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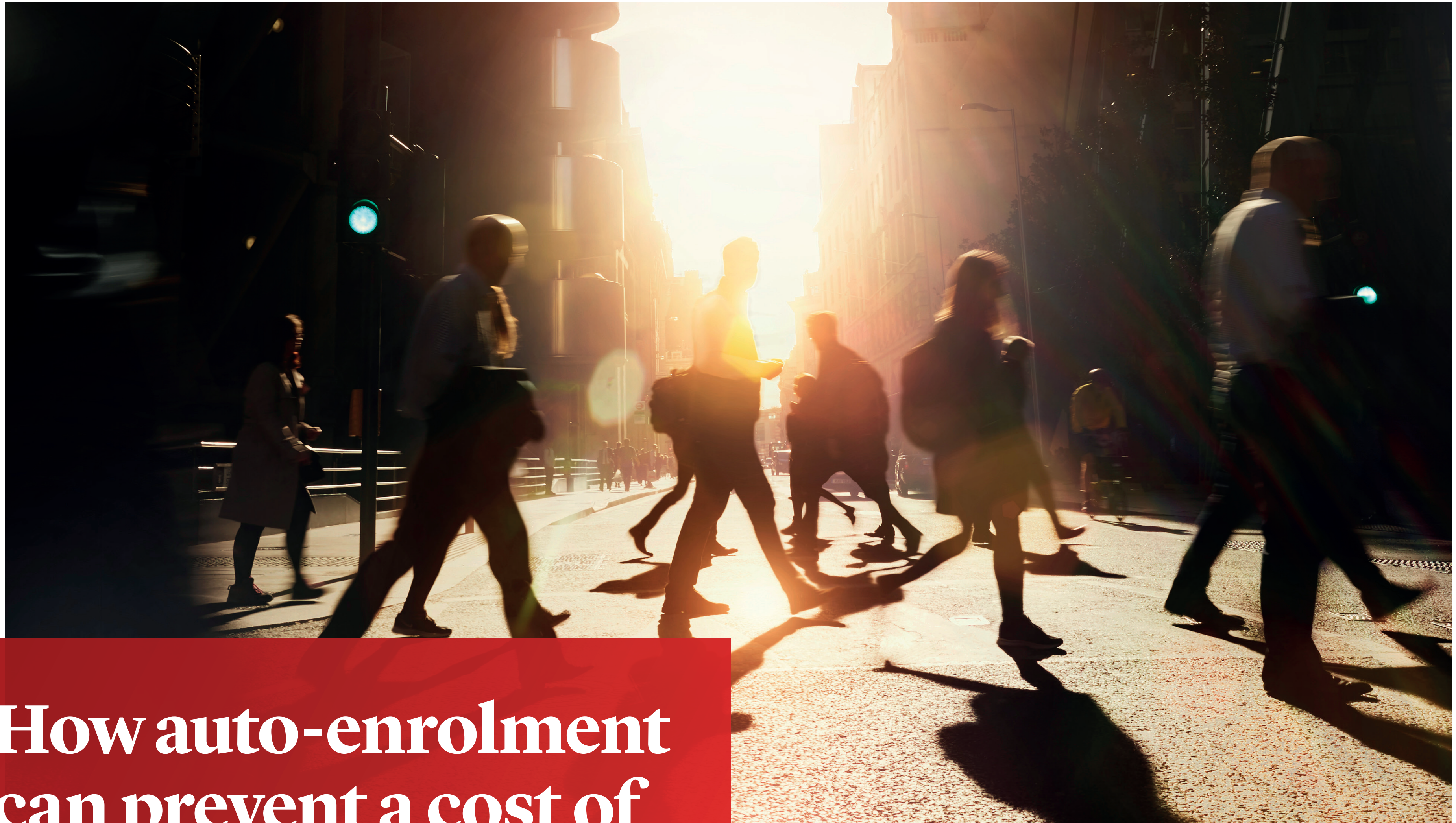


How auto-enrolment can prevent a cost of retirement crisis

The long shadow of today's income squeeze

LGIM

Contents

Introduction

October 2022 will mark 10 years since auto-enrolment (AE) was first launched. This huge milestone presents an opportunity to reflect on the successes of AE, while also considering the areas where more could be done to better support the individuals that are slipping through the net.

