
Drivers of eligibility

- Since 80% of eligible employees join a pension, eligibility is key factor in explaining participation.
- Workplace size and industry are key determinants of eligibility (ranges from 40% in small workplaces and retail to 80-90% in large workplaces and public admin).
- Implications for cost and impact of auto-enrolment (large organisations to go first).
- Higher occupation, earnings and qualifications also associated with higher eligibility.
- No part-time penalty after controlling for personal and job characteristics.
- Women slightly more likely to be eligible than men (+3pp)
Take-up of occupational pensions

- Single most important factor associated with occupational pension take-up is whether the employer offers contributions (+70pp).
- But note contributions effects likely combine direct incentive effect (employer subsidy) with indirect effects, e.g. more active promotion of pensions by employers who offer contributions.
- Suggests auto-enrolment (with employer contrib of 3% by 2018) will have substantial effect on pension savings.
- But who will drop out? Other determinants may provide clue…
Older employees more likely to take up an occupational pension, as are women (+5pp) and those with a degree relative to lower qualifications (+6pp).

Outright homeowners more likely to take-up pension than mortgagees or renters (+3pp).

Difficulties with mortgage payments and low housing equity discourage take-up: mortgages arrears (-15pp) and LTV ratio (-0.8pp for 10pp higher LTV)

Having a student loan is associated with a 5pp lower take-up.

Potential policy implications.

Attitudes (though note potential endogeneity): higher take-up among “savers not spenders” (+2pp) and those who “know enough about pensions” (+2pp). Lower take-up among employees who “prefer living today” (-3pp) and like risks (-2pp). No effect of time preference (“patient”).

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**Participation in personal pensions**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>z-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (five years)</td>
<td>-10.6</td>
<td>0.6</td>
<td>-17.3</td>
<td>0.000</td>
</tr>
<tr>
<td>Age squared (five years)</td>
<td>-0.4</td>
<td>0.1</td>
<td>-4.3</td>
<td>0.000</td>
</tr>
<tr>
<td>Female</td>
<td>2.7</td>
<td>0.4</td>
<td>6.7</td>
<td>0.000</td>
</tr>
<tr>
<td>Married</td>
<td>1.3</td>
<td>0.3</td>
<td>4.7</td>
<td>0.000</td>
</tr>
<tr>
<td>Number children &lt;18</td>
<td>-2.8</td>
<td>0.3</td>
<td>-10.6</td>
<td>0.000</td>
</tr>
<tr>
<td>White</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Degree</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Other qualification</td>
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<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Part time</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Outright home owner</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Home owner mortgage</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Social tenant</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Eligible for occupational pension</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Log gross earnings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Log spouse gross earnings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Log liquid savings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Log mortgage payment</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Mortgage loan-to-value ratio</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Mortgage 2+ months in arrears</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Household bills 2+ months behind</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Has student loan</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Prefers living today to saving for retirement</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Tends to buy when can't afford</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Saver not spender</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Prefers to take risks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Patient</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
<tr>
<td>Knows enough about pensions</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.000</td>
</tr>
</tbody>
</table>

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All employees. Bars show marginal effects (at mean) from probit model.
Participation in personal pensions (1)

- Model participation in personal pensions as function of same determinants as occupational pensions (except emp contribs) but include eligibility for occupational pension to check substitution between the two.
- Employees eligible for occupational pension 11pp less likely to save to personal pension. Overall prevalence of personal pensions is only 7%, so big effect! Implications for personal pension mkt after auto-enrolment.
- Among other determinants, some similarities but also some differences

Participation in personal pensions (2)

- Women 2pp less likely to save to personal pension than men (more likely to take-up occup pension).
- Whites 3pp more likely to save to a personal pension (no difference for occup pensions).
- Housing tenure status more important for personal pensions (outright ownership +4pp, social renting -3pp, relative to private renters)
- Risk lovers 2pp more likely to save to a personal pension (less likely to take up occup pension). Occup pension seen as safe bet wrt to personal pension?
Conclusions

- Only just over half of employees save to a private pension, and saving is dominated by occupational pensions.
- Much variation across industry/workplaces, and household saving arrangements tend to magnify inequalities.
- Auto-enrolment should (by 2018) largely eliminate unequal access, as based on near-universal eligibility and employer contributions.
- But worries over who will drop out. Contributory factors may include difficulties with housing costs, student loans, lack of pension knowledge, and a preference for risk.
- Determinants of personal pension saving differ from occupational pension take-up. Different decision-making processes? Relevance of behavioural economics?

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Full report published by the Strategic Society Centre: