
Wide but shallow: the impact of auto-enrollment in the UK

By Editorial Staff Thu, Jun 27, 2019

In British defined contribution plans, employer and employee contributions average a total of only 5.1% of salary per participant. By contrast, defined benefit (DB) plan members receive contributions totaling more than 25% on average.

Auto-enrollment has increased the number of pension savers in the UK but most are paying too little into their “pots,” according to a report this week at IPE.com.

Total retirement plan membership hit 45.6 million in 2018, up almost 11% year on year, according to the Office for National Statistics (ONS). But there’s a big gap in the amount of actual savings that’s going on in defined contribution (DC) versus defined benefit (DB) plans.

In DC plans, combined employer and employee contributions averages only 5.1% of salary per participant. By contrast, defined benefit (DB) plan members receive contributions totaling more than 25% on average.

“If this disparity is not addressed, we risk a lost generation of people who missed out on final salary pensions but are simply not putting enough into their new-style pension. Automatic enrollment was a great start, but this is simply the end of the beginning,” said Helen Morrissey, a pension specialist at Royal London.

Sponsors of final salary DB schemes contributed 19.2% of salary on average, while members paid 6.4%, the ONS’ data showed. DB plans based on career average salary benefits recorded average member contributions of 7.9% and employer payments of 17.7%.

Members of DC schemes paid 2.7% of salary on average, while employers contributed just 2.4%. Before auto-enrollment was introduced, average DC contributions totaled 11% of salary on average, according to consultancy firm Buck.

Minimum contributions for auto-enrollment schemes rose to 8% (5% from the member, 3% from the employer) from 6 April this year. DC experts advocated further increases to at least 12% of salary, however.

Even with that increase, “Many people will be massively under-saving for a comfortable retirement. At 12% [of salary] we would begin to see a contribution that will have a meaningful impact for employees’ retirement savings,” said Michael Ambery, senior DC

consultant at Hymans Robertson.

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