






## Auto-enrolment; making it work

<p>Adrian Boulding Pensions Strategy Director</p> 	 <p>Effects on the wider pensions market going forward</p> <p>30<sup>th</sup> November 2010 TISA Auto-enrolment Seminar</p>
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<h3>More savers</h3>	
<ul style="list-style-type: none"><li>• Auto-enrolment will boost membership levels<ul style="list-style-type: none"><li>– Largest effect on<ul style="list-style-type: none"><li>▪ Low earners</li><li>▪ Minority ethnic groups</li><li>▪ Women</li></ul></li><li>– Impact on society and insurance companies</li></ul></li><li>• Another 7 million people will start saving in a pension<ul style="list-style-type: none"><li>– ½ m into a brand new scheme</li><li>– 2 ½ m into existing pension schemes</li><li>– 4m into NEST</li></ul></li></ul>	



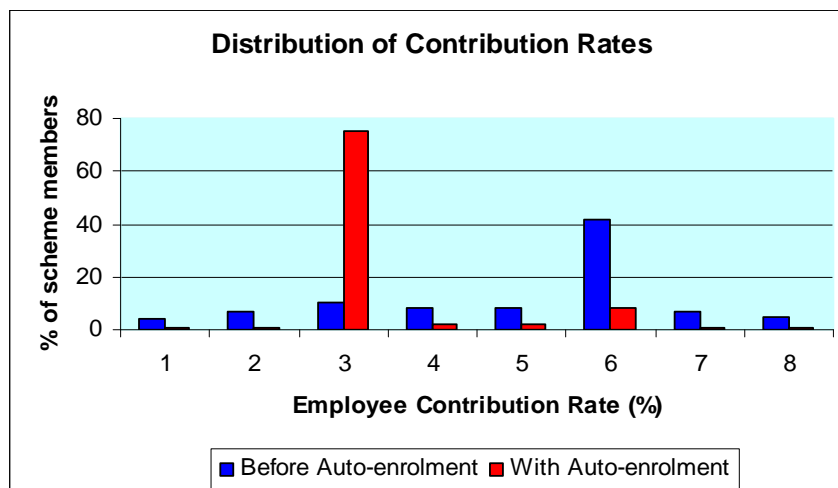
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## But less savings ?



- Employers may reduce pension contributions to offset the cost of having to pay for more members
- Currently we can only guess their intentions
- Or ask them in surveys :
  - DWP (2006) .....3% of employers will level down
  - Gissings (2008)....21% of employers will level down
  - ACA (2010).....41% of employers will level down

## Levelling down by stealth




Source : Madrian & Shea - The Power of Suggestion



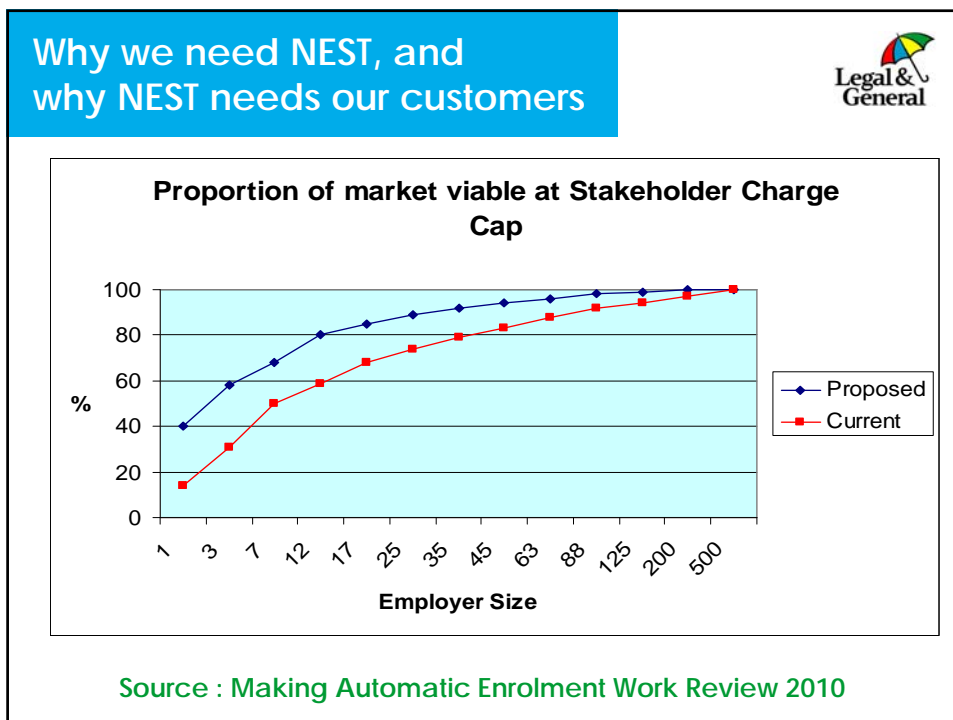
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**The Opportunity - Employers**