As of June 2022, 10.7 million employees have been automatically enrolled and 974,000 automatically re-enrolled, having opted out of a pension previously[1].

With the rising rates of inflation and the continued cost-of-living crisis we have all witnessed in the first half of this year, there has been no evidence that opt-out rates have increased, which is a huge positive[2].

However, our latest piece of research uncovers the groups that seem to be slipping through the AE net and looks at what might help these employees to get a fairer deal when it comes to employer contributions. It also uncovers how the cost-of-living crisis is affecting pension savings, and who seems to be impacted the most.

In this report, we focus on three groups that our research identified as being among the most vulnerable: workers earning less than £10,000 a year, those aged under 22, and women.

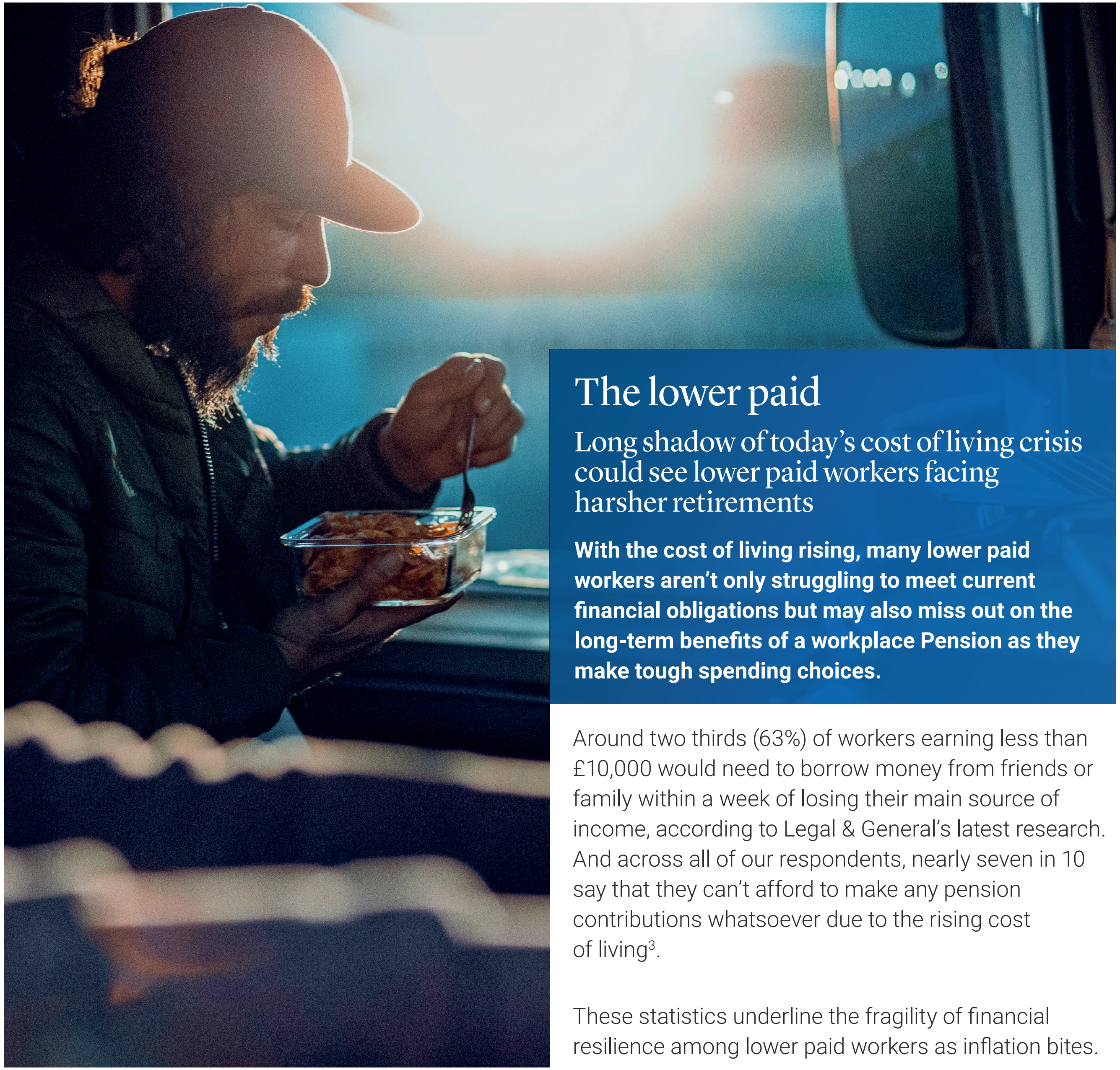
We've made recommendations after each section on what we believe might help the workers in that category and added our overall conclusions and calls to action at the end of the report.

