

The impact of the introduction of automatic enrolment on future generations

The Pensions Policy Institute (PPI) held a roundtable on 8th February 2018 to coincide with research sponsored by Standard Life. This analysis investigated the impact of the introduction of automatic enrolment (AE) on younger people and future generations, particularly the young cohort of workers entering the workforce who may be automatically enrolled in to pension schemes for their entire working life.

The aim of the roundtable was to encourage debate and contributions from participants in response to the research, and to identify what different elements of industry can do to take forward this issue.

Chris Curry, PPI Director, chaired the roundtable welcomed attendees and made introductions.

Tim Pike, PPI Head of Modelling, presented the findings of the research.

Jamie Jenkins, Head of Pensions Strategy, Standard Life responded to the research findings:

- Higher contributions will result in better outcomes than lower contributions, all other things being equal. However the potential outcome is still uncertain due to investment and economic conditions.
- As automatic enrolment develops, it is important to move the conversation on. Many individuals will accept that a workplace pension is a given, but what does 'good' look like?
- While larger automatic enrolment pension schemes may be generous (higher contribution levels, matching) there are a number of small schemes which may only offer minimum contributions.
- It is important that people do not opt out as contribution rates increase.
- Education is needed to progress the conversation.

Fiona Walker, Automatic Enrolment Programme Director, Department for Work and Pensions (DWP), and **Laura Webster**, Chief Economist and Lead Analyst for Private Pensions, DWP, responded to the research on behalf of the DWP:

- AE is a good news story; the policy is here to stay.
- The primary target for the policy remains those on lower and middle incomes, with the maximum impact to be had upon younger cohorts of workers.

- Small employers, with less experience of workplace pensions, need to be supported through phasing.
- The behavioural messages of saving for retirement earlier needs to be framed in positive way, especially with rising contribution levels: increasing understanding of tax relief as a Government contribution; supporting a sense of ownership of DC pensions through increasing understanding that the pot belongs to the individual.

The following topics were raised during discussion. The discussion was held under Chatham House rule and comments do not necessarily reflect the views of the PPI or the represented organisations.

The value of a pot

- AE has been introduced in a period that has experienced consistent positive investment returns.
- What is going to be the cultural impact of seeing the value of a pension decrease?
 - Savers may lock in any losses experienced through changes to investments.
 - Savers may lose faith in pension saving and cease contributing, failing to take long-term advantage of purchasing investments at lower prices.
 - A more educated / engaged individual may understand better and not be put off by a loss.
- Pension communication could be framed around contribution level rather than fund value?

Ownership

- Pension pots may be perceived as 'not theirs'. Could this be mitigated through presenting them more like a bank account?
- The pensions dashboard may help boost a sense of ownership.

How are pensions benchmarked

- There is a deference to rates set by others, (e.g. employer contribution rates, AE minimum rates).
 - This implies a lack of active decision making.
- There is increasing knowledge of what is an 'average' scheme.
 - Employees of small employers are increasingly finding out about workplace pensions in a social context, away from the workplace.

Communication of pension saving

- Tailored messages can be achieved through segmenting savers, leading to improved engagement.
- Cost and benefits need to be expressed in straightforward language that is understandable.

Engagement

- Engagement can be a double edged sword and it's important to know why we are seeking to engage people and what we want them to do differently as a result of the intervention.
- Are those who look at their pensions on a daily basis likely to be more knowledgeable?
- The journey design for people is imperative and, in the future, this is likely to be online rather than face to face or by telephone. The example given was of blogs on football club websites written by non-pension people which discussed pensions matters.

The removal of the lower earnings limits

- A significant minority of employers already use schemes which disregard band earnings.
- The removal of the lower earnings limit (LEL) is seen to simplify the current situation.
- It was felt that changes to the LEL were likely to be more acceptable to people than a higher headline contribution rate.