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# 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.



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## 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, inc 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

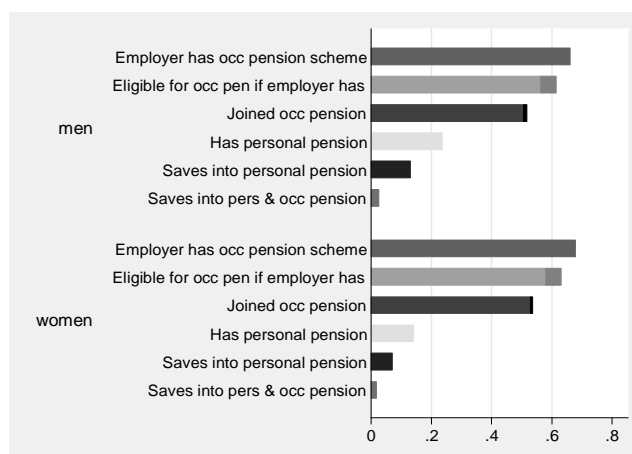
- Use Wealth and Assets Survey, wave 1, collected 2006-08: approx 32,000 household (55,000 individuals).
- Interviews with all hh members over 16, collecting rich information on savings, assets, secured and unsecured credit, financial attitudes etc, as well as socio-economic characteristics.
- Focus 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?

Retirement saving activity	% of employees		
	All	Men	Women
Not saving into pension	45	44	45
Saves into personal pension only	5	7	4
Saves into occupational pension only	48	47	49
Saves into both types of pension	2	2	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.

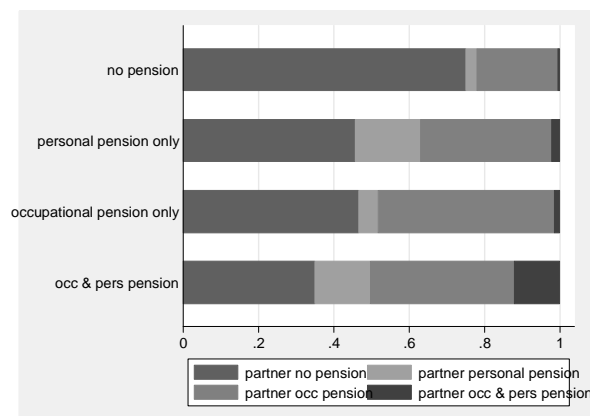
## Pension offer and take-up



## 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

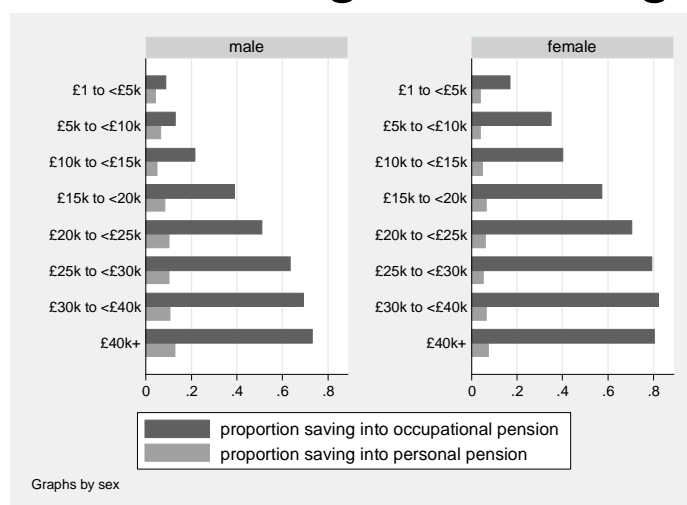


Couples with employed household heads (aged 16-64). Sample includes non-employed partners. Vertical labels denote pension status of household head. 76% of household heads in partnerships are males.