How we did it

In June 2022 we performed quantitative and qualitative research through the use of a questionnaire and interviews. We interviewed 5,259 respondents across the UK, with groups split by gender, age and income.

Total number of respondents	5259		
Gender	Male 2464	Female 2774	Other 21
Workplace or self-employed?	Workplace 4445	Self-employed 866	

The ages of respondents varied between 16-84



The lower paid

Long shadow of today's cost of living crisis could see lower paid workers facing harsher retirements

With the cost of living rising, many lower paid workers aren't only struggling to meet current financial obligations but may also miss out on the long-term benefits of a workplace Pension as they make tough spending choices.

Around two thirds (63%) of workers earning less than £10,000 would need to borrow money from friends or family within a week of losing their main source of income, according to Legal & General's latest research. And across all of our respondents, nearly seven in 10 say that they can't afford to make any pension contributions whatsoever due to the rising cost of living[3].

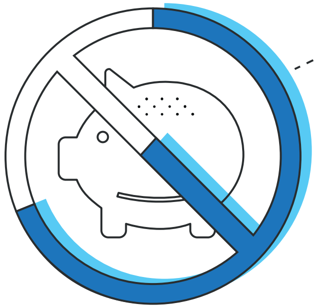
These statistics underline the fragility of financial resilience among lower paid workers as inflation bites.

And the pressures on today's household finances could have a very long reach as 69% of low earners not currently contributing to a workplace pension say it's because they can't afford to, even though well over half (59%) say they're worried about not saving for their retirement[4].

With auto-enrolment coming up for its 10th anniversary, there's a lot to celebrate about a programme that's done so much to help workers prepare for better retirements. But we also know that some sections of workers are falling through the cracks in pension provision. This could be the result of factors such as being below the current enrolment earning and age thresholds, or not knowing, or asking for, what they're entitled to.

However, we also wanted to find out if the cost of living was affecting the retirement-saving choices of those workers who are most likely to need financial support in their later years – the low paid.

What our research found is worrying and confirms our concerns that some people might be considering stepping away from making pension contributions based on short-term (if perfectly understandable) financial priorities without fully appreciating the long-term implications.



69%

of **low earners** say they **don't pay** into their **employer's pension scheme** because they **can't afford to**

The reality of rising living costs

Low-paid workers who earn less than £10,000 a year tend to be younger or in part-time, zero-hours contract or shift work. Women also feature disproportionately due to childcare responsibilities (55% of women earning less than £10,000 annually have children under 17).

When we looked at the financial resilience of low-paid workers, we found that the cost of living is bearing down hard on their limited resources:

- More than two-thirds (67%) told us that keeping up with bills and credit commitments is already a heavy burden with more than one in three (37%) having fallen behind, or missed, at least three payments in the last six months on credit cards, loans or domestic bills
- More than four in 10 (42%) say they're always overdrawn by the time they get paid
- A rent or mortgage increase of £50 a month would be a struggle to meet for well over half (59%)

Pension persuasion

Given how tight the finances are for the low paid, it's easy to see why a third (32%) of those who were given the opportunity to join their employer's pension scheme, decided to opt out. But what might make a difference to their thinking and encourage them to enrol and remain in a workplace scheme?

In our opinion, there are broadly three areas we need to address to better support the lower paid.

1. Education

The rules on eligibility aren't straightforward. Pension providers and regulators need to make sure that employers are aware of their precise obligations in offering scheme membership so they can confidently convey to their employees what they're entitled to. Our research showed that more than a third (31%) said their employer hadn't explained to them the eligibility rules for joining their workplace pension scheme.

More than a third (38%) of low-paid workers said they would have asked their employer to join a pension scheme if they'd been aware that they had the right to ask.

Of those lower paid workers who are not currently contributing into their workplace pension, more than half (55%) believe the amount they'd be saving would be so low that it wouldn't be worth it. This indicates to us that there's still a long way to go to ensure that people understand the mathematical basics of pensions, such as how compound interest works so that even small amounts can add up significantly over time, the importance of starting contributions as soon as possible, and the value of employer contributions.

