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# What drives how much workers are saving in their pensions?

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Nuffield Foundation

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Economic  
and Social  
Research Council





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# When and why do employees change their pension saving?

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- Automatic enrolment has boosted pension participation, but many only saving low ‘minimum’ amounts – and are likely to need to save more
- **Important to think about \*when\* to save (in addition to ‘how much’)**
  - When is current consumption going to be easier to forego?
  - It may be easier to *encourage* people to save more at these times
- **It would be better to save more in a pension when:**
  - Earnings are high
  - When tax incentives for pension are higher
  - Consumption needs are low
  - Less is being saved for retirement in other forms
- **We examine how pension saving changes due to these different factors and draw out lessons for policy**



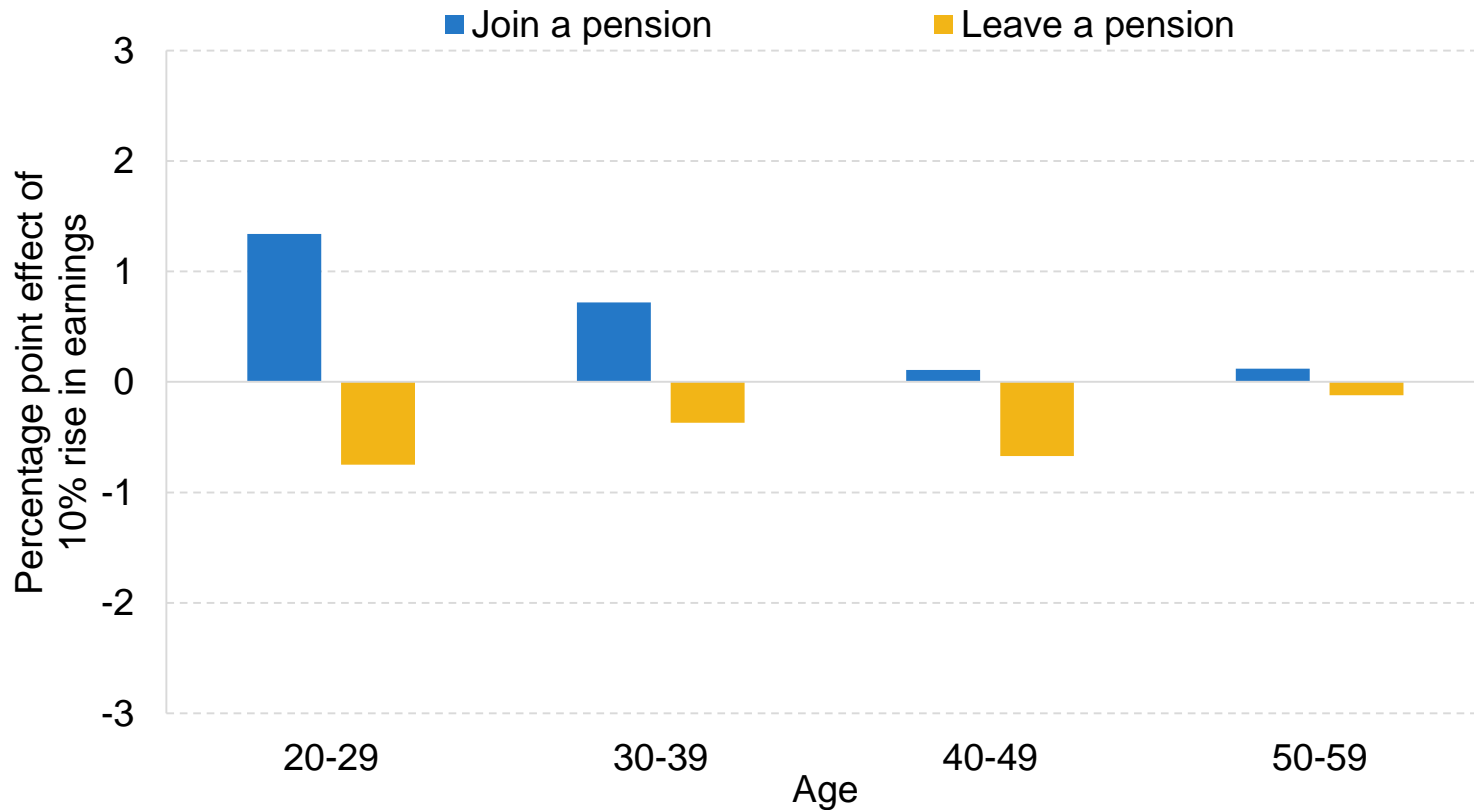
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**How does a pay rise affect  
pension participation and  
contributions?**

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# Do employees join/leave pensions when they get a pay rise?

