

Will Personal Accounts increase pension saving?

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www.pensionspolicyinstitute.org.uk

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The Government's proposed reforms



- Auto enrolment into work-based pension schemes for most employees
- The introduction of a 3% compulsory employer contributions for employees who remain opted in to work-based saving
- The introduction of a new National Pensions Savings Scheme (NPSS), called Personal Accounts

Will Personal Accounts increase pension saving?



- Outcomes will be driven by individuals' and employers' responses
- Aggregate assessment of the overall impact of the Government's private pension reforms
- Scenario analysis – not a forecast

Will Personal Accounts increase pensions saving?

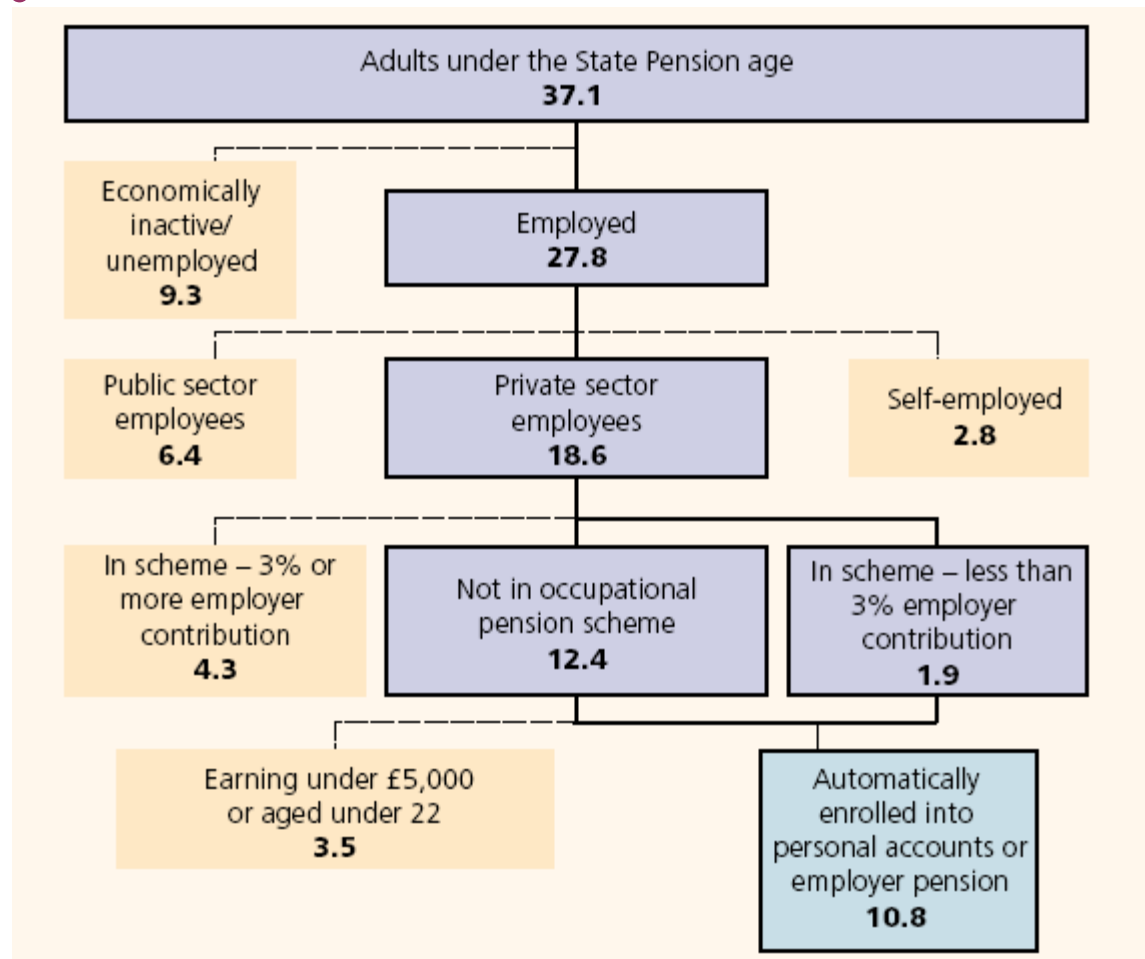
- Participation
- Contributions
- Split of contributions
- Assets

Who might participate?

