



the
people's
pension

Pension Adequacy: The Pension Saver's Perspective

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Profit for people

Foreword - The People's Pension



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The introduction of auto-enrolment (AE) was the biggest pensions shake-up in more than a century; a radical policy change to tackle concerns about an increasing old age poverty crisis, at a time when the number of private sector workers paying into pension schemes had plummeted to its lowest level since records began in 1953.

It was rightly introduced gradually, with the biggest employers coming on board first and the minimum contribution edging up in stages to where it now sits at eight per cent of qualifying earnings.

The Pension Commission was clear that at least double this would be required to provide an adequate retirement income. They envisaged that half of the required contribution would come from AE, and the other half from additional voluntary saving. But almost 10 years on, is this the case? Far from it.

While auto-enrolment should still be considered a huge policy success, this report outlines that the vast majority of auto-enrolment pension savers and employers are anchored onto the minimum rate, with most savers wrongly believing that because the government sets the minimum, they are on track for a moderate or comfortable standard of retirement living. Furthermore, the idea of additional voluntary saving is far from reality, with two-thirds (64%) of respondents having less than £10,000 in savings.

Savers strongly anchor onto the rate at which contribution levels are set, with four in ten planning to pay less if the minimum contribution rates were set lower than they are today.

Growing evidence is clear that contribution levels need to increase to prevent poor saver outcomes, but where

should the levels sit and who should shoulder the burden? How do we encourage people to pay more if they can afford to? And should the system make it easier for them to pay more as they get older?

With many savers not knowing they're allowed to pay more in, or how to pay more in, our research is clear that more can be done to help savers understand the options open to them, but this is only one piece of the puzzle.

When looking at saver behaviour, the importance of employer contributions cannot be overstated. We also cannot ignore the worsening cost of living crisis with affordability a real issue; seven in ten pension savers currently report low levels of financial resilience, while almost half of respondents (43%) are at risk of opting-out if employee contribution rates were set any higher.

So, should the employer bear the brunt of any increase? Savers views on this are far from clear cut. They do however feel that it's unfair employers currently pay less than them, and a match could be an incentive for them to save more. A more flexible approach to increasing employee contributions resonated, and there was a strong desire for the 'system' to make it easy for them to pay more as they got older.

If you accept that an increase in contributions is required to lead to positive saver outcomes, a number of questions still remain around the how. We're calling on the Government to set up a review and identify the best way forward.

Acknowledgments

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Executive summary

7.4 million pension savers are paying the minimum employee contributions required by law, while 6 million are on the minimum rate for both employer and employee contributions

The vast majority of auto-enrolment pension savers are anchored onto the minimum rates set by government. 57% of all Defined Contribution (DC) savers report that they are paying in the 4% minimum contribution set by the government. Employees are more likely to be paying the minimum than the self-employed (noting that, overall, take-up rates of DC pensions are much lower amongst the self-employed). There is no material difference by type of occupation so, for example, senior managers and administrators in DC pensions are just as likely to be paying the minimum as routine manual and service occupations such as HGV drivers.

Rates at which contributions are set are very important as pension savers strongly anchor onto this; for example, 40% would pay less if the minimum contribution rates were set lower than they are today.

This suggests that many are simply following the path of least resistance because of default effects. But if the default has not been set at a sufficient rate, this will lead to poor saver outcomes.

Savers wrongly believe that minimum contributions will provide a comfortable retirement

Just 7% of savers understand that current rates will only deliver a basic retirement, the rest foresee a moderate, or even comfortable, lifestyle on the horizon. Worryingly, six in ten (62%) of those who receive minimum contributions (4% employee, 3% employer, and 1% tax relief) are confident they will have enough retirement income for the standard of living they hope for.

Savers are surprised to find out that what they are paying will not be sufficient; four in ten (38%) agreed with the statement “the contribution rates have been set by the government which means that the amount I’m saving will be enough for my retirement”.

“I had always thought that by making the minimum contribution to my pension I would be able to retire comfortably, and it seems that this is actually not the case. So, I think the government need to tell people this”

Female 22-34

This picture of minimum contribution levels for vast swathes of the DC membership base would be less concerning if they were paying the minimum into pensions and saving elsewhere. However, two-thirds (64%) of respondents to our survey currently have savings of less than £10,000.

95% agreed that the PLSA's Retirement Living Standards are useful to help them plan for retirement

When asked to say how much annual income is needed to deliver each of the PLSA's Retirement Living Standards for a single person and a couple, very few were able to have a reasonable guess at the right amounts. Six in ten (59%) were incorrect across the board, and just one person in our survey of 2,069 respondents correctly estimated all six.

For one in three (34%), seeing this information changed their perception of the adequacy of their pension savings. A small proportion became more confident they were on track, but most had a wake-up call that they may need to do more.

Not surprisingly, 95% agreed that the PLSA's Retirement Living Standards are useful to help them plan for retirement.

Affordability is an issue – 70% of DC savers currently have low financial resilience

In part, low contribution levels are due to saver ignorance. Just one in three have thought a lot about how much they need to pay, and almost half (43%) of all savers agreed that it had simply not occurred to them to pay more into their pension. Almost half (46%) of all DC savers did not know they were allowed to pay in more than the minimum and would not know how to go about it. It is clear from these statistics that more could be done by providers to help savers understand the options open to them.

There also is a strong desire amongst savers for the 'system' to make it easy for them to pay more as they get older; 64% of pension savers agreed that the government should automatically increase employee contribution rates as they get older. We found strong support for a Save More for Tomorrow type scheme - which allows workers to allocate a portion of future salary increases towards their retirement savings - with 88% expressing an interest.

But this is not the whole story. A substantial proportion of pension savers are already struggling to their day-to-day living expenses and are worried about the rising cost of living. Our respondents commonly left comments in the survey expressing their desire to pay more in but saying that they are struggling to meet their existing financial commitments. Worryingly, 15% of pension savers report that they have fallen behind on, or missed, at least three payments for credit commitments (e.g., credit cards or loans) or domestic bills (e.g., utility bills, rent, mortgage) in the last six months and 15% are constantly overdrawn by the time they are paid.

