

Using accessible pension savings to alleviate problem debt

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We'd like to thank...

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The logo for StepChange Debt Charity. The word "Step" is in a dark purple font, and "Change" is in an orange font. Below "Change" is the text "Debt Charity" in a smaller, dark purple font.

StepChange
Debt Charity

Using accessible pension savings to alleviate problem debt

- Background
- APS Policy
- Individual modelling
- Implementation

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Background

- Households in problem debt
 - StepChange report that 2.9 million people are in severe problem debt
 - Having £1,000 of accessible savings reduces the likelihood of falling into problem debt by 44%
- StepChange policy suggestion
 - Accessible pension savings
- Automatic enrolment
 - Success in engagement
 - Harness that success

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APS Policy

- Problem addressed

- How to alleviate the issue of problem debt
- Using an approach that has been shown to work
- With minimal further strain on the target group

- Proposal

- Allow access to a portion of pension savings when necessary in order to help avoid falling into debt (which is known as Accessible Pension Savings (APS))
- Accessible pension savings would be funded through pension contributions
- And would be limited to a maximum amount

APS Policy

Contributions into the Accessible Pension Savings pot

Name	
APS pot	The Accessible Pension Savings (APS) pot is a savings vehicle, funded by contributions diverted from pension contributions. It is restricted in size by the Upper Threshold
Upper Threshold	The upper threshold determines the contributions made into the APS and when they stop. Once the APS pot has reached the level of the Upper Threshold contributions cease to be diverted. It is assumed to be uprated each year in line with an index.
Contributions (APS<30% UT)	While the APS pot is less than 30% of the upper threshold, only employee contributions feed into it, at a proportion of 50% of net contributions.
Contributions (APS>30% UT)	When the APS is over 30% of the upper threshold, 50% of total contributions flow into it (that is 50% of contributions from the employee, employer and tax relief).

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Individuals modelled

Characteristics of the individuals modelled

Name	Characteristics
Laura	Laura is a low earning woman in a single adult household. She is 25 in 2017 and works every year from 2017 to her SPA at the 10 th percentile level of the women's earning distribution for her age.
Sally	Sally is a median earning woman in a single adult household. She is 25 in 2017 and works every year from 2017 to her SPA at the median level of the women's earning distribution for her age.
Derek	Derek is a married man in a low earning household. He is 25 in 2017 and works every year from 2017 to his SPA at the 30 th percentile level of the men's earning distribution for his age. He is married to Sue who does not work.
Rajesh	Rajesh is a median earning man in a single adult household. He is 45 in 2017 and works every up to his SPA at the at the median level of the men's earning distribution for his age.
All the individuals are assumed to be automatically enrolled into their work pension scheme in 2017 and contribute at 8% of band earnings	