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Eligibility for automatic enrolment, millions



Source: Department for Work and Pensions (2006) *Security in retirement: towards a new pensions system*

The reforms are likely to increase the number of people saving

New savers in work-based pension schemes

	Optimistic (20% opt out)	Central (33% opt out)	Pessimistic (60-50% opt out)
Employees who are auto enrolled (and don't opt out)	7.1m	5.9m	3.6m – 4.5m
Self employed (could opt in)	0.9m	0.75m	0.5m
Others who could opt in	0.9m	0.6m	0.3m
New work-based pension savers (rounded)	9m	7m	4m-5m ⁵

Will Personal Accounts increase pensions saving?

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There is a lot of uncertainty about how employers will respond



Employers could pass on costs to:

- Shareholders or owners
- Consumers
- Employees
- Pension scheme members

There is a lot of uncertainty about how employers will respond



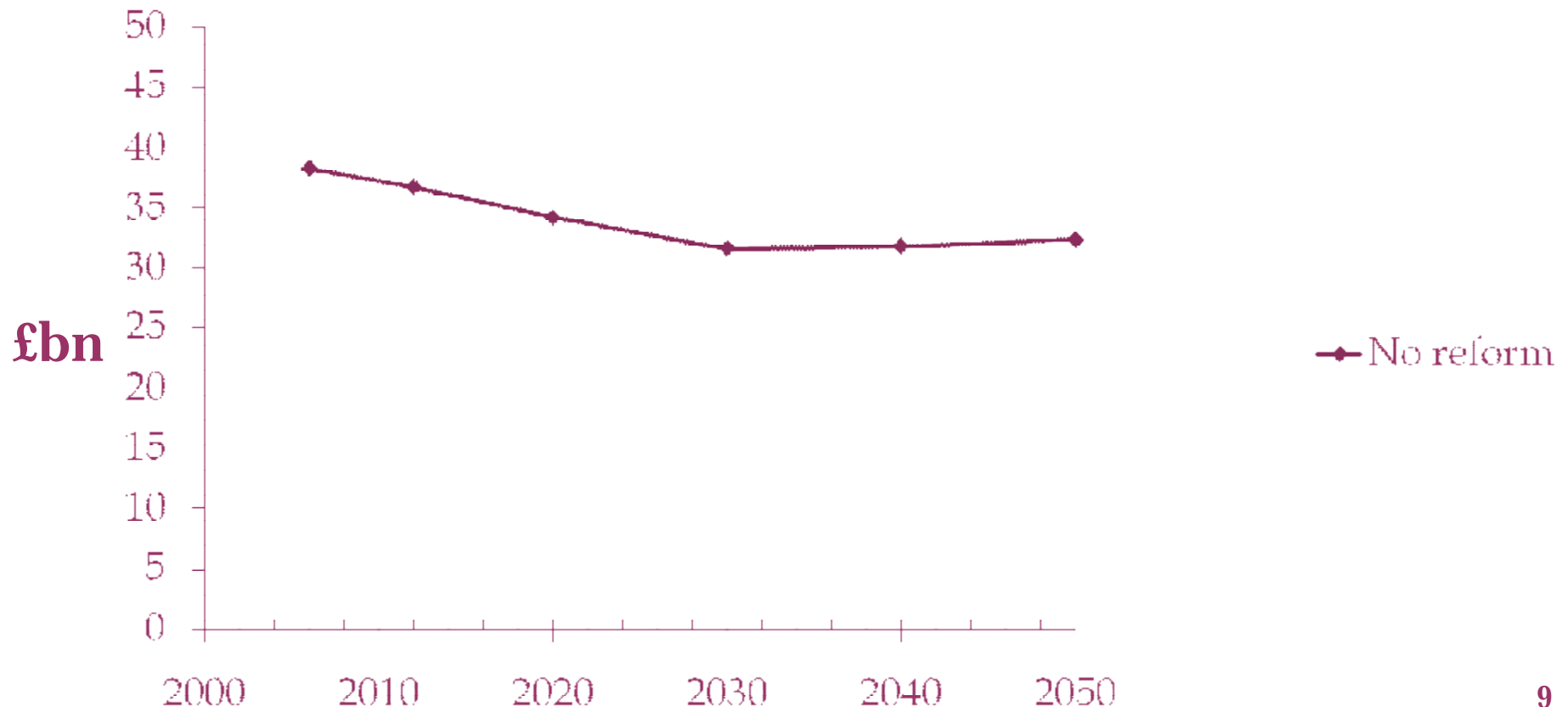
Four scenarios that ask: what if employers...

