

Pension saving revolution

Auto-enrolment: celebrating a decade that has encouraged a culture of saving

Since it was introduced ten years ago, auto-enrolment has revolutionised pension saving for millions of people in the UK, encouraging a culture of saving for the long term. It's been a positive initiative and, crucially, individuals now have to take more responsibility for their retirement savings.

This has meant many people now put some money away each month for retirement. In April 2021, the UK workplace pension participation rate was 79%, compared to 47% in 2012 when auto-enrolment was introduced, according to new research^[1].

SIGNIFICANT GAPS

All employers must provide a workplace pension scheme and automatically enrol employees into a pension scheme and make contributions to their pension if they are classed as a 'worker', are aged between 22 and State Pension age, earn at least £10,000 per year and they usually ('ordinarily') work in the UK.

However, significant gaps remain in pension awareness and engagement, with female and lower income workers disproportionately less likely to review their pension. The research highlights overall, almost one in five UK workers have never reviewed their pension.

PENSION SAVINGS

This rises to a quarter (25%) of female workers, compared to only 13% of males who have never reviewed their pension. Those with lower incomes are also more likely never to have undertaken a review of their pension savings, with 34% of those with an income between £10k and £20k, and 21% of those with an income between £20k and £30k saying they have never checked their pension. This drops to 15% among those earning between £30k and £40k, and 14% among those earning between £40k and £50k.

The research showed that the majority (58%) of workers could define what an auto-enrolment pension is, correctly selecting 'Employers offer a workplace pension scheme and automatically enrol eligible workers in it.' However, 23% incorrectly defined it, while a fifth (19%) admitted that they simply do not know what an auto-enrolment pension is.

KEY TRIGGERS

For those who do review their pension, the main

prompt for doing so is receiving their annual statement (28%) – rising to 37% among 35 to 54-year-olds, compared to 18% among 18 to 34-year-olds and 28% among those aged 55 and over.

Other key triggers include receiving communication from their pension provider (19%), receiving their monthly pay (16%), changing jobs (12%) and getting a promotion or pay rise (11%). The younger demographic (aged 18 to 34) are most likely to be prompted to review by receiving their monthly pay (24%), changing jobs (19%) and receiving a pay rise (19%).

KEY BENEFITS OF BEING AUTO-ENROLLED

Regular savings habit – When you have a workplace pension plan in place, it's easy to stay in the habit of saving because payments usually come straight from your salary. You don't have to sort any of this out yourself either, as when you join a company you're automatically put into the pension scheme, so it's really easy to save this way.

Employer contributions – With a workplace pension scheme, your employer has to contribute a minimum of 3% of your qualifying earnings towards your future too. Some employers will pay more than the minimum and others will pay more into your pot if you do – known as matching. If you don't remain in the scheme, then you will miss out on these contributions.

Tax relief – Most people will receive tax relief from the government when they pay into a pension, and this is one of the major benefits of the scheme. Individuals usually currently receive at least 20% tax relief from the UK Government on their pension payments, meaning it will only cost you £80 to have £100 invested into your pension plan. Most people are entitled to claim tax relief on the pension payments they make based on up to the highest rate of income tax they pay. This means the benefits are usually even more for higher or additional rate taxpayers.

Option to pay in more – You can pay in more than the minimum amount required to your pension, and if you can afford to do so, this can be beneficial in the long term. Topping up your payments means the impact of compound interest is much more significant and can result in a much larger retirement pot. ■

WANT TO DISCUSS PLANNING FOR YOUR RETIREMENT?

We all want to enjoy life after we stop working. Whether you want to see more of the world or spend more quality time with your family. Whether it's just around the corner or feels like a long time in the future. Planning for your retirement can make all the difference. To find out more, please contact us.

Source data:

[1] Research conducted for Standard Life by Opinium, among 2,000 UK adults between 2– 6 September 2022. All results are weighted to nationally representative criteria.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.