Pension savers would struggle to pay more into their pension and raising employee contribution rates could tip some into serious financial difficulties

Pension savers recognised that they are part of a binary system. If they wanted the employer contributions, they need to make at least the minimum employee contributions. Yet against a backdrop of rising energy prices and inflation, almost half (43%) felt that they would need to opt-out if employee contribution rates were set any higher.

Employer contributions are key

The importance of employer contributions cannot be overstated. Six in ten said that they would not pay into a pension if there were no employer contributions. Yet when we asked savers to say how much their employer was paying into their pension one in 10 (11%) had no idea.

Furthermore, the vast majority (65%) reported that their employer was paying the minimum of 3%. This equates to 8.04 million people. From this data, it would appear that employers are also firmly anchored onto the minimum, which has been set at levels way below the average Defined Benefit (DB) contribution.

But when we tested pension savers preferences for how a future 12% contribution might be split, they gave us no clear steer. Savers certainly want to see employers' shoulder some of the burden of any future contribution increase but are mindful of the economic impact. That said, they picked up on the fact that employers were currently paying less than them and felt a match could be an incentive for them to save more and would certainly appeal to their sense of fairness.

Introduction

Pension adequacy is constantly the subject of much analysis and debate amongst academics, social reformers, industry, and policymakers. Historically, pension decisions have been out of the control of the ordinary worker; state pension rates were set by the government and employers decided whether to offer a scheme, what kind of scheme to offer, and how much to pay. That all changed when the landscape shifted towards defined contribution schemes, where the onus falls on the saver to take much more personal responsibility for saving enough to ensure their financial well-being in retirement.

Automatic enrolment (AE) has been a huge success, with over 10 million more people now benefitting from participation in a DC scheme, with younger workers in particular, substantially increasing their membership rates over time. With take-up rates firmly established, attention is now turning to consider whether statutory minimum contribution rates, currently set at 8% of band earnings (including tax relief) are sufficient, given that 8% of band earnings is far below that of a typical final salary scheme. Indeed, the Pension Commission thought that 16% of band earnings was the minimum required to reach a target replacement rate of 2/3 of pre-retirement earnings for a minimum earner. They envisaged half of the required contributions coming from automatic enrolment and half from additional voluntary saving. Evidence from large-scale surveys suggests that the level of additional, voluntary savings in the UK remains low and therefore a purely voluntary approach may be too ambitious.

There is growing momentum around increasing minimum contributions, initially by rolling out the recommendations of the 2017 Automatic Enrolment review and then, perhaps, raising minimum contributions to 12%. However, little work has been done to date to explore what savers think of current levels, and what they might be willing to accept in the future. Given that auto-enrolment contribution rates are set by the government, are savers even aware that this is a minimum and that they are expected to have saved more? Or do savers think that this will be enough to deliver a moderate retirement lifestyle? Can they accurately assess how much they will need to have saved for a 'moderate' or 'comfortable' lifestyle, and how do they feel when they see these numbers in black and white? And what do they feel the appropriate policy response is? Would they want a harder nudge to save more themselves, or should contribution rates be increased to make this happen?

To answer these questions, we conducted a nationally representative online survey of 2,069 DC members aged 22-55. Fieldwork was conducted over a 10-day period in January 2022. This 20-minute survey was designed to listen to the voice of the saver on some of the key questions posed by the Work and Pensions Select Committee:

- Do households in the UK have adequate pension savings for retirement?
- Are changes needed to auto-enrolment to provide an adequate level of pension savings for retirement?
- Could retirement income targets help savers plan for retirement?
- Apart from increasing contributions, how can the Government improve outcomes for savers?

Are pension savings adequate for retirement: the savers' view?

Key findings

- Only one in three (33%) have thought a lot about how much they should pay into their pension, one in four have not thought about it at all.
- On balance, savers believe that as the government sets the rates, they are saving enough for retirement. Only 7% understand that the amount they are currently saving will not be enough for their retirement.
- Six in ten (57%) are paying the minimum employee contributions into their pension, and half are getting the minimum payments from themselves and their employer.
- Savers most commonly think they will have a moderate lifestyle, which is unrealistic if they are only paying in minimum contributions.
- Four in ten (38%) think that contribution rates have been set by the government to deliver more than a basic retirement income.
- Adequacy is at a household level, yet 45% of couples don't know how much their partner has in their pensions.

Mismatch between what savers' desire for their pension to deliver an income for life and what they expect will happen

Almost three-quarters (74%) of savers agree or strongly agree that the main purpose of a DC pension is to provide an income for life when they retire, rather than a top-up or just another form of savings. Yet only one in five (23%) expect their DC pension to last for life and just over half (51%) expect what they save to last 10 years or less.

This mismatch between what they want and what they expect is not driven by particularly unrealistic expectations of retirement. When asked to say when they thought they would retire, naturally retirement age clusters at 60 and 65 or is anchored to SPA. Just 4% expect to retire at 55 (the age at which many DC pots are accessed). Very few, just 7%, expect to work past 70.

Our respondents clearly valued their DC pensions, but six in ten would not pay into a pension if there were no employer contributions

89% of our sample were currently contributing to a DC pension, 11% had a DC pension but were not currently contributing. Furthermore, the majority (58%) of those in our survey who are not contributing to a pension right now fully intend to do so in the future. The comments left by respondents in our survey demonstrate that people fully understand the importance of DC pensions to their financial well-being in retirement.

“It's saving for later life which is essential”
Female 25-34

“It's important so I can have a quality of life when I retire”
Male 45-54

“It's a lot but I know it will be worth it come retirement”
Male 22-34

Employer contributions are key to the attractiveness of workplace pensions. Six in ten of our respondents agreed that it is better for self-employed people to put their money in other types of savings as they do not get any contributions from an employer. Again, six in ten agreed it would not be worth saving into a pension if employers did not make any contributions.