- Auto enrol employees on existing terms?
- Control their costs by reducing voluntary contributions if they can?
- Respond in line with a survey?
- Auto enrol employees on minimum terms, so that 3% becomes the norm?

Analysis is not intended to be a forecast

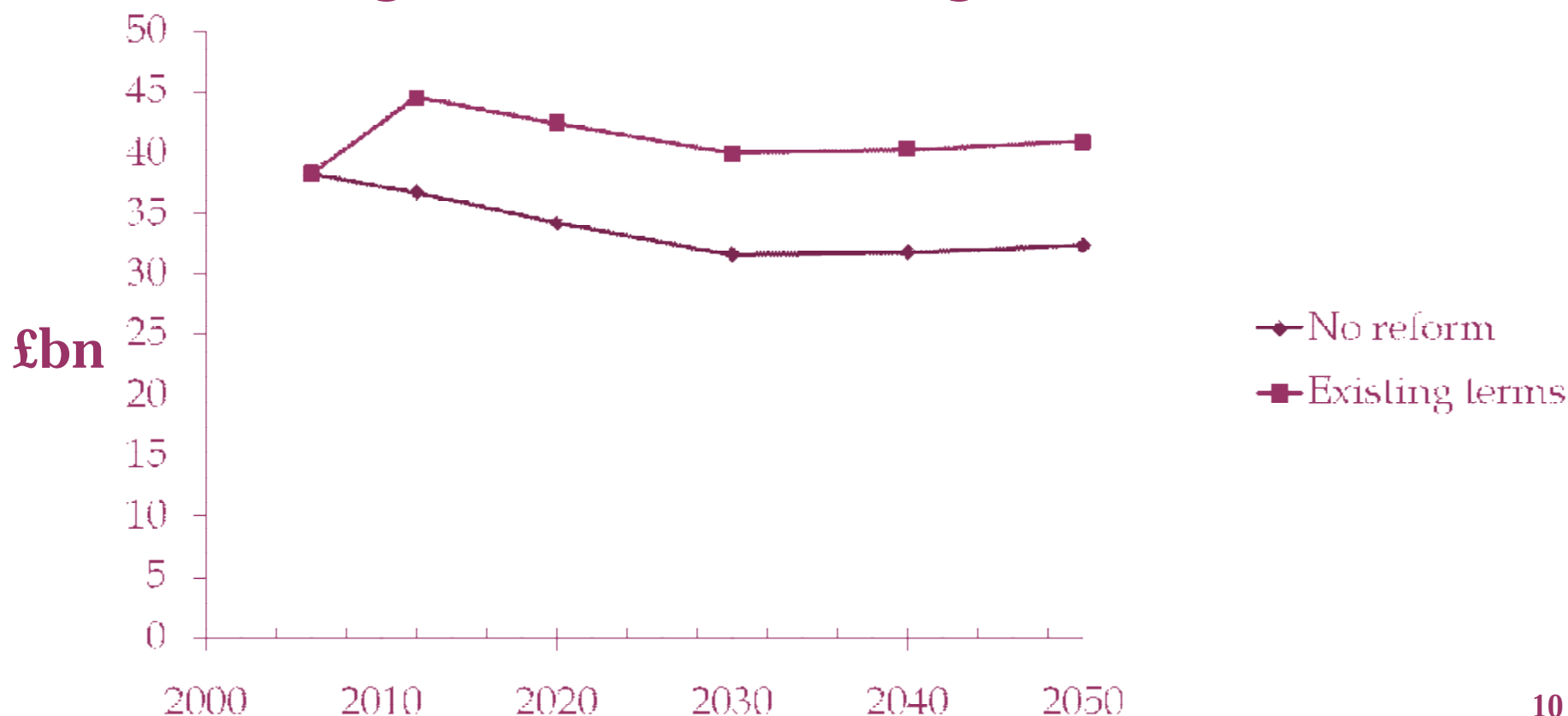
What could happen if there is no reform?

