PPI roundtable event summary - Who pays the piper? An international comparison of employer and employee contributions to DC pensions
13th October 2017

Seminar Title	*Who pays the piper? An international comparison of employer and employee contributions to DC pensions*
Chair	**Chris Curry**, Director, PPI
Speakers	- **Adrian Boulding,** Director of Policy, NOW: Pensions - **Priya Khambhaita,** Senior Policy Researcher, PPI

The PPI held a roundtable discussion on 13th October 2017 hosted by NOW: Pensions, to discuss and debate UK automatic enrolment policy and the contribution balance, how it compares with other schemes in the UK and abroad, as well as the behavioural economics behind possible changes to the contribution balance.

The 2017 Automatic Enrolment Review is focused on: contribution levels, consumer engagement and coverage. This report commissioned by NOW: Pensions explores different factors related to, and country experiences of, employer/employee contribution balances. Results from the research show that the key factors that determine employer and employee contribution levels fit into societal, organisational and individual levels. A contribution balance made up of employer, employee, and government contributions represents a multi-stakeholder approach to pension saving. This research shows that the most effective policies are phased, consistent, and include recognition of the financial constraints faced by the three parties. Furthermore, the most successful policies allow contributions to increase gradually for those under increased financial constraints.

The aim of the roundtable was to encourage debate and contributions from participants in response to the research, and to draw out any common threads or opposing views.

The roundtable was chaired by **Chris Curry (Director, Pensions Policy Institute)** and was attended by people representing a range of interests across the pensions and the public sector in addition to members of the PPI and NOW: Pensions teams.

Chris Curry welcomed attendees and thanked them for coming to the seminar. All attendees were introduced.

Adrian Boulding (Policy Director, NOW: Pensions) thanked the PPI for the research and commented that automatic enrolment continues to evolve and the 2017 review is an opportunity to pause and reflect on the future direction of the policy. The main focus of the 2017 Automatic Enrolment Review is to look at existing coverage and consider the needs of those not currently eligible. It is therefore timely to examine these aspects of the UK scenario in relation to other country approaches. NOW: Pensions were looking to produce evidence that could be fed into the review.

Priya Khambhaita (Senior Policy Researcher, PPI) presented the findings of the research and summarised the report.

Adrian Boulding responded by highlighting that UK is behind in terms of employer contributions compared to other countries with similar regimes. As the higher statutory minimum contributions are phased in over 2018 and 2019, employees will find themselves bearing more of the burden than their employer and this inequality could drive opt-outs. Adrian went on to cite survey research that shows a quarter of automatically enrolled savers say they "definitely will" or "might" opt-out, when minimum contributions hit 8% of qualifying earnings in 2019. He went on to state that the Automatic Enrolment Review scope should include consideration of whether the current balance is right.

Policy Discussion

The attendees discussed the research. The following points were raised in the discussion. They do not necessarily reflect the views of the PPI.

- There are many different parties involved with how much people contribute to their pensions. Automatic enrolment is a shining example of collaboration and what can be achieved through a multi-stakeholder approach. There is merit in searching for effective strategies for maintaining and developing this collaboration.
- Consensus building is central to multi-stakeholder buy-in. There is some consensus that employer contributions could be higher, however how this relates to challenges faced by employers could be better understood. A deeper evidence base could help in the understanding of a long-term framework to address challenges faced by employers.
- Employers may disagree about the extent of their responsibility in enabling staff to contribute more. Engaging employers may be especially difficult in the current climate as employers have financial constraints due to economic conditions and Brexit negotiations.
- Attendees discussed the different aspects of automatic enrolment policy that could be redesigned. Similar to the approach used in New Zealand and Italy, it may be an option for the UK to use gross earnings and not band earnings for the purposes of calculating contributions. Employees are currently confused about band earnings, and the current communication around what contribution calculations are based on could be reviewed. This can be linked to the behavioural economics

concept of "rules of thumb" i.e. a broadly accurate guide/principle. This is however in contrast to the automatic enrolment soft compulsion approach of harnessing inertia.

- The way in which access and popularity of retirement income calculators develops may help consolidate the understanding of contributions, and their link to replacement rates and wider retirement outcomes. As an increasing number of providers offer these calculators and once the dashboard is fully functional, they may steadily become more mainstream, as in Australia.
- Increasing employee contributions is an option, however, in the current climate of low wages, this may be more feasible for higher earners. A multi-tiered approach where minimum contributions vary by earnings could be explored. There may also be scope to have different approaches/tiers by industry and work-patterns, similar to Denmark.
- Providing employees the option of opting-out from an increase in contributions may reduce opt-out rates moving forward. There may be an argument for 'opting down' and reducing contributions rather than discontinuing them entirely. However, allowing an opt-down facility may encourage employees to opt-down when if this wasn't available they would pay the increased contribution rate.

This report has been made available to the Automatic Enrolment Review panel and will feed into the evidence for the review.