I think it is reasonable, but my employer pays in too, so that is comforting to know

Male 35-44

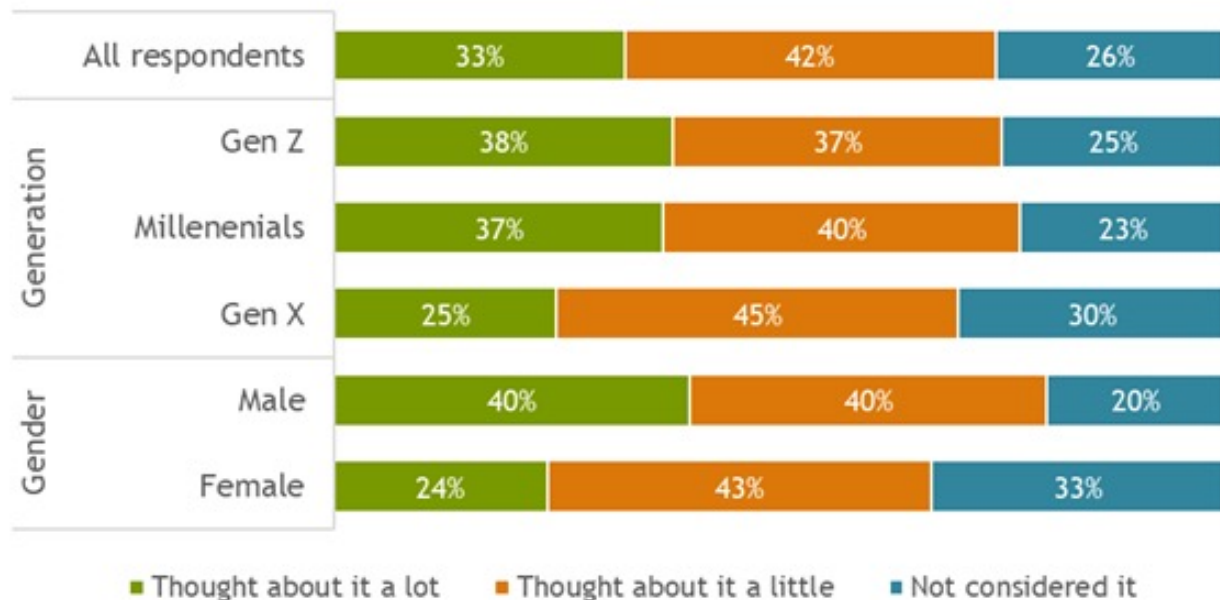
Two-thirds of savers have not thought much about how much they need to save each year to maintain a reasonable standard of living

A whopping 67% of pension savers have thought a little or not at all about how much they should be paying into their DC pension each year to maintain a reasonable standard of living.

Almost three-quarters (74%) of savers agree or strongly agree that the main purpose of a DC pension is to provide an income for life when they retire, rather than a top-up or just another form of savings. Yet only one in five (23%) expect their DC pension to last for life and just over half (51%) expect what they save to last 10 years or less.

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Figure 1: How much thought savers have given to saving for a reasonable standard of living



Base: All DC pension members aged 22-55 (2,069)

AD3 - Have you ever thought about how much you should be paying into your defined contribution pension each year to maintain a reasonable standard of living when you come to retire?

Those furthest from retirement have given it the most thought, and Gen Z is leading the pack, with 38% saying they have thought about it a lot. The lack of interest shown by Gen X is worrying, particularly as they are likely to be in a stronger position to increase contributions once their mortgage is paid, kids have grown-up and they have reached their peak earnings potential.

Women are more likely than men to be putting their heads in the sand; 24% of women have thought about how much they will need a lot, compared to 40% of men, and this is partially because part-time workers pay less attention than full-time workers.

Pension savers working in semi-routine manual and service occupations such as postal workers or machine operatives are the least likely to have thought too deeply about adequacy levels (26%), contrasted against senior managers or administrators where almost half (46%) have considered this. Similarly, those with higher levels of qualifications are slightly more likely to have thought about the level of contributions needed, but even amongst those with degrees one in five (20%) have not thought about it all, and a third (35%) have only thought about it a little. This contrasts with those with O levels/GCSEs where the figures are 34% and 38% respectively.

7.4 million pay the minimum employee contributions required by law, and 6 million pension savers are on the minimum rate for both employer and employee contributions

57% of all DC savers report that they are paying in the 4% minimum contribution set by the government. Employees are more likely to be paying the minimum than the self-employed (noting that, overall, take-up rates of DC pensions are much lower amongst the self-employed). There is no material difference by type of occupation so, for example, senior managers and administrators in DC pensions are just as likely to be paying the minimum as routine manual and service occupations such as HGV drivers.

Data from our survey suggest that 6.03 million employees are currently paying in the minimum themselves and receiving minimum contributions from their employer.

Table x: Level of employee and employer contributions

	Employee pays the minimum	Employee pays more than the minimum	Employee doesn't know how much they pay
Employer pays the minimum	50%	14%	2%
Employer pays more than the minimum	6%	18%	1%
Employee doesn't know how much their employer pays	2%	1%	5%
Base: All DC employees who are making an employee contribution to their workplace pension (1,912)			

Employers are also anchored on to minimum contributions of 3%

We asked employees to say how much their employer was paying into their pension. One in ten had no idea. The vast majority (65%) reported that their employer was paying the minimum of 3%. This equates to 8.04 million DC pension savers.