Annual total pension contributions under no reform, in £ billion, in 2006/7 earnings terms (unrounded figures)



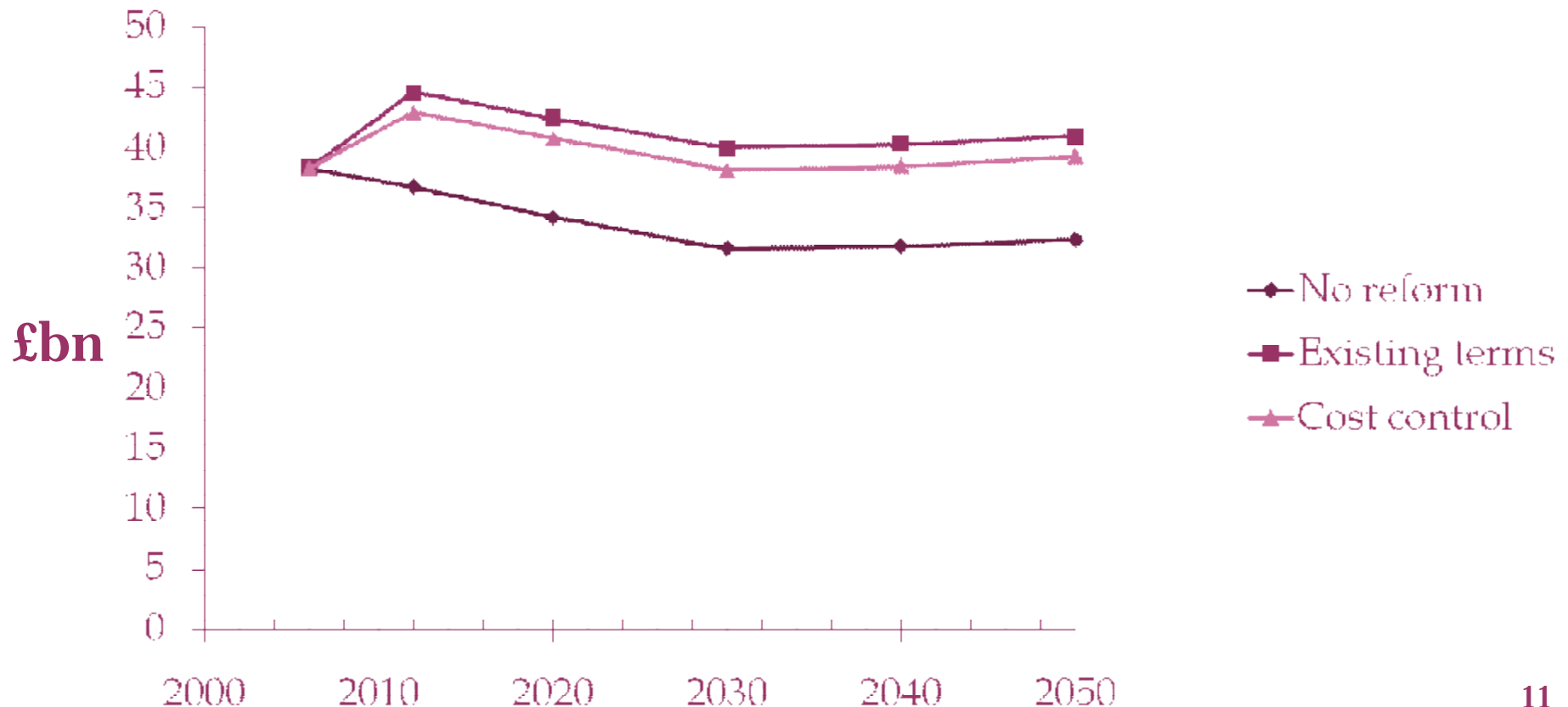
What if employers auto enrol on existing terms?