We believe that a combination of better school-based financial education would help, although we also appreciate that the government, regulators and the financial services industry need to work together on promoting pension benefits more clearly.

2. Filling in the cracks of auto-enrolment

The government's 2017 review of auto-enrolment recommended lowering the age threshold from 22 to 18 and removing the lower limit of qualifying earnings. Our research showed that this would play out well as 70% of lower paid employees agreed with lowering the age threshold, while 41% of those not currently contributing said they'd join their workplace pension if their employer's contributions were paid from the first £1 earned.

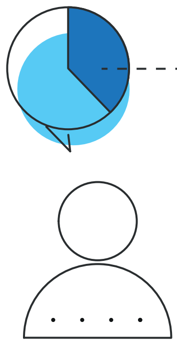
3. Flexibility

Our research suggested that for lower paid workers, such as those with variable earnings, flexibility could be the key to making pensions less daunting. For instance, 80% agreed that they'd be interested in being able to turn their contributions on and off – in other words, to pay when they could.

Meanwhile, 84% said they'd be interested in contributing to a pension if there was a tax break where the government matched their contributions up to a certain limit. They were especially keen on this idea when they were told that higher rate tax-payers get more money back from the government for every £1 than lower rate tax-payers – a position which was expressed by some as being 'not right' during discussions with our researchers. As one interviewee put it: "The thought of someone getting more than you, it is kind of frustrating. It is upsetting. You'd want to support someone that's lower paid because if someone's rich, they are only getting richer." (Male, aged 24).

Other ideas which might make pensions more appealing to the lower paid included:

- allowing pensions to be accessed before retirement for emergencies/life events (84%)
- having pensions work like a lottery with a windfall payment each month (79%)
- if there was reassurance from the government that other state benefits wouldn't be affected (84%)
- if a spouse could share some of their employer contributions (73%)



38%

of **low-paid workers** said they would have **asked their employer** to **join a pension scheme** if they'd **known** they had the **right to ask**

The under 22s

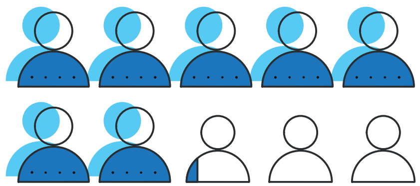
Levelling up in pensions? Younger workers are playing on bumpier fields

Younger workers lag behind their older colleagues in terms of pension benefits.

For workers under 22, even getting started on their retirement savings journey can seem like a step too far.

The main issue for those under 22 is that they fall below the current age threshold for auto-enrolment, which means that while some may be offered membership of a pension scheme by their employer from age 18, most aren't.

73% of **younger workers agree** that **employees** aged **under 22** should be **automatically enrolled**



In our latest research, Legal & General looked at what's happening in terms of workplace pension provision from the perspective of those who may be in a position to receive it[5] and we found some troubling trends among younger workers who, like women, disproportionately make up the lowest paid group of workers.

Understanding the rules – knowledge is (pensions) power

We found that around half (49%) of those under 22 knew that if you earned less than £10,000 a year, you didn't qualify to be auto-enrolled into your employer's workplace pension.

However, 62% of young workers didn't realise they could ask to be enrolled if they earned less than £6,240, while most under 22s (56%) were not aware that employers wouldn't have to make contributions on the first £6,240 of their income.

Once they know their entitlements, there is a significant appetite to join a pension. Overall, 29% of the under 22s said that if they'd known they could, they would have asked to join their workplace pension even if their employer did not contribute to it. And nearly 20% would have asked to join their workplace pension if they'd known that their employer would make contributions. Both statistics suggest that better education by pension providers and employers would make a difference to pension savings choices in those under 22.

Some of those we interviewed were surprised to hear that the employer and government paid into workplace schemes, as they thought that all contributions came from their wage packet alone.

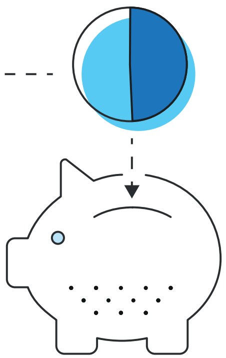
For instance, one 21-year-old man changed his view about paying into a scheme after a moderator told him that his pension wouldn't just be from money deducted from his salary. He shifted from saying: "It's not something I'm too intrigued by or too involved in. I just know some money that I get paid goes deducted and gets put toward the pension. That's not something I would see until obviously I get old …", to commenting: "If I put in and the employer puts in, that's fair. I might not opt out as soon as I hear about it, you know, so I might keep it running for a while[6]."