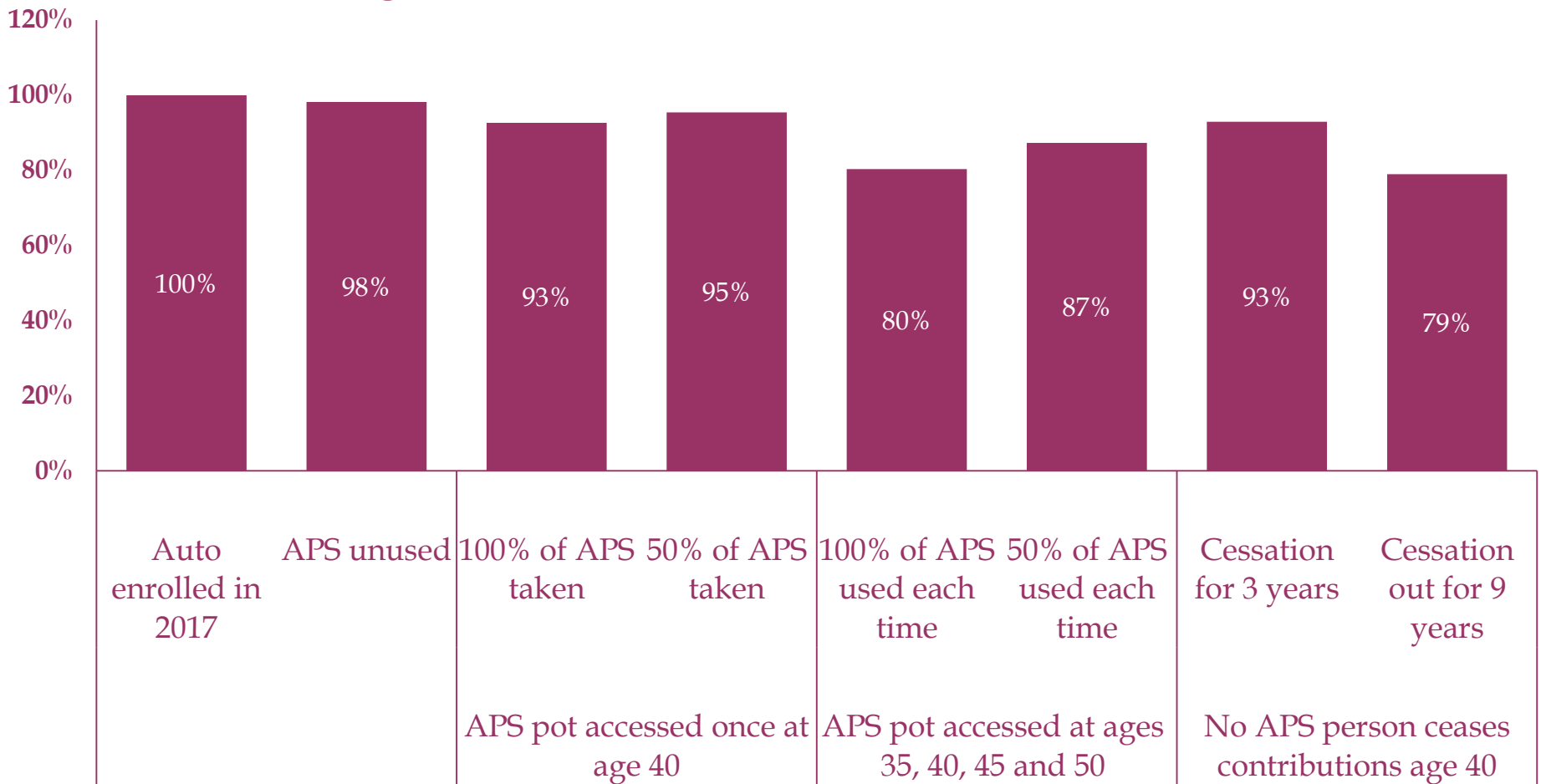
Chart 1: Number of years to save full APS

Number of years of saving by each of the case study individuals until their APS pot is at the level of the upper threshold



A low-earning woman's private pension could be significantly reduced by diverting contributions toward accessible pension savings

Impact of modelled scenarios on pension pot at SPa, compared to private pension without diverted contributions. As achieved by Laura currently aged 25 earning at gender specific 10th percentile of earnings distribution