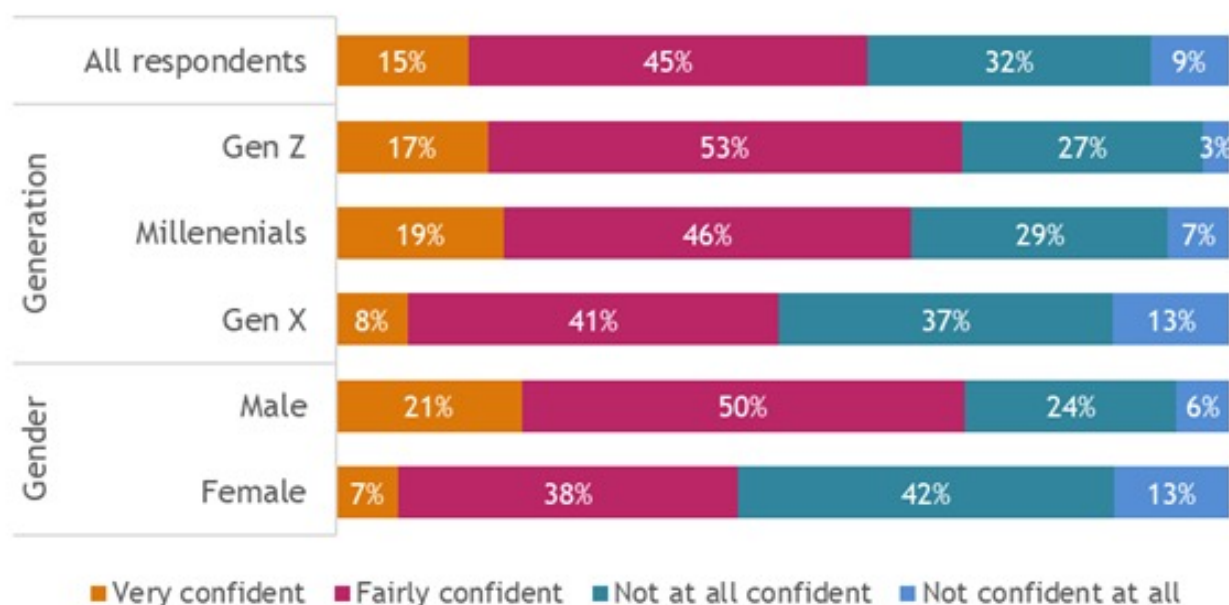
From this data, it would appear that employers are also firmly anchored onto the minimum, which has been set at levels way below the average DB contribution.

Looking at this data in more detail: -

- Women are slightly less likely to be on minimum contribution levels (employee and employer) than men (45% of women compared to 52% of men)
- Single people are less likely to be on minimum contribution levels than couples (42% compared to 15%)
- No difference between full-time and part-time employees
- No difference by occupation
- No correlation between minimum contribution levels and education levels – so being better educated does not mean that pension savers will pay above the legal minimum

Ignorance is bliss

At the start of the survey, prior to seeing any information on retirement living standards, 59% of our respondents reported that they are confident that the household income they will receive in retirement would give them the standard of living they were hoping for. Gen Z is the most confident about their future, with seven in ten (70%) saying they are confident their income will be enough. For Gen X, the reality is starting to hit and just 49% feel this way.



Base: All DC pension members aged 22-55 (2,069)

AD4 - How confident are you that the household income you will have in retirement will give you the standard of living you hope for?

But again, this overall number masks some worrying patterns.

The gender pension gap is obvious here, with 79% of men feeling confident about their future, compared to just 45% of women. Pension savers who are in a couple are more confident they will hit their income target than singles (64% compared to 47%). This is despite almost half (48%) of couples not knowing how much their partner's pension is.

Yet this confidence has very little basis. Looking at those who said they have only thought a little about how much they should be paying six in ten (63%) also reported that they felt confident about the level of income they will have in retirement. The number who feel confident drops for those who have not thought about how much to pay in at all, but still represents a quarter (26%) of those respondents.

Furthermore, six in ten (62%) of those who receive minimum contributions (4% employee, 3% employer, and 1% tax relief) are confident they will have enough retirement income for the standard of living they hope for.

Four in ten pension savers think that the minimum contribution rates have been designed to deliver a good outcome in retirement

The high proportion of savers paying minimum contributions only is concerning, but the big question is whether they are doing this out of ignorance – because they believe the rates set by the government are enough – or whether they know they should pay more but have a barrier in place which prevents this (e.g., affordability, low awareness of the rules, low awareness of how to make this happen).

Our survey indicates that a substantial proportion of pension savers believe that current contributions are enough. Four in ten (38%) agreed with the statement “the contribution rates have been set by the government which means that the amount I’m saving will be enough for my retirement”. This proportion rises to half of Gen Z savers. Half (47%) of those currently receiving minimum employer and employee contributions agreed with this statement.

“I think as long as I pay the required amount on time, there will be enough money for retirement”

Male 35-44

This suggests that many are simply following the path of least resistance because default effects. But if the default has not been set at a sufficient rate, this will lead to poor outcomes for savers.

Many savers wrongly believe that minimum AE contributions will deliver a moderate or comfortable lifestyle

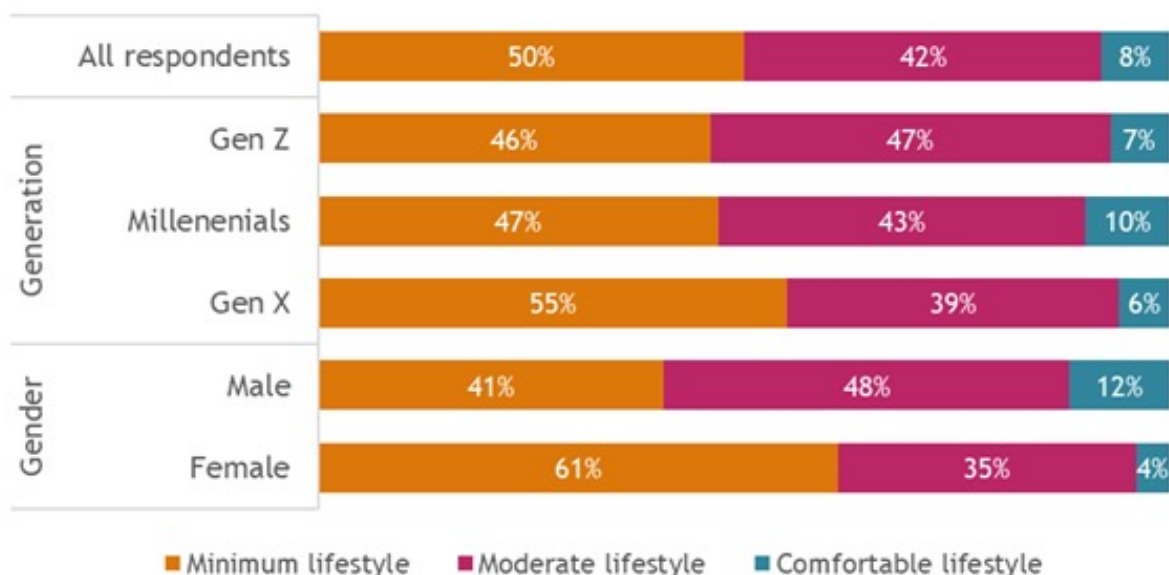
We asked our respondents to look at the PLSA's Retirement Income Standards (see Figure X) and to say what lifestyle they would expect for someone receiving basic state pension and a DC pension where minimum contributions had been paid.