And it isn't just awareness of rules around auto-enrolment that might make a difference to retirement saving behaviour; it seems that there's considerable confusion around pensions in general. As one of our female interviewees aged 30 put it: "You leave school and you're literally thrown into the world to do what you want. And you know, for the first few years of your working life you are literally earning money and spending it. And actually, you know, we should be more educated on things…like pensions and savings and investments[7]".

More than half of younger workers (54%) believe that the amount they'd be saving would be so low that it wouldn't be worth it. This indicates to us that there's still a long way to go to ensure that people understand the mathematical basics of pensions, such as how compound interest works so that even small amounts can add up significantly over time, the importance of starting contributions as soon as possible, and the value of employer contributions.

Overall
48%

of **younger savers** said they'd have **asked to join their workplace pension** if **they'd known** they could



Removing barriers and levelling up

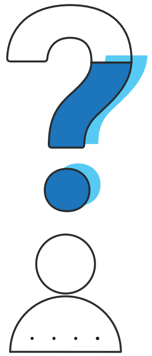
Our interviewees showed strong support for removing the current barriers to saving. Young people couldn't understand why they were being treated differently to older workers with 72% agreeing that employees aged under 22 should be treated the same as those aged 22 and over and be automatically enrolled into a pension.

Almost three-quarters (72%) of young workers would like to see a more progressive system that offers additional support to low earners, as is the case in Australia.

Other ideas that might tempt the under 22s to pay into a workplace pension scheme included:

- being able to turn contributions on and off (77%)
- being able to access some of your pension to pay back later (70%)
- if contributions were paid on every pound of earnings (59%)
- if there was a tax break where the government matched your contributions up to a certain limit (75%)
- if your spouse could share some of their employer contributions with you (67%). Men were keener on this than women (72% versus 60%)
- if the pension could be accessed before retirement for emergencies/life events (79%)
- if their pension also worked like a lottery with the possibility of a windfall payment every month (69%)
- if there was reassurance from the government that other state benefits wouldn't be impacted (80%)

At Legal & General, we support the recommendations in the government's 2017 review of auto-enrolment to lower the age threshold from 22 to 18 and remove the lower limit of qualifying earnings.



72%

of **young workers didn't realise** they could **ask to be enrolled** into a **pension** if they **earned less** than **£6,240**

We'd also like to see government, regulators and those of us in the pensions industry working even harder to promote pension benefits more clearly to the wider population. And as is the case for all categories of worker that we looked at, our research highlighted the need to examine the case for financial education in our schools so that younger employees are clearer on how benefits like pensions work so they can make informed decisions about enrolment when they're presented with the opportunity to join a scheme.

Women

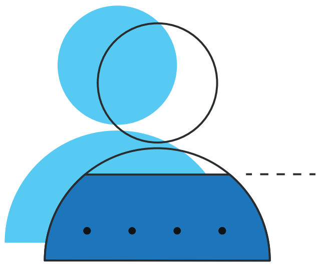
Girl power in pensions? Not yet, as women slip through auto-enrolment net

It's not news that women's salaries – or pensions – lag men's, but what can be done? LGIM's latest research, gathered as UK savers face the largest price spike for decades, delves into what might help to soften the sharpest barbs of this thorny issue.

It's no news that women don't fare as well men with their pension benefits. Earlier this year, Legal & General published research confirmed that the size of women's pension pots are half that of men's at retirement, that the gender gap starts young, and that the gap appears even in female-dominated professions.

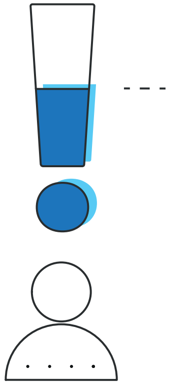
But what is causing this gap? We can't assume that salary is the only contributor. Our latest research, which covered 5,259 individuals, highlighted that women often fall through the gaps when it comes to being automatically enrolled into a pension.