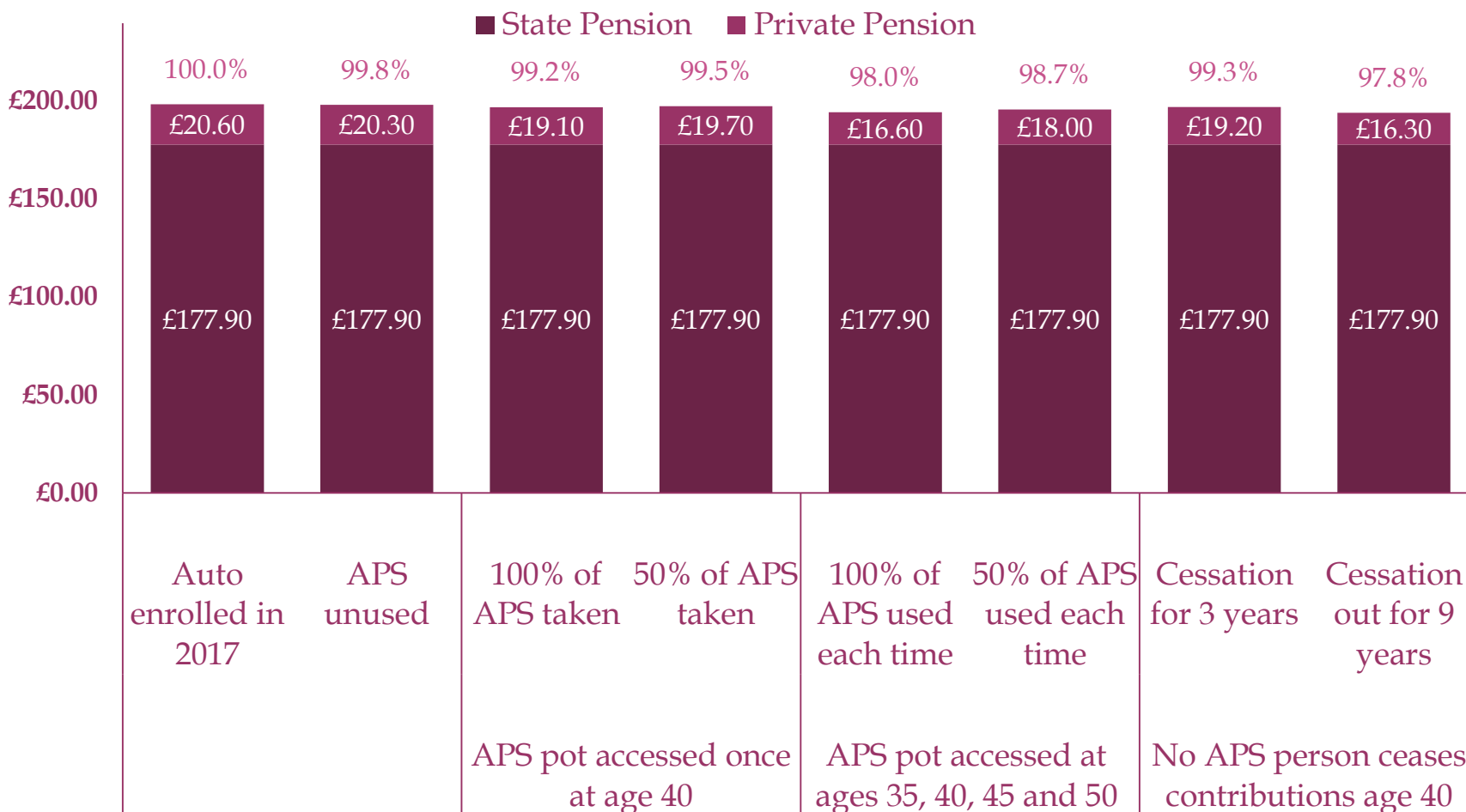


Laura's total retirement income is less significantly affected by diverting contributions to accessible pension savings

Weekly post retirement income at SPA (age 68) achieved by Laura currently aged 25 earning at gender specific 10th percentile of earnings distribution (£ a week in 2017 earnings terms)