Employer Size	No current pension scheme	Reviewing their existing pension scheme
250+ lives	2,700	6,000
50 – 250 lives	16,000	17,000
5 – 50 lives	325,000	145,000
1 – 5 lives	750,000	50,000

Source : Making Automatic Enrolment Work Review 2010

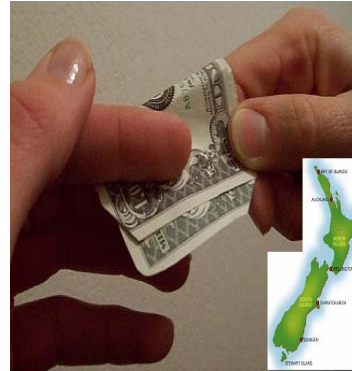


## Auto-enrolment; making it work

### Lessons from New Zealand



- Government Prediction
  - 55% to 80% take up, with a 75% central estimate
- NAPF Survey of actual schemes
  - Auto-enrolment 89% take up
  - Voluntary joining 42% take up
- L&G Survey of General Public
  - 54% will stay in
  - 46% will opt out
- New Zealand Kiwi-Saver 63% take up



*Auto-enrolment will hasten the launch of early access to pension money*

### We must face the demons of means testing

- Saving can reduce your means tested benefits in retirement
- You might get back less than you put in
- “The low paid are more in need of advice than the high paid”
- “Auto-enrolment will be mis-selling”
- “Auto-enrolment may lead to litigation warns Altmann”
  - FT Adviser, August 16<sup>th</sup>, 2010



## Auto-enrolment; making it work

### Is it worth saving ?



- We could consider
  - The medieval test of saving



- The Pint of Beer Test



### Payback – the economics of means testing

- Pension contributions under auto-enrolment
  - Employee..... £1
  - Employer..... £0.75
  - Tax Relief .....£0.25
  - TOTAL .....£2
- DWP's Pensim2 simulation model shows that in retirement
  - 99% will be better off by saving
  - 95% will get a payback over £1 plus inflation
  - 80% will get a payback £1.75 plus inflation
  - 70% will get back twice what they put in plus inflation
- Older workers are more likely to see low payback
  - But still 93% get back over £1 plus inflation





## Auto-enrolment; making it work

### Employers are having to think



- How do we get value from compulsory pension contributions ?
- Should we pay more than the minimum ?
  - How do we target those that will appreciate better pensions
- What about high earners ?
- Do employees want pension savings or just savings ?



### Pensions are more tax advantaged than ISAs

- Pension contribution required to match a £1 in an ISA

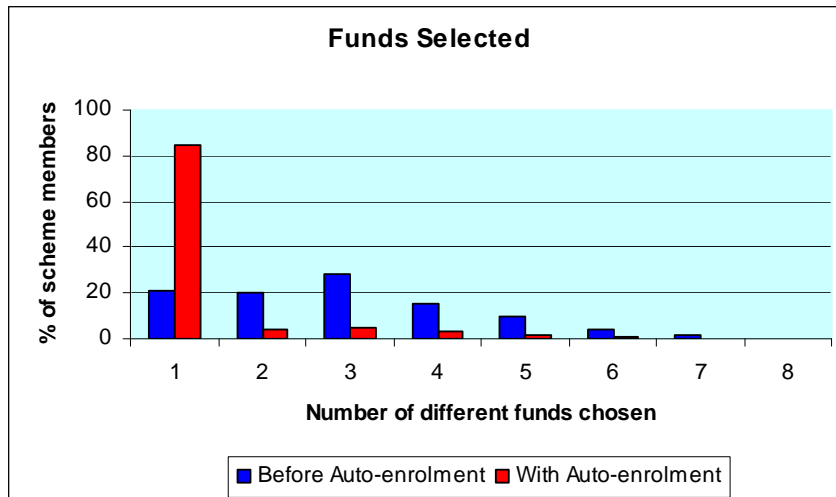
Tax Status in Work	Tax Status in Retirement	Pension contribution to match £1 in an ISA
Basic Rate	Basic Rate	94p
Higher Rate	Basic Rate	71p
Working Tax Credit	Pension Credit	59p

Source : IFS figures quoted in Making Auto-enrolment Work Review



## Auto-enrolment; making it work

### We must break the curse of the default fund



### NEST will be big !



- NEST's Annual Contributions are forecast :
  - 2013 : £100m
  - 2014 : £300m
  - 2015 : £500m
  - 2016 : £1.5bn
  - 2017 : £2.4bn
- Over a lifetime, NEST will grow to
  - Over £100bn in today's money



## Auto-enrolment; making it work

### Group SIPP – future is here now



- Wide choice of funds
- Employees engaged in the process of choosing their investments
- Able to avoid the herd
- Knowing enough about their investments
  - To pick ones that are suitable for them
  - To sell ones that no longer fit their criteria
- Discovering that pensions are interesting and exciting



Adrian Boulding  
Pensions Strategy Director



Effects on the  
wider  
pensions  
market going  
forward

30<sup>th</sup> November 2010  
TISA Auto-enrolment  
Seminar