Women are less likely than men to be aware of the rules, with many thinking they just aren't eligible. We asked respondents if they knew that earning less than £10,000 in their job meant they wouldn't be automatically enrolled by their employer into their workplace pension. Some 62% of women weren't aware if this, compared with just under half of men. We also asked respondents if they knew that people earning between £6,240 and £10,000 have the right to ask to be enrolled, that their employer can't refuse, and that their employer must make contributions. Just 36% of women knew about this compared with 49% of men. In addition, 73% of women did not know that their employer doesn't have to make contributions on the first £6,240 of their earnings, compared with just 56% of men.



50%

of **young women without a pension** say the **reason** they **don't have one** is that it **wasn't offered to them**



54%

of **young women** who **aren't contributing** to a **pension worry** about **not saving** for **retirement**

Women are also disproportionately represented in the lower earnings category. This is because they're more likely to work part time or take career breaks to accommodate domestic responsibilities like childcare (55% of women earning less that £10,000 annually have children under 17).

And compounding a general lack of knowledge around pension benefits is that some employers might not be fully aware of their role in explaining the rules to employees. For instance, when we asked participants if their employer had explained the rules on eligibility, only 23% of women said this was the case compared with 44% of men.

Gender gap starts early

Within the younger age group, it's younger women who fare worse than younger men.

The overall earnings profile between the sexes for the younger age group is stark. In our survey, we found that of those men under 22, 38% earned over £10,000 a year compared with just 20% of young women in the same age group.

Young women are more likely not to have a pension than young men: 38% of younger males and 53% of younger females say they have no pension. Of those aged under 22 who are making contributions into a pension scheme, 70% are male.

Interestingly, 50% of young females without a pension say the reason they don't have one is that it wasn't offered to them. Since only 28% of young men say this is the reason why they aren't in a scheme, it seems that men are more likely to be given the choice of joining a pension than women. So, why are women less likely to be offered membership of a workplace pension scheme? There could be several reasons for this, including that younger women may be less likely to work for larger employers who go further than the minimum requirements, or that they're working in multiple, lower paid posts which mean they're below the earning threshold for auto-enrolment in any single role.

Yet women across all age and earning groups that we surveyed are more likely than men in all groups to agree that a pension is the best place to save for retirement[8]. And young women who aren't contributing to a pension are more likely than young men to say they're worried about not saving for retirement (54% of women are worried compared with 36% of men).

Money on my mind

The cost-of-living crisis continues to hit people hard, with many pension savers struggling to meet their everyday expenses, but women once again seem to be worse off.

Our research highlighted that women were less likely to be able to afford paying any pension contributions right now due to the rising cost of living. This was affecting 72% of females compared with 64% of males.

In fact, our latest research uncovered how females across the board seemed to be hit the hardest when it came to being able to manage financially in the current climate.

More than half of women (56%) would struggle to pay a rent or mortgage increase of £50, compared with 49% of men. Even more worryingly 57% of women stated that if their household lost its main income source, they could only cover living expenses for less than a week without having to borrow or ask for help from friends and family.

Of the women currently not paying into a pension, only 14% weren't worried that they were not saving for their retirement.

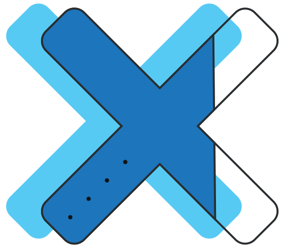
Levelling the playing field

Over three-quarters of women (78%) would like to see a more progressive system that offers additional support to low earners, as happens in Australia.

Other ideas that might tempt both men and women, to pay into a workplace pension scheme included:

- being able to turn contributions on and off (79%)
- being able to access some of your pension to pay back later (69%)
- if there was a tax break where the government matched your contributions up to a certain limit (87%)
- if your spouse could share some of their employer contributions with you. Men were keener on this than women (74% versus 67%)
- if the pension could be accessed before retirement for emergencies/life events (83%)
- if there was reassurance from the government that other state benefits wouldn't be impacted (85%)

At Legal & General, we're committed to supporting employers to understand and tackle their gender pension gaps. We're already joining and setting up working groups to identify the reasons behind pensions inequality and the possible solutions to it.



72%

of **women** were **less likely** to be able to **afford paying any pension contributions** right now due to the **rising cost of living**

We're also lobbying for change, such as the removal of a minimum earning level before individuals can be auto-enrolled which would help women who, as our research confirmed, feature disproportionately in lower paid roles.