Annual total pension contributions, in £ billion, in 2006/7 earnings terms (unrounded figures)



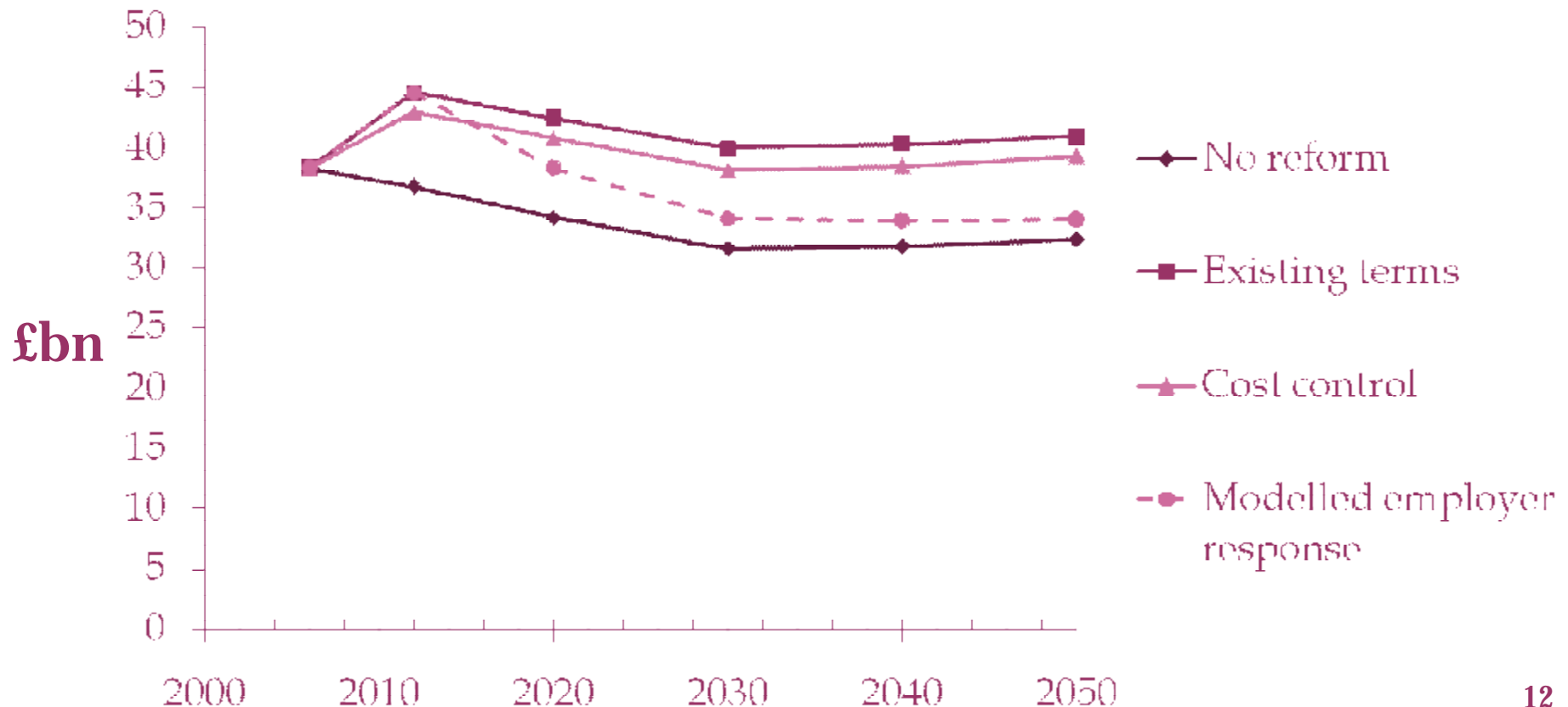
What if employers control their costs?

Annual total pension contributions, in £ billion, in 2006/7 earnings terms (unrounded figures)



What if employers act in line with a survey?