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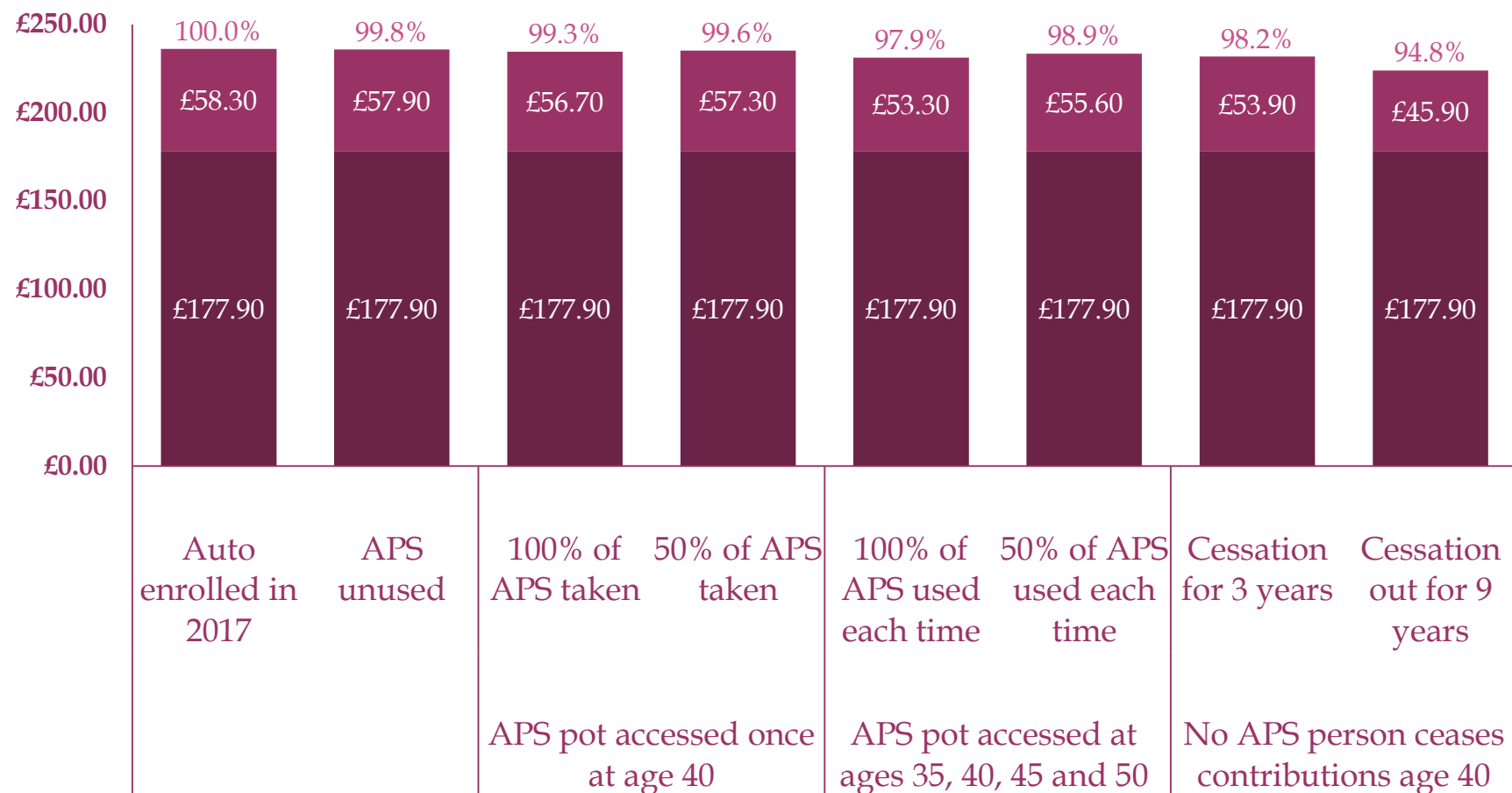
PPI



A median earner' total pension is less significantly affected by APS than a lower earner