Figure X: PLSA's Retirement Living Standards

	Minimum	Moderate	Comfortable
WHAT STANDARD OF LIVING COULD YOU HAVE?	Covers all your needs, with some left over for fun	More financial security and flexibility	More financial freedom and some luxuries
 HOUSE	DIY maintenance and decorating one room a year.	Some help with maintenance and decorating each year.	Replace kitchen and bathroom every 10/15 years.
 FOOD & DRINK	A £41 weekly food shop.	A £47 weekly food shop.	A £59 weekly food shop.
 TRANSPORT	No car.	3-year old car replaced every 10 years.	2-year old car replaced every five years.
 HOLIDAYS & LEISURE	A week and a long weekend in the UK every year.	2 weeks in Europe and a long weekend in the UK every year.	3 weeks in Europe every year.
 CLOTHING & PERSONAL	£410 for clothing and footwear each year.	£730 for clothing and footwear each year.	£1,200 for clothing and footwear each year.
 HELPING OTHERS	£10 for each birthday present.	£30 for each birthday present.	£50 for each birthday present.

Half (50%) mistakenly felt that this would deliver a moderate or comfortable lifestyle.

Figure 4: Perceptions of the lifestyle minimum AE rates will deliver



Base: All DC pension members aged 22-55 (2,069)

AD5a - Which lifestyle do you think the current pension contribution levels set by the Government (3% for employees + 4% for employers + 1% in tax relief from the Government) will deliver?

Looking at the data in more detail:

- Men are more likely to over-estimate what AE will deliver than women (60% of men said moderate or comfortable compared to 39% of women)
- 61% of senior managers or administrators felt it would be enough to deliver a moderate or comfortable lifestyle, compared to just 30% of routine manual and service occupations such as HGV or van drivers
- 52% of those on minimum employer and employee contributions thought they would have a moderate or comfortable lifestyle

Respondents in our survey are not saving elsewhere

This picture of minimum contribution levels for vast swathes of the DC membership base would be less concerning if they were paying the minimum into pensions and saving elsewhere. However, two-thirds (64%) of respondents in our survey currently have savings of less than £10,000. This does not vary much by generation; 70% of Gen Z, 66% of Millennials, and 59% of Gen X have less than £10,000 in savings.

Property is not seen as their 'get out of jail free card' for most - as just 25% expect to downsize or release equity from their primary residence). There is material difference by generation, although Gen Z are slightly more optimistic about having a second property by the time they get to retirement (11% thought this would be an income source in retirement compared to 6% of Millennials and Gen X).

The State Pension is the bedrock of pension provision, but just over a quarter don't trust that they will receive it

AE contribution rates were never designed in isolation. Policy assumptions then and now have the state pension as the bedrock of provision, with DC pension provision providing second-tier support. Yet just over a quarter (27%) of respondents in our survey did not think state pension would form part of their income in retirement. For Gen Z, this increases to four in ten (41%).

Despite all the publicity surrounding the WASPIs, women are much more confident about getting a state pension than men (78% said this would form part of their income compared to 69% for men). Self-employed are also much more cynical (or aware that will not have a sufficient NI record) than their employed counterparts; here the numbers expecting a state pension are 52% and 74% respectively.

Could retirement income targets help savers plan for retirement?

Key findings

- Six in ten could not make a reasonable estimate of the income needed for a basic, moderate, or comfortable lifestyle.
- Respondents were worse at guessing how much couples need versus the amount needed for singles – and yet the majority of our respondents (73%) reported they were in a couple.
- Savers are more likely to under-estimate the income needed than to overestimate.
- 95% think the PLSA Retirement Living Standards are useful to help them plan for retirement.

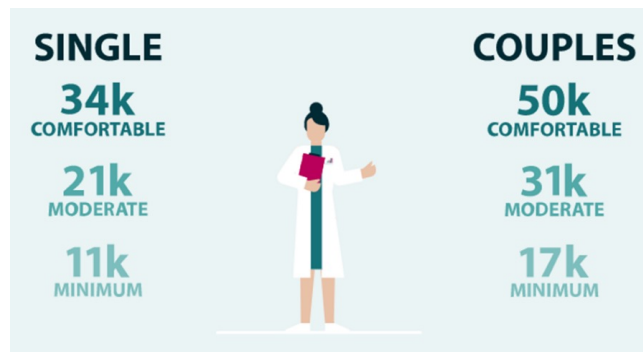
Six in ten could not make a reasonable estimate of the income needed for a basic, moderate, and comfortable lifestyle

We saw that initial confidence that they are 'on target' was high amongst our respondents, with 59% saying they are confident that they will have the standard of living they hope for in retirement. This is despite most having given it very little or no thought.

To bring the money needed into sharp focus, we showed them descriptions of the PLSA's Retirement Living Standards (see Figure x) and asked them to say which one they felt they were on track for. Most (53%) thought they would be comfortable, a third (33%) thought they would have the minimum, and just 14% saw a comfortable retirement on the horizon.

