Retirement Income
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Misperception in UK: Auto-enrollment means adequacy

By Editorial Staff *Thu, Jul 5, 2018*

Employer contributions are viewed as the key to retirement savings adequacy in Europe; auto-enrolling participants by itself won't get them there, IPE.com reports.

Tens of millions of Britons aren't saving enough for retirement while millions more mistakenly assume that auto-enrollment assures them of a comfortable retirement, the UK Pensions and Lifetime Savings Association (PLSA) has warned. The news was reported by IPE.com.

The PLSA issued a report this week revealing that 80% of people are not sure they are saving enough for retirement. The report was based on opinions gathered from policy makers, product providers and the general public gathered over a three-month period.

Under the terms of the current auto-enrollment system, the employee pays in a minimum of 3% of their salary, while the employer pitches in 2%. That is set to rise to a total of 8% in April 2019, of which at least 3% must be covered by the employer.

More than half (51%) of those surveyed told the PLSA they thought this arrangement would furnish them with the UK government's "recommended amount" of retirement savings.

Since auto-enrollment was introduced in the UK, almost 10 million new savers have entered the pensions market, according to the Office for National Statistics.

However, the PLSA said a simple increase in participation was not enough. In its report – Hitting the Target: A Vision For Retirement Income – the organization made five key recommendations:

1. Introduce savings targets and increase engagement
    2. Increase pension savings
    3. Increase support at retirement
    4. Make it easier to use other income sources
2. Improve how pension schemes are run

In terms of the proposal to increase the level of overall saving, the PLSA proposed increasing the minimum contribution level for auto-enrolment from 8% to 12% of overall salary between 2025 and 2030.

“Millions of savers are confused about whether they’re on track for the lifestyle they want in retirement,” said Nigel Peaple, director of policy and research at the PLSA.

“We believe that a simple and widely promoted system of retirement income targets would make it much easier for savers to know whether they are saving the right amount.”

The PLSA’s proposals were widely approved by the pensions industry.

“While auto-enrolment has been a real game changer for millions of people across the UK, most people still aren’t saving enough to live comfortably in retirement,” said Andy Tarrant, head of policy at The People’s Pension.

“The PLSA’s saving targets will help people to judge more accurately how much they need to save…and [the organization’s] roadmap is an important contribution as to how the can most effectively be done.”

Tarrant’s comments were echoed by Simon Chinnery, head of defined contribution (DC) client solutions at Legal & General Investment Management.

“Introducing new retirement income targets are an excellent start and moves us away from terms such as ‘good outcomes’ to providing members with the tools to know that this aspiration can be achieved,” he said.

However, NOW: Pensions noted that UK employers bore less of the pensions burden than in other countries that have nationwide auto-enrollment or DC schemes.

According to a survey conducted by the Pensions Policy Institute, commissioned by NOW: Pensions, UK employers will be responsible for 37.5% of the contribution burden, compared with 84.8% in Italy, 66.7% in Denmark and at least 50% in Japan.

“As auto-enrollment minimum contributions increase, employees will find themselves bearing more of the burden than their employer and this inequality doesn’t feel right,” said Troy Clutterbuck, CEO of NOW.

“The employer contribution is the main selling point for workplace pensions over the long term. Rebalancing contributions would almost certainly help minimize opt-outs.”