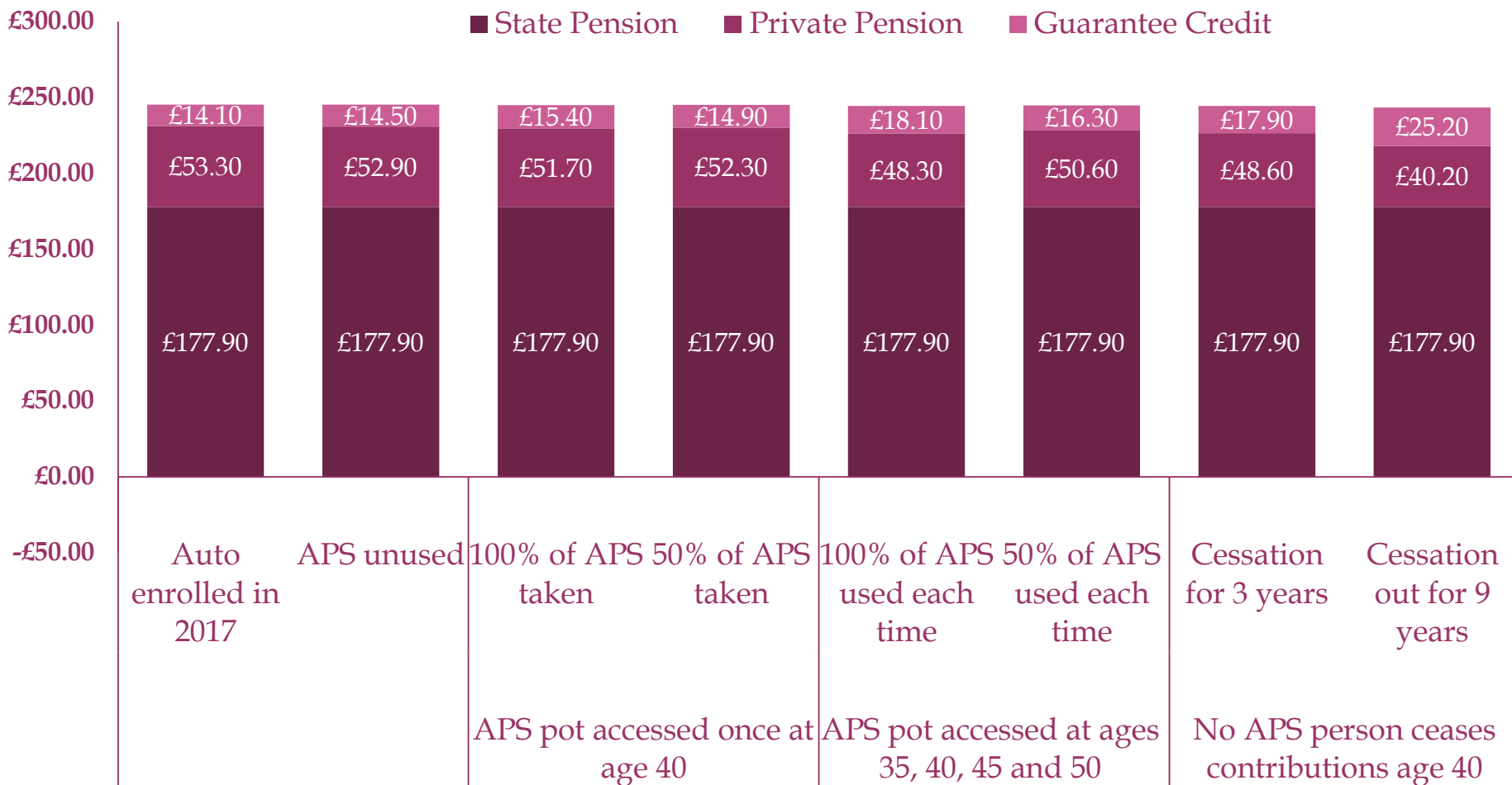
Weekly post retirement income at SPA (age 68) achieved by Sally currently aged 25 earning at the median of the female earnings distribution (£ a week in 2017 earnings terms)