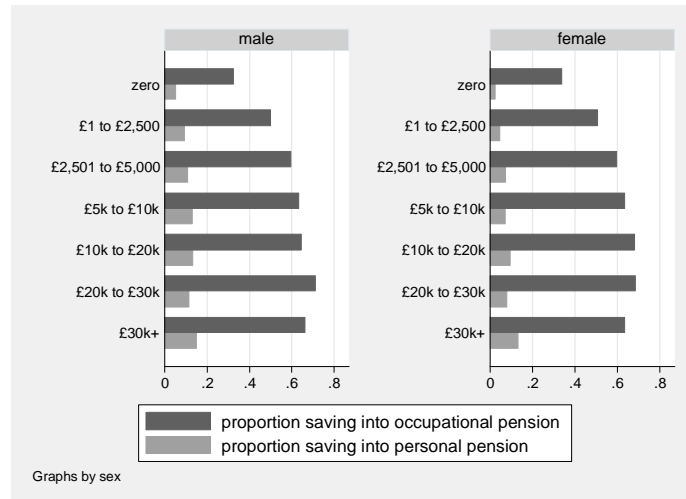
## Pension saving and the household

- 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



## Pension saving and liquid savings



## Pension saving and financial position

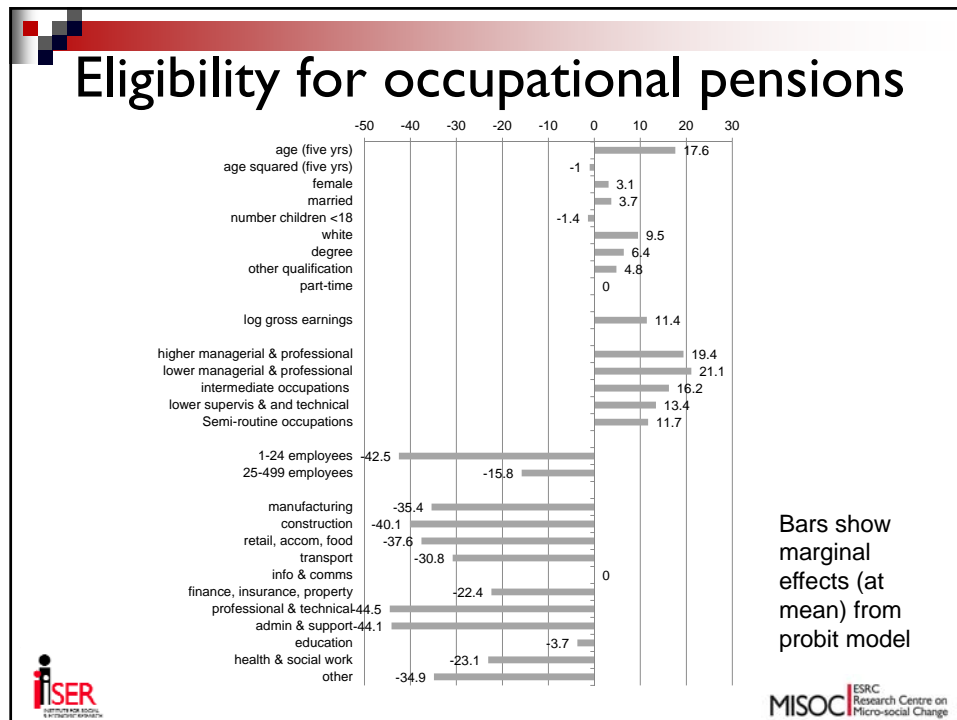
- Pension participation increases with earnings, esp at moderate earnings levels (though only weakly for personal pensions among women).
- But, significant participation even at low earnings, e.g. 40% women on £10-15k (role of public sector).
- Pension participation increases with savings, though less 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)