Annual total pension contributions, in £ billion, in 2006/7 earnings terms (unrounded figures)

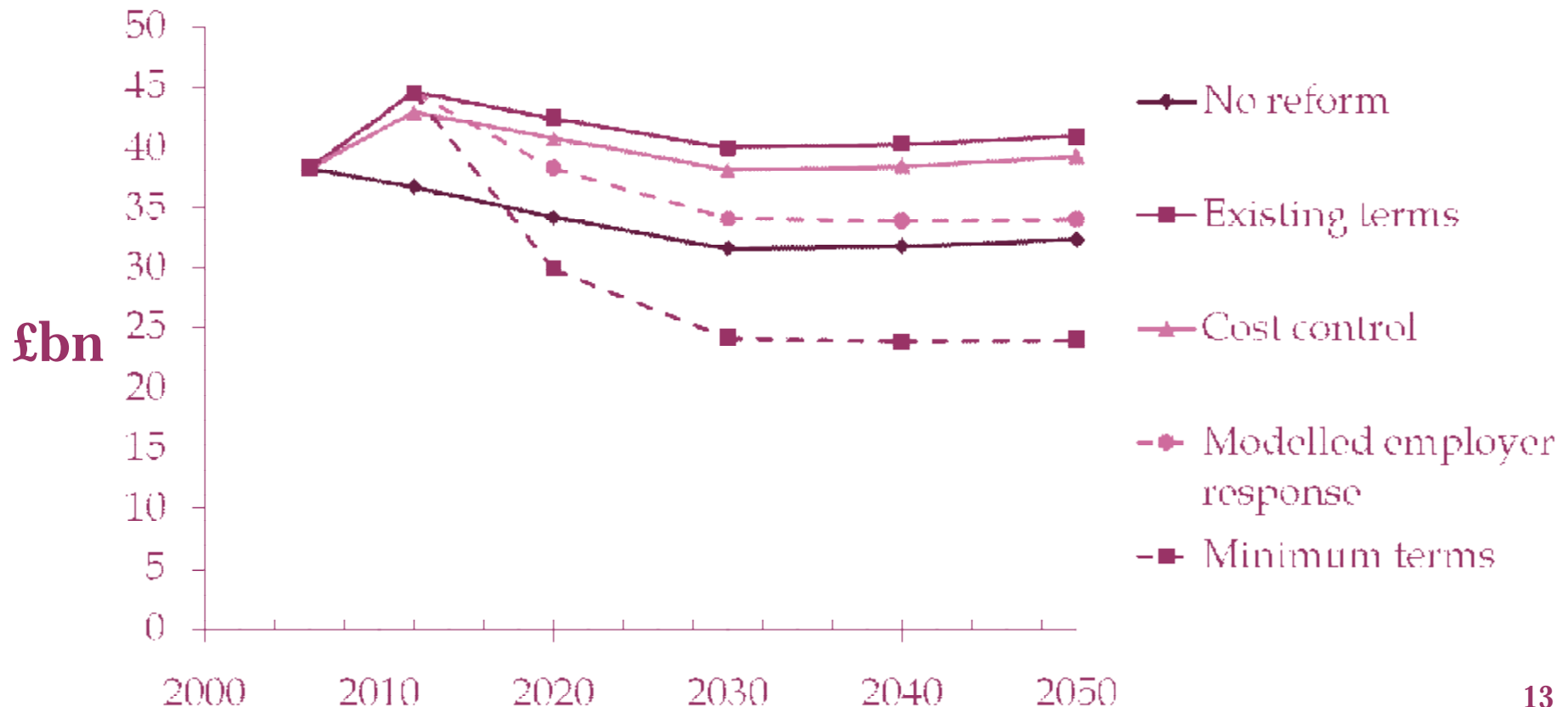


What if employers auto enrol on minimum terms?

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Annual total pension contributions, in £ billion, in 2006/7 earnings terms (unrounded figures)



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Employers will need to decide where to auto enrol employees



Employers who don't have a scheme could:

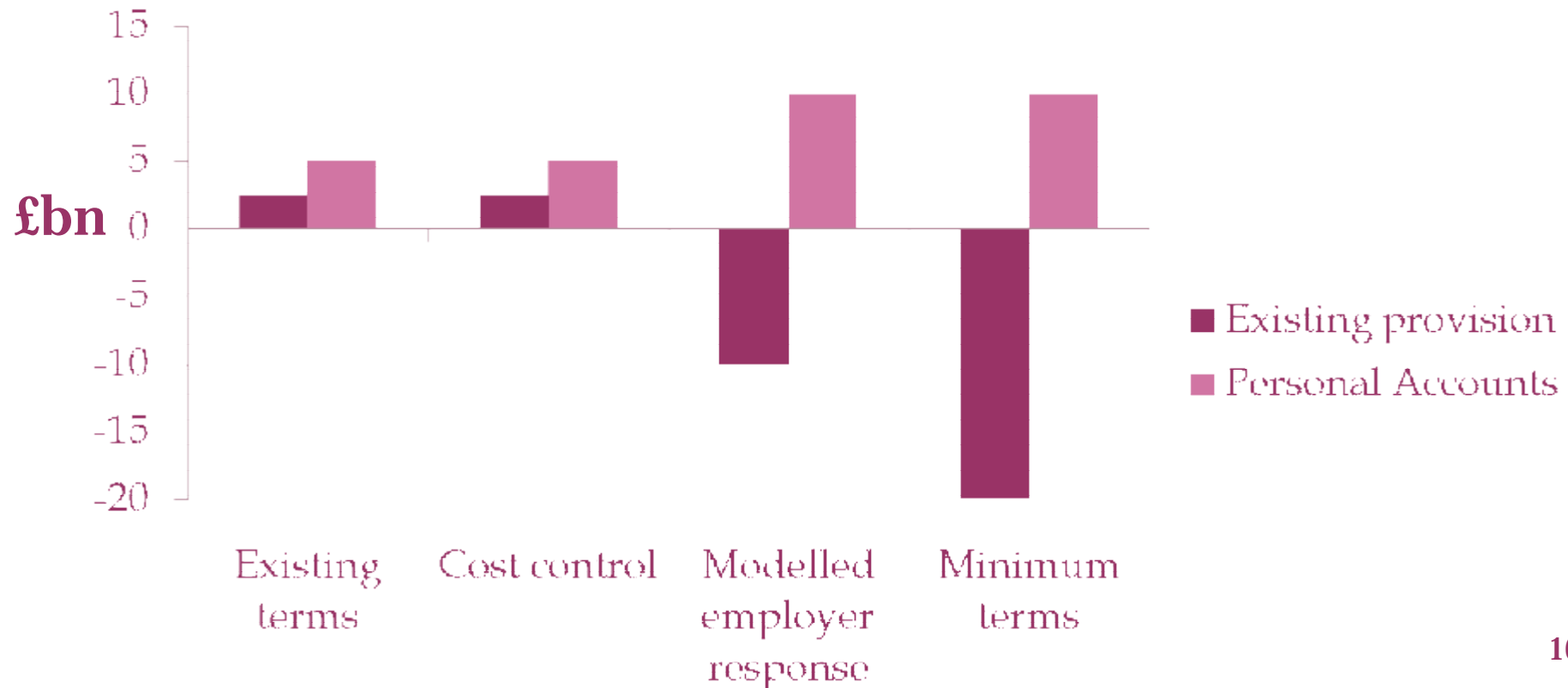
- Create a new scheme using existing types of provision
- Use Personal Accounts

Employers who already have a scheme could:

- Keep the scheme open for existing and new members
- Keep the scheme open for existing members and offer Personal Accounts to new members
- Close the scheme and use Personal Accounts for existing and new members

The reforms could change the shape of the pensions market

Change in annual pension contributions to existing provision and contributions into Personal Accounts in 2050, in £ billion, in 2006/7 earnings terms (rounded figures)

