The Lived Experience of Saving

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Positive effects of auto-enrolment

- Increased pension coverage in context of low state pension
  - UK state pension among lowest in OECD (replacement rate approx. 30%)
  - Low, or negative, rate of return for most households on marginal contributions to the state pension (National Insurance payments)
- Low-cost access to long-run stock market returns
  - Diversified, simple, low ongoing charge index funds
  - Retirement target date funds offer a sensible planning default
- Low-cost transfers
  - No in- or out- charges important when moving in/out of employer schemes

Challenges I: Unintended Effects

- Possible unintended effects of auto-enrolment
  - Default effects could *reduce* saving rate (as in US studies by Choi *et al*.)
  - Substitution away from other forms of saving
  - Increase in indebtedness (via wealth, or credit access effects)
  - Decreased liquidity vs increased net worth
- E.g., decreased liquidity
  - Auto-enrolment raises long-term saving via at-source deductions
  - Improves net worth, but reduces short-term liquidity
  - Are consumers more exposed to financial shocks? Income dips? Expenses?
  - Do consumers therefore turn to payday loans etc..?

Challenges II: Pensions Landscape

- Incoherent broader retirement saving rules in the UK

- Rationale for auto-enrolment
  - Auto-enrolment arose due to perceived problem of under-saving
  - Procrastination, poor financial literacy, pensions gap
  - Very strong nudge in the accrual phase of retirement saving

- Compatible with 'pension freedoms'?
  - At same time, pensions freedoms liberalised in drawdown phase
  - At age 55 can aggressively draw down, no requirement to annuitize
  - Have behavioural biases warranting auto-enrolment gone by age 55?
  - (Fund asset allocation (still) usually built around assumed annuitisation date)

Analysis, Data and Methods

- We can address these questions *rigorously*

- Data linking
  - Shortcomings in relying on survey data alone to understand effects
  - Opportunity to join high-frequency, detailed datasets to NEST records
  - e.g., credit files, tax filing histories, personal current account histories

- Data analysis
  - Data linking is not enough: need to address causality between variables
  - Auto-enrolment offers natural experiments
    - e.g. escalating contribution rates, discontinuities in staging of employer duties
  - International examples offer benchmarks for UK analysis