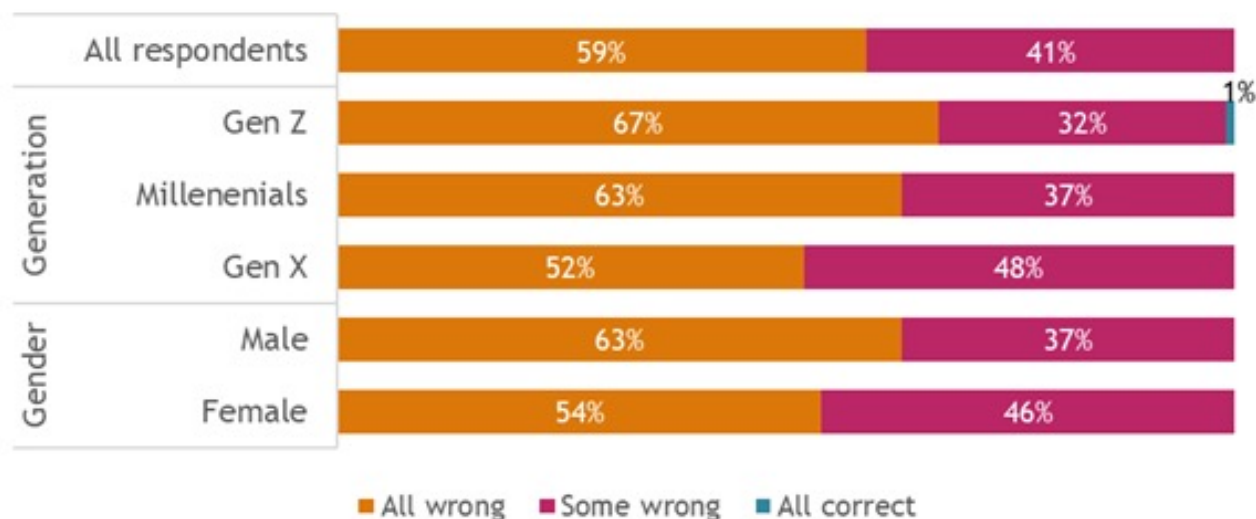
Yet when asked to say how much annual income is needed to deliver each of these living standards, as shown in Figure X below, very few were able to have a reasonable guess at the right amounts. Six in ten (59%) were incorrect for all three, and just one person (a Gen Z woman) in our survey of 2,069 respondents got all three right.

Figure X: PLSA estimates of the income needed for each Retirement Living Standard



Gen Z was by far the worst at this exercise, with nearly seven in ten (67%) giving incorrect answers. Men were much more likely than women to be wrong on all counts (63% compared to 54%). Most were under-estimating the income needed, often by many thousands of pounds.

Figure 6: Proportion who could correctly estimate the income needed to deliver the PLSA's Retirement Income Living Standards



Base: All DC pension members aged 22-55 (2,069)

AD6- How much annual income you think a single person and a couple would need to have to be able to afford this lifestyle today?

Note: A range of £5,000 for each Retirement Living Standard was set to allow for some margin of error, respondents were 'incorrect' if they estimated an income level outside this range.

This exercise paints a damning picture of over-confidence amongst savers. Nearly seven in ten (67%) of those who said that they had thought a lot about how much they would need were incorrect on all counts, much worse than those who had not thought about it at all (54%). Furthermore, 72% of those who were very confident they will have the standard of living they hope for in retirement gave incorrect answers across the board.

Higher education levels are not correlated with a better ability to estimate the levels of income needed

Our data also shows that educational attainment has no bearing on savers' ability to correctly estimate the income levels required, as there was no statistical difference in the proportion providing incorrect answers to all by qualification level.

But perhaps counterintuitively, routine manual and service workers and middle and junior managers had a better idea than senior managers or administrators (63% of senior managers and administrators got them all wrong, compared to 51% of manual and service workers such as HGV or van drivers).

Retirement Living Targets changed perceptions of the adequacy of their pension savings for one in three savers

We showed our survey respondents the PLSA's estimates of the amount needed to be saved to deliver each living standard (see Figure x).¹

Figure X: PLSA's estimate of the amount of savings needed to deliver each Retirement Living Standard

	Minimum	Moderate	Comfortable
Single person	£30,000	£270,000	£590,000
Couple	£0 (State Pension covers the minimum)	£135,000 Per person	£370,000 Per person

We then asked them to revisit how confident they felt that the household income they will have in retirement will give them the standard of living they hoped for. Seeing this information did make a difference for many.

Overall, one in three (34%) changed their perception of the adequacy of their pension savings. A small proportion became more confident they were on track, but most had a wake-up call that they may need to do more.

As a younger person I hadn't given this much thought, I am shocked to see how much money I'd need to have saved in order to maintain a decent lifestyle

Male 25-34

It's very interesting to see the amounts needed to provide for my retirement. The single-person minimum is much lower than I expected while the moderate is slightly higher than expected. It gives me an idea of how much I will need to save

Male 45-54

¹ The PLSA have used a flat rate annuity as the basis for their decumulation assumption. We think this understates the amount required to provide the income levels in question but do not feel that this detracts from the integrity of the study.

95% agreed that the PLSA's Retirement Living Standards are useful to help them plan for retirement

Perhaps not surprisingly then, across all generations, 95% agreed that the PLSA's Retirement Living Standards are useful to help them plan for retirement.

The power of this type of information was clear to see in many of the comments left by the respondents to our survey.

“Wow. Did not know this. Very insightful and way more than I had expected”

Female 25-34

“More in-depth and clear than anything I've come across before”

Female 35-44

“It has made me realise that I need to start saving more towards my pension”

Female 35-44

Are changes needed to auto-enrolment contribution rates to provide an adequate level of pension savings for retirement?

Key findings

- 43% of all savers had simply not thought about paying more into their pension.
- Half did not know they were allowed to pay in more than the minimum.
- Affordability is an issue – 70% of savers currently have low financial resilience.
- Four in ten (43%) said that if contribution rates were higher than they are right now they would have to stop paying into their pension.
- Rates at which contributions are set are very important as savers strongly anchor onto this – 40% would pay.

43% of pension savers had simply not thought about paying more into their pension

Almost half (43%) of all savers agreed that it had simply not occurred to them to pay more into their pension. Gen Z was most likely to report this (53%), closely followed by Millennials (46%). Even amongst our oldest generation, Gen X, a third (36%) had never considered this as an option.

Inertia is a powerful behavioural driver, and this certainly came through in some of the open-ended comments in our survey. Many of our respondents expressed regret that they had simply not been paying enough attention to their pension.

