

Adequacy – are we saving enough?

✓ **Phil Brown explores the need to increase pension saving, despite the success of auto-enrolment, and how this could be achieved**



There can be little argument that the introduction of auto-enrolment (AE) 10 years ago – a radical policy change to tackle concerns about an increasing old age poverty crisis – has been an unqualified success.

The figures speak for themselves: Since 2012, 10.6 million employees have enrolled in a workplace scheme, with an additional total of £28.5 billion saved into UK pension pots each year.* But there remains the question of whether the average auto-enrolled member is saving enough for their retirement.

The Pensions Commission was clear in its 2005 review that at least 16 per cent of qualifying earnings – double the current minimum contribution – would be required to provide an adequate retirement income, with half expected to come from a workplace pension and the other half from additional voluntary saving.**

But new research shows this hasn't happened. Our report, *Pension Adequacy: A Pension Saver's Perspective*,*** finds that most auto-enrolled pension savers and employers are anchored to the minimum rate, with most savers wrongly believing that they are on track for a 'moderate' or 'comfortable' standard of retirement living, based on the PLSA Retirement Living Standards. Just 7 per cent of savers are aware that the current minimum contribution will only provide a 'basic' retirement income, and worryingly,

four in ten people believe that because the contribution rates have been set by the government, they are saving enough.

On top of this, the idea of additional voluntary saving is far from reality; almost half (43 per cent) of all savers haven't considered paying more into their pension, almost half (46 per cent) don't know they're allowed to pay in more than the minimum, and two-thirds (64 per cent) of people have less than £10,000 in additional savings.

If you accept the idea that contribution levels should be increased to prevent poor saver outcomes, questions remain: How much should this increase be, and who should bear the burden? How do we encourage people to pay more if they can afford to? And should it be made easier for them to pay more as they get older? With many savers not knowing they're allowed to increase their contributions or how to pay more in, our research is clear that more can be done to help savers understand the options open to them.

There's a growing consensus across the pension industry that an increase in contributions is required to lead to positive saver outcomes. But with so many questions around how this could or should be done, we're calling on the government to set out plans for a review of the minimum contributions required for auto-enrolment. We're also asking them to outline a timeline for implementing the recommendations of the 2017 automatic enrolment review

once economic circumstances allow.

While millions of people are rightly concerned about the increasing cost of living, a very real problem is building up for millions in their retirement and it is crucial that the government comes up with a plan to tackle this.

What's clear from the deeply troubling findings of this research is that millions of hardworking people are simply not saving enough for their retirement. While affordability obviously plays a role in this, the research shows that in most cases, people believe that because they're saving what they've been told to by those who run the country, they're saving enough. While auto-enrolment has had a truly successful first decade, government must now plan ahead to ensure that over the next 10 years, auto-enrolment members are saving enough to provide for a comfortable retirement.

It's clear that some need to save more for their retirement and the government needs to act to ensure that the minimum contribution level helps them do this. This is something that must be addressed to ensure the continuing success of auto-enrolment.

✎ **Written by B&CE, provider of The People's Pension, director of policy & external affairs, Phil Brown**



In association with

the people's pension

*Department for Work and Pensions figures (2021)

**Pensions Commission (2005)

*** Pension Adequacy: A Pension Saver's Perspective report, prepared by Ignition House and published by B&CE in March 2022. To read the full report, see www.thepeoplespension.co.uk/pension-adequacy-report