Along with all workers, women would also benefit from better financial education in school and in the workplace, so they understand pension benefits and are clear about their entitlements.

Conclusion

Taking action

Auto-enrolment has been one of the most progressive and welcome additions to the pensions landscape and is already helping many workers to be more financially stable in retirement.

But we know that there's still a long way to go to provide a similar level of support for those who currently fall outside the existing provision.

We need to be sensitive about the financial realties for those caught up in the cost-of-living crisis and make it as easy as possible for as many as possible to save whenever and whatever they can for their retirements. For some, saving anything at all just isn't an option right now. In which case, we may need to examine the possibility of using different solutions such as continuing employer contributions even when an employee has opted out. But for others, enabling and encouraging them to put away even small contributions as early on in their working lives as possible, could make all the difference to them in their later years.

At the very least it's on us – the industry professionals – to do our bit to reach these financially vulnerable groups with persuasive, simple messaging that means they're clear about what their workplace pensions offer, how their pension pot multiplies, what they're entitled to, and what they might be missing out on if they don't enrol or choose to opt out.

But we can't do it alone. While we can work on our communications with our clients (the employers), we also need the government and regulators to make workplace pensions more inclusive and attractive for all employees.

We welcome practical changes such as the recommendations to lower the age and wage thresholds, and our research clearly identified a need for better financial education whether in school, the workplace, through government awareness campaigns or all three.

At Legal & General, we're already joining and setting up working groups to identify the reasons behind pensions inequality and the possible solutions to it. This is because it's clear to us that the increasing financial pressures of the rising cost of living may be squeezing people to take decisions about contributing to a workplace pension that could have devastating long-term implications for their later-life financial resilience.

Onwards and upwards for auto-enrolment – the future's bright

The success of auto-enrolment is reflected in the fact that nearly three-quarters (73%) of the workers we surveyed across different age, wage and gender categories, now have a workplace pension, and that nearly all of these (94%) are paying into it.

It's also heartening to hear that once they understand the benefits, many workers are interested in signing up to a workplace pension.

So, despite the challenges for groups such as the lower paid, younger workers and women, there are signs that by developing the current auto-enrolment model to be more inclusive, and through re-doubling efforts to boost knowledge of pensions, we could extend the reach of this precious employee benefit to help improve the retirement prospects of older people after their years of hard work.

References

1. PPI: Building on the success of 10 years of auto-enrolment | Money Marketing.

2. LGIM data, as at end of June 2022.

3. Research carried out in summer 2022 by Ignition House on behalf of Legal & General Investment Management (LGIM). The research sampled 5,259 people in the UK private sector workforce in groups split into three broad categories:

    - Those employed aged under 22
    - All those earning less than £10,000 a year
    - All those earning over £10,000 a year with or without a DC pension and aged between age 22 and 65

4. Low earners are defined in this research as those earning less than £10,000 a year.

5. Research carried out in summer 2022 by Ignition House on behalf of Legal & General Investment Management (LGIM). The research sampled 5,259 people in the UK private sector workforce in groups split into three broad categories:

    - Those employed aged under 22
    - All those earning less than £10,000 a year
    - All those earning over £10,000 a year with or without a DC pension and aged between age 22 and 65

6. Full quote: "I've heard people speak about pensions and stuff like that but they always mention that it won't really affect me until later on. It's not something I am too intrigued by or too involved in. I just know some money that I get paid goes deducted and gets put toward the pension. That's not something I would see until obviously I get old - or something like that."

    [Moderator reveals employer and the government also pay into pensions]

    "If I put in and the employer puts in, that's fair. I might not opt out as soon as I hear about it, you know, so I might keep it running for a while. Yeah. See if I can find out more about it from family and friends."
    Male aged 21.

7. Full quote: "You don't learn about it (having a pension) in school. My mum was always shouting when me and my brothers were in school that you should learn how to do banking and how to manage taxes and what national insurance is and all of that. That's what they should be teaching you in school, functional skills for life, knowing how to actually manage your money is something that we don't know about. You leave school and you're literally thrown into the world to do what you want. And you know, for the first few years of your working life you are literally earning money and spending it. And actually, you know, we should be more educated on things like this. Things like pensions and savings and investments."
    Female, aged 30.

8. When asked their views on the statement: *There are better ways for me to save for my retirement than a pension,* 16% of female respondents disagreed. Fewer men disagreed (13%).

Contact us

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