I feel I don't control it enough

Male 25-34

I wish I knew more about my pension

Female 35-44

I don't think I'm saving enough but I struggle to understand what enough is

Female 22-24

Whilst this is a startling finding, it is not all bad news. On the flip side, it would appear that a substantial proportion either consciously or subconsciously know that current rates are not enough.

It is a percentage that automatically gets taken so I don't notice it. I would like to contribute more but never felt strongly enough

Female 22-34

Half of all savers did not know they were allowed to pay in more than the minimum

Yet there are several barriers facing those who intuitively know they are not paying enough. Firstly, it is not clear to many how they would go about doing this. Almost half (46%) said they had thought about paying more into a pension but didn't know how to do this, rising to six (58%) in ten for Gen Z.

The same proportion (46%) said that they didn't know they were allowed to pay in more than the contribution levels set by the government, rising to six in ten (61%) for Gen Z.

It is clear from these statistics that more could be done by providers to help savers understand the options open to them.

It's not enough. I need to pay in more but it's hard to contact my pension provider to arrange it. It's not enough to live on when I retire

Female 35-44

Affordability is an issue - 70% of pension savers currently report low levels of financial resilience

But there is no doubt that pension savers are struggling with their day-to-day living expenses and are worried about the rising cost of living. Our respondents commonly left comments in the survey expressing their desire to pay more in but saying that they are struggling to meet their existing financial commitments.

I feel I will have enough to get by with when I retire with my current contributions. However, I would like to be putting more away so that I can enjoy my later years of my life rather than simply 'get by'. I just struggle to do this financially at the moment

Female 22-34

Indeed, our data shows that 70% of savers would not be considered financially resilient using questions based on the FCA's Financial Lives definition².

- 15% have fallen behind on, or missed, at least three payments for credit commitments (e.g., credit cards or loans) or domestic bills (e.g., utility bills, rent, mortgage) in the last six months;
- 15% are constantly overdrawn by the time they are paid;
- a £50 increase in monthly spending (for example, due to a rent or mortgage increase) would be a struggle to meet for one in five (21%);
- 29% could cope for a week or less without having to borrow or ask for help from friends and family if their household lost its main income.

These statistics suggest that pension savers, particularly Gen Z, would struggle to pay more into their pension and that raising employee contribution rates could tip some into serious financial difficulties.

² <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>

Against a backdrop of rising energy prices and inflation, 43% felt that they would need to opt-out if employee contribution rates were set any higher

We have seen that people value pensions and are aware of the need to save for their future. But almost half (43%) of our respondents said that they could not afford to pay in more than they do right now. Again, this was felt particularly strongly amongst the younger savers suggesting that a blanket increase in employee contribution rates would not be an ideal strategy.

Interestingly, just 38% of women agreed they would need to opt-out, significantly lower than the 47% of men who felt this way. Singles were also less likely to opt-out; 37% said they would do this compared to 45% of those in a couple.

It is clear from these statistics that more could be done by providers to help savers understand the options open to them.

Despite current financial hardships, most do not favour reducing minimum contributions

Overall, six in ten (62%) agreed that if minimum contribution levels for employees were set lower than they are right now, they would not reduce payments to the minimum.

However, that still means that four in ten (38%) would take this action if they could. Our youngest savers are significantly more in favor of this than Gen X. Perhaps recognizing the disadvantages, they already face, women are less likely than men to agree with this statement (31% of women agreed compared to 44% of men).

Even amongst those with low financial resilience, only 45% agreed they would take this action; 31% disagreed and 24% were unsure.

This data tells us two things. Firstly, savers anchor very strongly to the minimum contributions set by the government. Secondly, savers value pensions, particularly employer contributions, and will try to make minimum contributions if they possibly can.

² <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf>

How do pension savers think outcomes can be improved?

Key Findings

- Pension savers will need a stronger nudge to voluntarily pay more in – better communications are needed.
- Increasing employee contributions is a blunt tool and our respondents would prefer some flexibility, particularly as rising fuel costs are starting to bite.
- 64% agreed that the government should automatically increase employee pension contribution rates as you get older; 78% agreed this should be an option.
- Strong support for a Save More for Tomorrow type scheme. 88% are interested and 77% thought it should be compulsory for all schemes to offer.
- No clear steer from our respondents on the way forward; fairly equal numbers preferred more communications to increasing contribution rates.
- Savers want to see employers' shoulder some of any contribution increase.

Pension savers will need a stronger nudge to voluntarily pay more in – better communications are needed

It appears from our data that current communications are not getting through to a significant part of the DC membership base. Our respondents felt shocked by what they found out from the survey and felt strongly that more should be done to alert them to the situation they are facing.

I had always thought that by making the minimum contribution to my pension I would be able to retire comfortably, and it seems that this is actually not the case. So, I think the government need to tell people this

Female 22-34

They currently do not say this will not be adequate enough for most people and this is wrong

Female 25-34

They should be honest and upfront about the situation so that people can plan and prepare. It is the responsible thing to communicate the truth clearly

Female 45-54

Increasing employee contributions is a blunt tool and savers would prefer some flexibility, particularly as rising fuel costs and inflation are starting to bite

At the moment, the system is a binary 'one-size-fits-all' approach. Pension savers who want employer contributions have to pay in the minimum; if they cannot do this, they get nothing from their employer. Yet this approach may be detrimental to the least well-off in society.

For example, a third of pension savers are behind on, or missed, at least three payments for credit commitments (e.g. credit cards or loans) or domestic bills (e.g. utility bills, rent, mortgage) in the last six months. This equates to 1.9 million people, 68% of whom would have to stop paying in altogether if rates were any higher and therefore lose the opportunity to add 3% a year to their pension.

Seven in ten (70%) in this situation would appreciate the option of continuing to pay the same as they do today in the event of any increase to the minimum to maintain their employer contributions.

“Not everyone can afford to pay more than they are paying, and forcing them to will just put them in more difficulty now, especially with cost-of-living increases and the upcoming national insurance rise”

Female 34-44

“People are struggling enough. More tax on them is wrong”

Male 25-34

“It’s easy to say people should pay more and try to force them to but most people are choosing between heating and eating. It’s not that simple”

Female 34-44

This more flexible approach to increasing contributions resonates well with most. Overall, 59% said that if minimum contribution levels for employees were increased but there was an option to still pay the same as now, they would do that.