## 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.

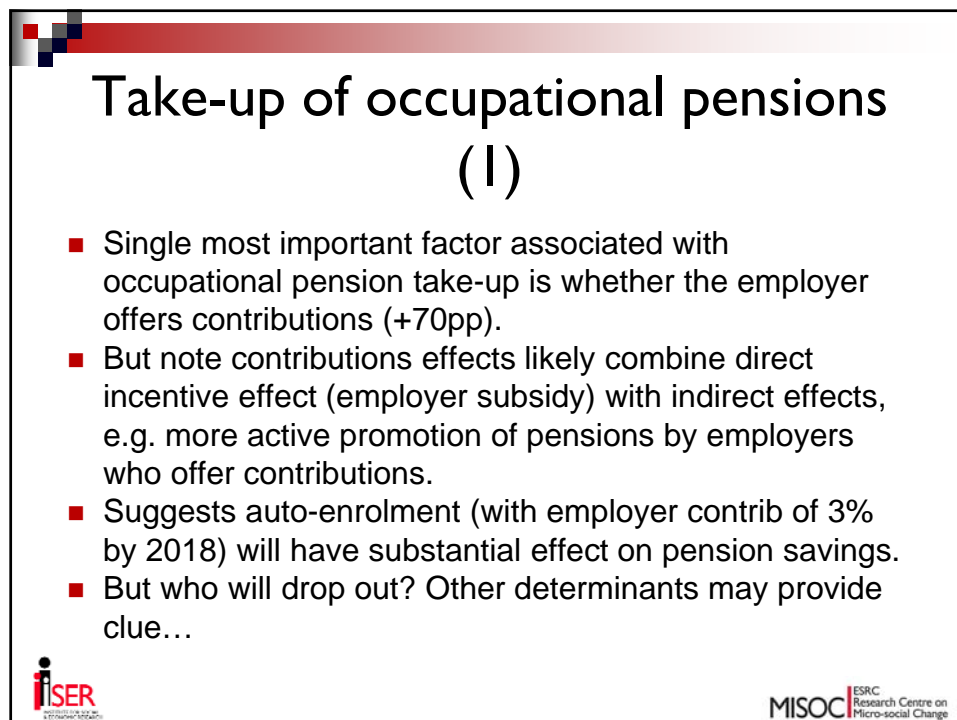
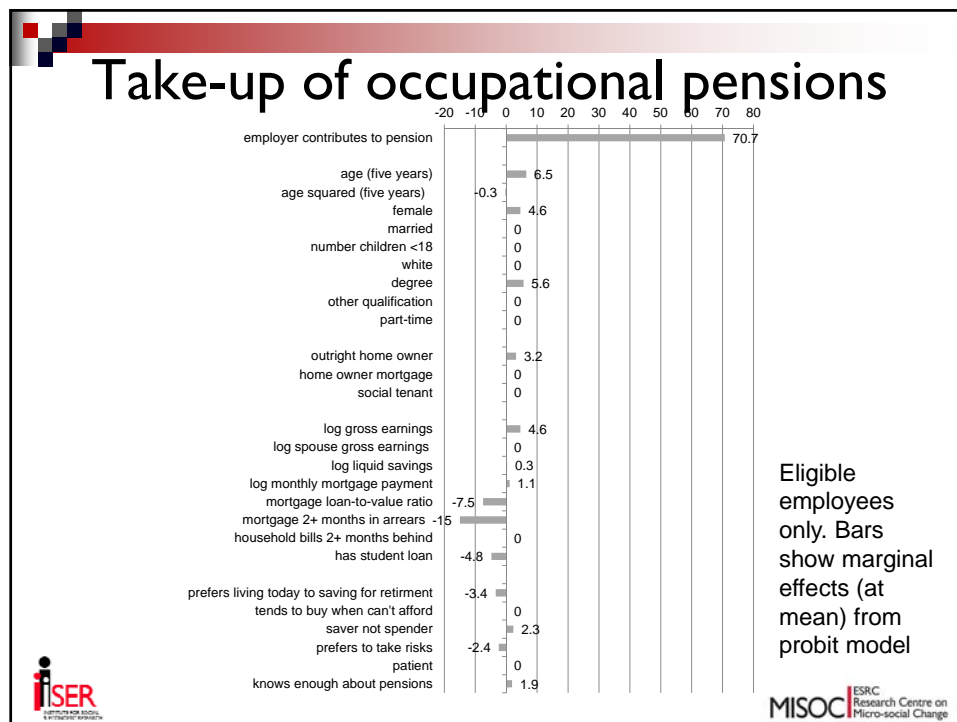


## Drivers of eligibility

- 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)

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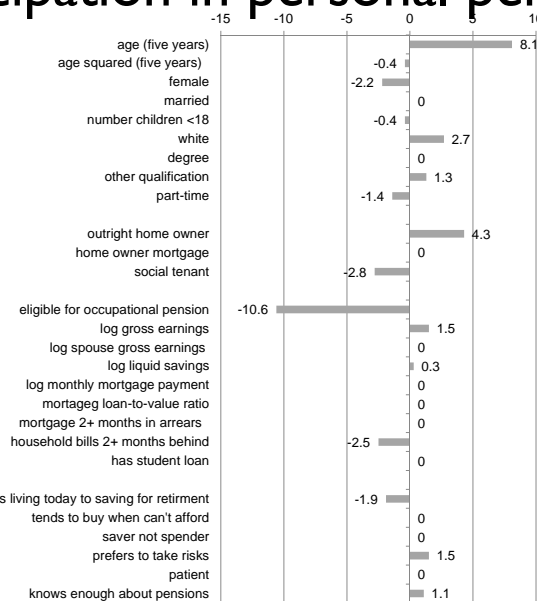


## Take-up of occupational pensions (2)

- 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”).



## Participation in personal pensions



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?

## Who Saves for Retirement?

Full report published by the Strategic  
Society Centre:

<http://www.strategicsociety.org.uk/book/who-saves-retirement.html>