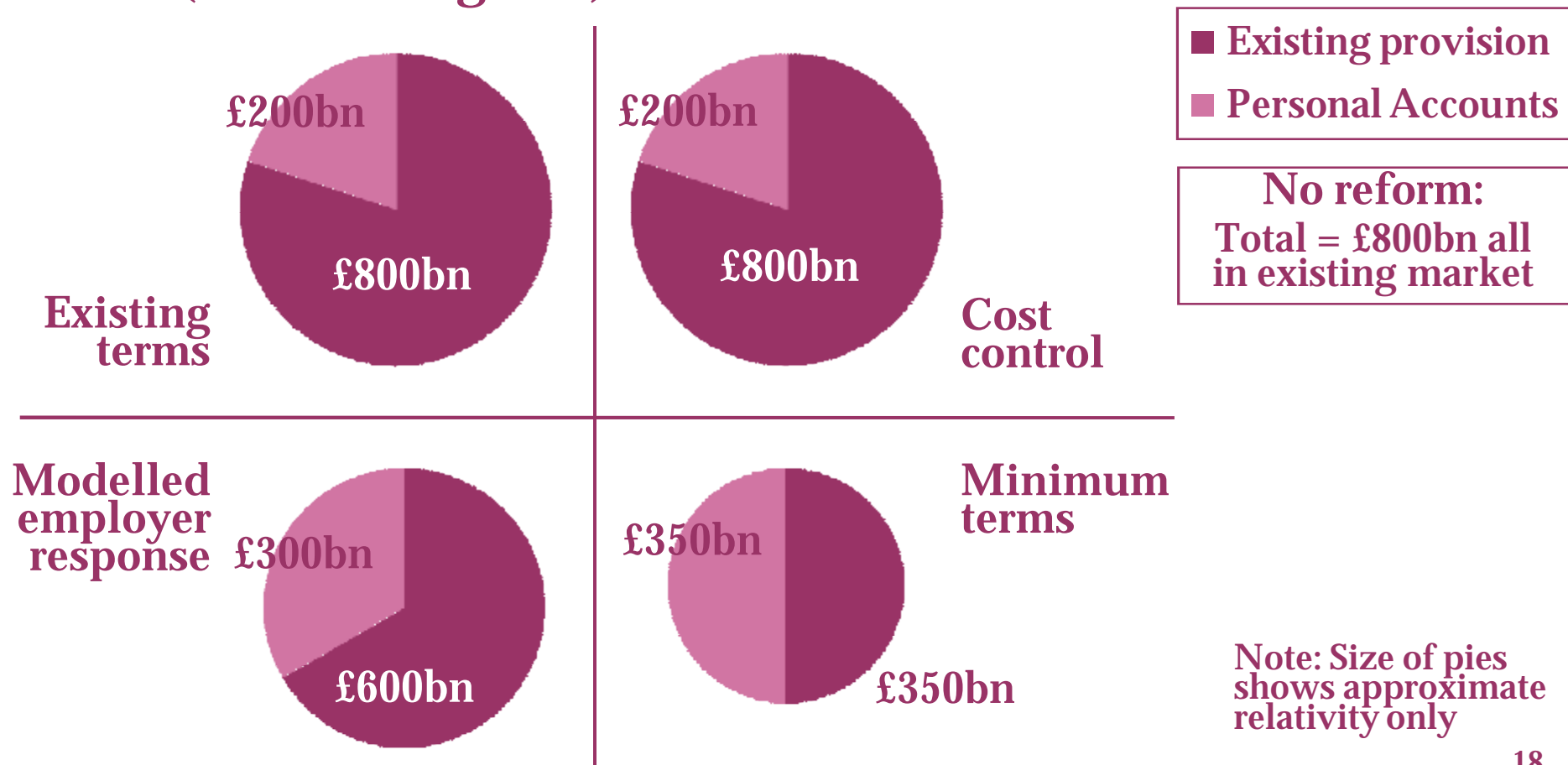


Will Personal Accounts increase pensions saving?

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Funds in Personal Accounts could reach significant levels by 2050

Size of pension funds in 2050, in £ billion, in 2006/7 earnings terms (rounded figures)



Key conclusions

Participation

The reforms are likely to increase the number of people saving in a pension; but, levels of opt out remain uncertain.

Contributions

The reforms could increase the amount being saved in pensions; employer responses will be very important.

Split of contributions

The reforms could change the shape of the pensions market; again, employer responses will be important.

Assets

The amount of funds in Personal Accounts could grow to reach significant levels by 2050.

Policy options

The reforms aim:

- To increase the number of people saving for a pension.
- For Personal Accounts to complement, rather than compete with, existing good-quality pension provision.

There are many policy options that seek to achieve one or both goals. For example:

- Auto enrolment & employer contribution
- Exempt scheme test
- Waiting period for exempt schemes
- Contribution cap for Personal Accounts
- Ban on transfers into Personal Accounts

Policy discussion

Questions for discussion

- What are the likely employee responses? What evidence is there that they will react this way?
- What are the likely employer responses? What evidence is there that they will react this way?
- What is the ‘right’ balance between optimal participation and complementing existing provision?
- What policies would help to reach this balance?