■ State Pension ■ Private Pension



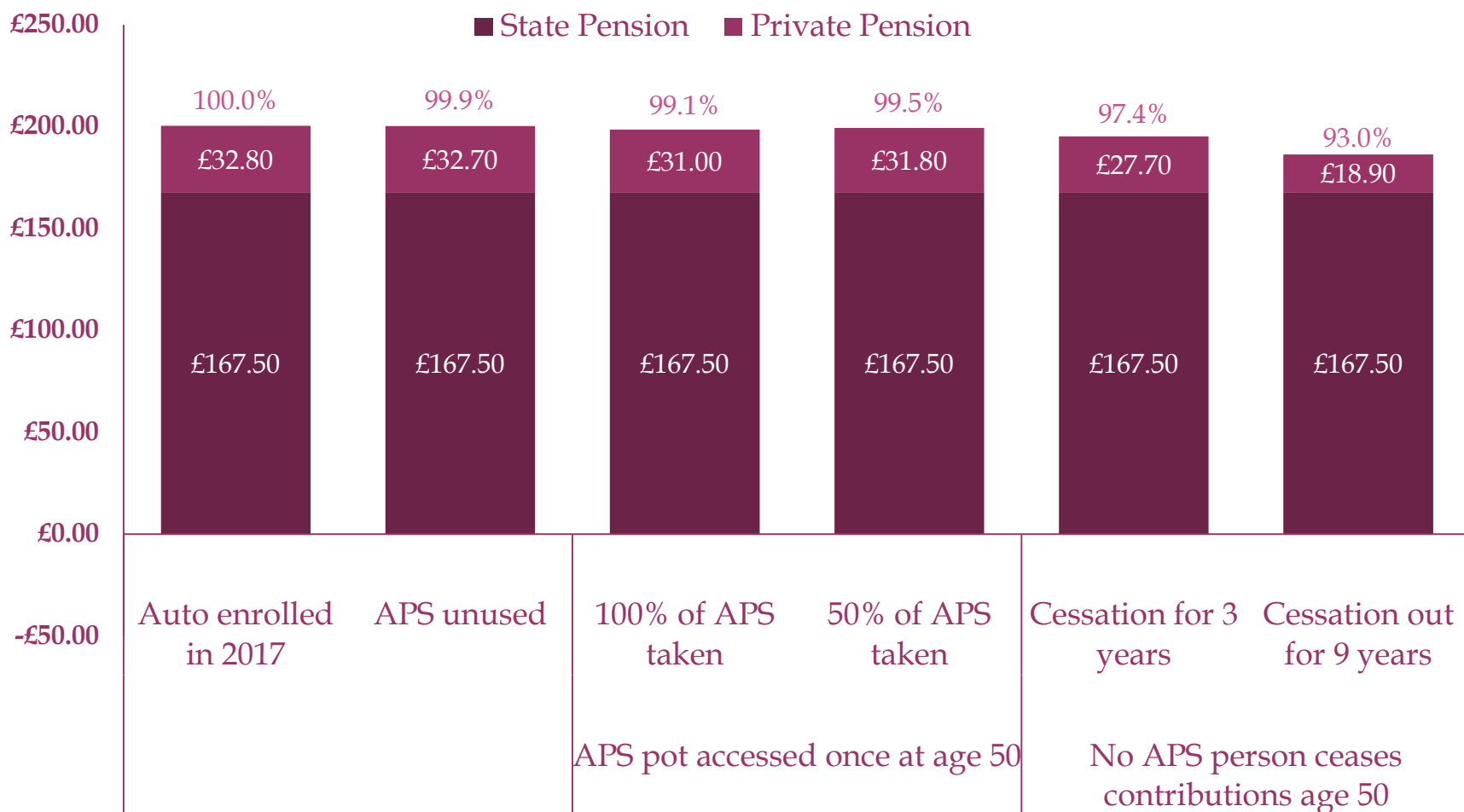
Total retirement income of people receiving pension credit may be largely unaffected by APS

Weekly post retirement income at SPA (age 68) achieved by Derek's household. Derek is currently aged 25 earning at 30th percentile level of earnings for men (£ a week in 2017 earnings terms)



Impact of APS on starting pension saving in middle age

Weekly post retirement income at SPA (age 68) achieved by Rajesh currently aged 45 earning at the median of the male earnings distribution (£ a week in 2017 earnings terms)



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Implementation

- Withdrawal criteria
 - Defined circumstances?
 - Defined reasons?
- Type of pension schemes
 - DC pension scheme: relatively straightforward
 - DB pension scheme: more problematic fit
 - However most automatic enrolment is into DC pension schemes
- Relationship to pension scheme
 - Internal within the pension scheme
 - External to the pension scheme