Does pension automatic enrolment affect savings?

Automatic enrolment into pensions saving has vastly increased the numbers of low to middle income workers savings for pensions. But how has this impacted on the non-pension savings of those affected?

Auto enrolment does not happen in an economic vacuum. Where a policy diverts someone's wages into pensions savings, a worker will respond by either reducing spending, increase their borrowing, or change their savings behaviour.This evaluation study by Nest Insights set out to investigate the degree that the last of these outcomes occurred.

Why was the policy considered necessary?

The pensions auto enrolment policy was rolled out over six years from October 2012 to address declining workplace pension provision. The objective of the policy was to encourage more people to save for retirement and ensure a financial safety net for their future. The policy required employers to automatically enrol workers into a workplace pension who were: not already in a qualifying pension scheme; aged 22 or over; under State Pension age; and earning more than £10,000 a year. The policy did permit workers to optout, so the intention behind the policy was to 'nudge' up to 11 million workers who were perceived to not be making appropriate provision for their retirement.

For the policy to fully achieve its objective, it would need to lead to an overall increase in the wealth at the point of retirement for this group of workers, and therefore reduce their spending during their working lives, rather than taking on debt or reduce their savings. The evaluation set out to test the impact on savings for those auto enrolled into the largest pension scheme as set up by the government for this policy, the National Employment Savings Trust (Nest).

How was the evaluation carried out?

The evaluation took advantage of the staggered rollout of the automatic enrolment pensions policy and applied a difference-in-differences design. This allowed the Nest auto-enrolled group to be compared against a group that experienced all the same aspects of life during this time, other than they had not yet been auto enrolled into a pension. This controls for the possibility that savings behaviour was changing during this period independent of pensions enrollment. A further difference-in-differences analysis was performed using a 'matched' comparison group from the wider Understanding Society sample of working age people, ensuring this non-auto enrolled sample matched the Nest-enrolled sample in terms of age and savings profiles.

> “those auto-enrolled into a pension were more likely to take on a mortgage”

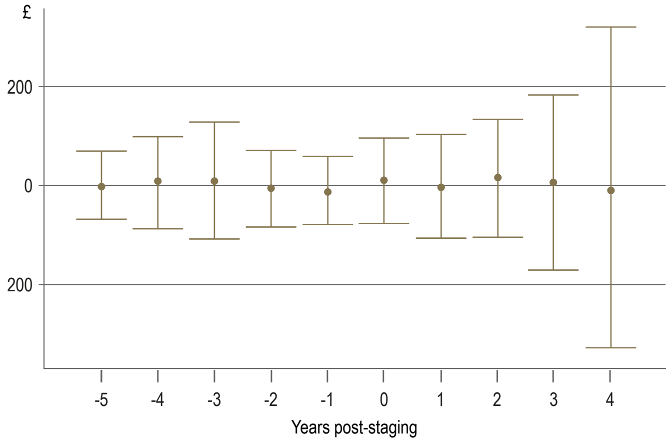
The results from the difference-in-differences analyses were further checked against a two-way fixed effects estimator – which tested for differences in the lives of the control group not previously unanticipated or controlled for. The outcome from this were in keeping with the patterns observed in the difference-in-differences findings.

Findings

The evaluation found that the average active monthly saving among those were auto enrolled into a Nest pension and who were making savings was £338. **The conclusion of the evolution was that the policy did not impact on these savings** – as can been seen by the very limited deviation in the central estimates for the rates of savings, as represented by the dots in the graph. As with any statistical analysis, there is a degree of uncertainty, which in this case has been quantified in a way that sets limits either side of this finding.

To do this, the researchers used confidence level of 95% - meaning they can be 95% confident that the change in monthly savings are within the error bars shown in the graph below. These estimates allowed the researchers to statistically rule out the possibility of a decline greater than 40% monthly savings.

Changes in monthly savings over the period of auto pension enrolment



The evaluation also found that people auto enrolled into a Nest pension overwhelmingly continued to save, even when faced significant financial challenges.

Perhaps more concerning, the evaluation highlighted that **more than half those enrolled into Nest had no stock of non-pension financial savings** (54%), with only half of their spouses/partners holding a stock of non-pension financial savings (50.8%). This suggests that the policy led to the balance of pension and non-pension saving among these particular people to be overly weighted to pension saving.

What did other evaluations of this policy suggest?

A previous Understanding Society evaluation case study of this policy found that the mental health disparity previously associated with pension non-participation disappeared for those in the private sector after the implementation of automatic enrolment. The evaluation also found that non-pension savings actually increased among male employees with poor mental health after automatic enrolment but decreased among female employees. These changes were considerably smaller than the savings associated with the pension enrolment.

A different kind of analyses reported in a 2024 Working Paper linked Nest data to people's credit file data and observed that, whilst the first 41 months after enrolment saw the average automatically enrolled employee's pension savings increase by £33-£39, their unsecured debt increased by £7 every month. The same study found that this group were 2% more likely to take on a mortgage during the 41 months after enrolment. It should however be noted that, whilst of apparent quality, this paper had not been subject to peer-review and was not able to infer causality in the way the other evaluations were, as the data source used did not support a counterfactual group to be identified.

What were the strengths of using Understanding Society data?

The following elements of Understanding Society make it ideal for evaluating this policy:

- The data linkage between Understanding Society and participant's Nest pension records allowed made this evaluation possible.
- The household nature of Understanding Society also allowed for the savings status of the spouses and partners of those auto enrolled, thereby gaining a richer understanding of their long-term financial prospects.
- The multi-topic nature of the study permitted those who used Understanding Society to evaluate this policy to control for the possibility that factors other than pension auto enrolment led to the observed differences.

What do these findings mean?

The various evaluations of the auto pension enrolment policy did find numerous benefits of the policy. It got people started with long-term savings for their retirement among a group who had not previously done so. It was also shown to have eliminated the mental health gap associated with pension non-participation for those in the private sector. And it was observed that those auto-enrolled into a pension were more likely to take on a mortgage.

This study did however highlight the lack of any accessible savings many in this group have to fall back on in the case of financial shocks, like an unexpected bill or an interrupted income. So, whilst the policy was unlikely to have been detrimental to the savings of those it affected, it may have led to this group increasing their insecure debt whilst not resolving the financial precariousness experienced during their working lives.

This policy could therefore be said to be failing the financial needs of many within this group. It might make sense for any future reform of the auto enrolment policy to consider the introduction of an element of emergency access, or so called 'sidecar savings' within the policy, or in the case of those who do not pay tax and so do not gain any tax-relief benefit from pensions savings, auto enrolment into long-term savings. Ultimately, this would need to be weighed against additional social security liabilities the state would face from any reduction in pensions savings, as well as the risk to the mental health of this group of people if they no longer have the confidence of knowing that some pension savings are being made.

Source: Firth., C, et al, How does pension automatic enrolment affect savings? Evidence from a linked UK household panel, Nest Insights 2024

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