Two thirds would like the ‘system’ to make it easy for them to pay more as they get older

64% of pension savers agreed that the government should automatically increase employee contribution rates as they get older. This was felt particularly strongly by Gen Z and Millennials, where nearly seven in ten would like to see this happen. Similarly, seven in ten of those currently on minimum employee and employer contributions would want to see these increase as they age.

“It’s hard to see pension contributions as a priority. So, making it mandatory is probably realistically the only way to make it a difference”

Female 22-34

Agreement with an age-related contribution structure increases to almost eight in ten (78%) if they could choose an option to automatically increase contribution rates as they get older, rather than having the government foist this upon them.

“Contribution levels are far too low and should be gradually increased on an escalator”

Male 35-44

I think contributions need to increase otherwise we are going to have generations that won't be able to retire

Male 35-44

We found strong support for a Save More for Tomorrow type scheme. 88% are interested and 77% thought this should be compulsory, not optional, for each scheme to decide whether to offer or not.

No clear winner on whether more help or guidance is needed or whether contribution rates should be increased

We asked our respondents to select the option which they thought is most likely to help people save for retirement. Our data shows that there is no clear winner, reflecting the tricky choices and fine balancing act facing policymakers:

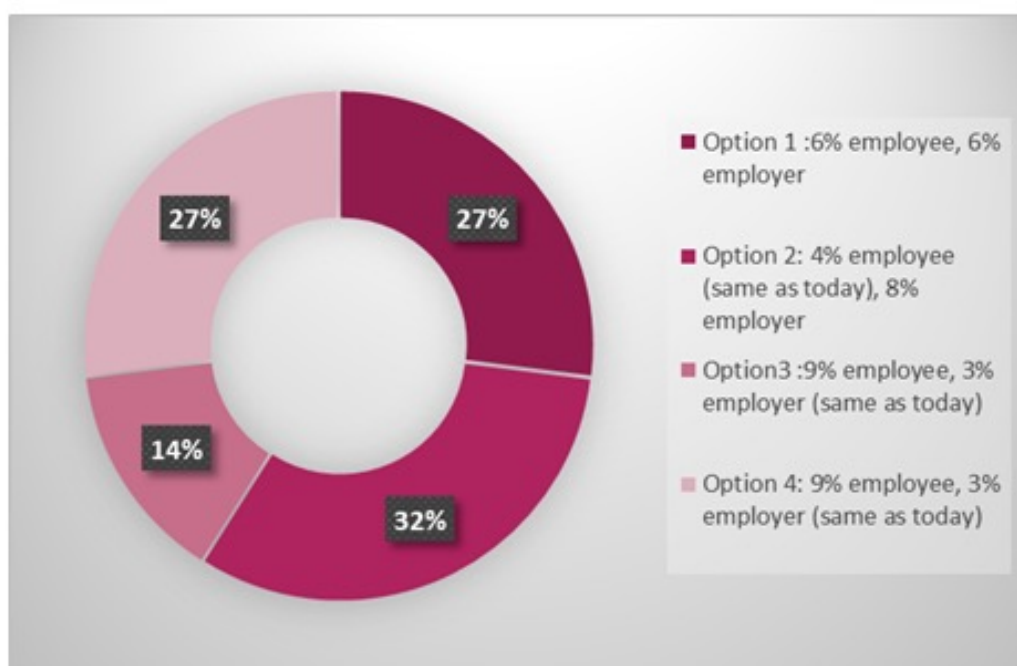
- 24% said the best option of those tested was that the government should make it clear that current contribution levels are not sufficient, and that people should pay more in if they can
- 18% said the contribution levels should stay as they are, but people should be given more help and guidance to see whether they are on track
- 23% said the government should increase the minimum contributions for employers to provide a sufficient level of savings
- 18% said the government should increase the minimum contributions for employees and employers to provide a sufficient level of saving
- 16% said the government should increase the minimum contributions for employees to provide a sufficient level of savings

No clear winner on the policy options for increasing contributions to 12%

There is mounting pressure to increase contributions to 12%. The PLSA has announced this as a key policy target for 2022. To test savers' preferences for how this might be delivered, we presented 4 options, shown in Figure X below, and asked them to pick their favourite. To ensure they were aware of the consequences of their choices, we explained that Increasing employer contributions too much could have an impact on future wage increases, growth, and employment and that increasing employee contributions too much may not be affordable and may result in more people opting out of pensions altogether.

Option 1	Option 2	Option 3	Option 4
6% employee	4% employee	9% employee	5% employee
6% employer	8% employer	3% employer	7% employer

Figure 9: Members' favoured approach to increasing contributions to 12%



Base: All DC pension members aged 22-55 (2,069)

AD10 - Thinking about these issues, which of the following would be the best approach in your view?

Not surprisingly, almost nine in ten (86%) did not favour Option 3, where the burden falls disproportionately on the employee. Yet two-thirds of pension savers would not like to see the burden fall wholly on employers either (Option 2).

“Currently in a difficult economic environment, employees are likely to need job stability now over anything else”

Male 25-34

“Employers already have a lower minimum contribution than employees do. Many people on a low wage making these minimum workplace pension contributions would struggle a lot more to pay in more than the big businesses employing them would”

Female 25-34

Respondents did pick up on the fact that employers were currently paying less than them. A match could be an incentive for them to save more and would certainly appeal to their sense of fairness.

I'd be more inclined to pay in more if I knew my employer was paying in more

Female 35-44

Employees are taxed enough. Companies can use tax write-offs

Male 35-44

If the amount for employees to pay into their pension is increased then it is only right that employers also pay more

Male 45-54

The company I work for makes £100 million in profit, yet the workers get nothing

Male 35-44

I think it is between employers and employees to do this but if employers were able to match contributions this would help people greatly

Female 25-34

It is easier for employers, especially given the tax/NI savings to contribute more

Male 35-44

Furthermore, men, in particular, mentioned that employer's benefit from incentives that can help to ease the burden.



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