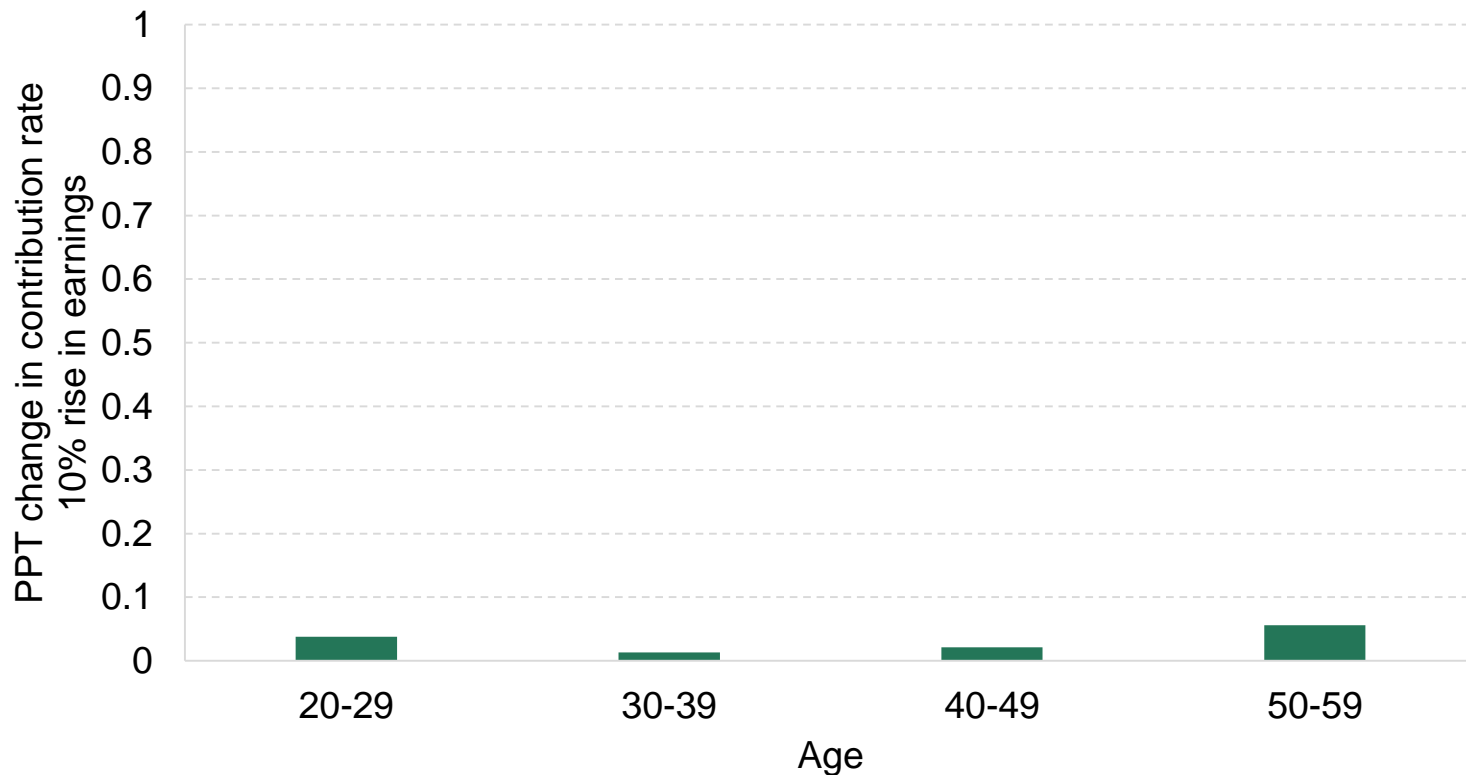
Percentage point change in probability of joining, or leaving, a pension over course of a year when earnings rise by 10%, controlling for age and year



Source: Table 2.3 of Cribb and O'Brien (2023). 2019-20 data. Only for those with the same employer.

# Do employees increase contribution rates when they get a pay rise?

Percentage point change in employee pension contribution rate when earnings rise by 10%, controlling for age, year and whether person moves employer



Source: Table A.1 of Cribb and O'Brien (2023). 2019-20 data.



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**How do current tax incentives  
around the higher rate threshold  
affect pension saving?**

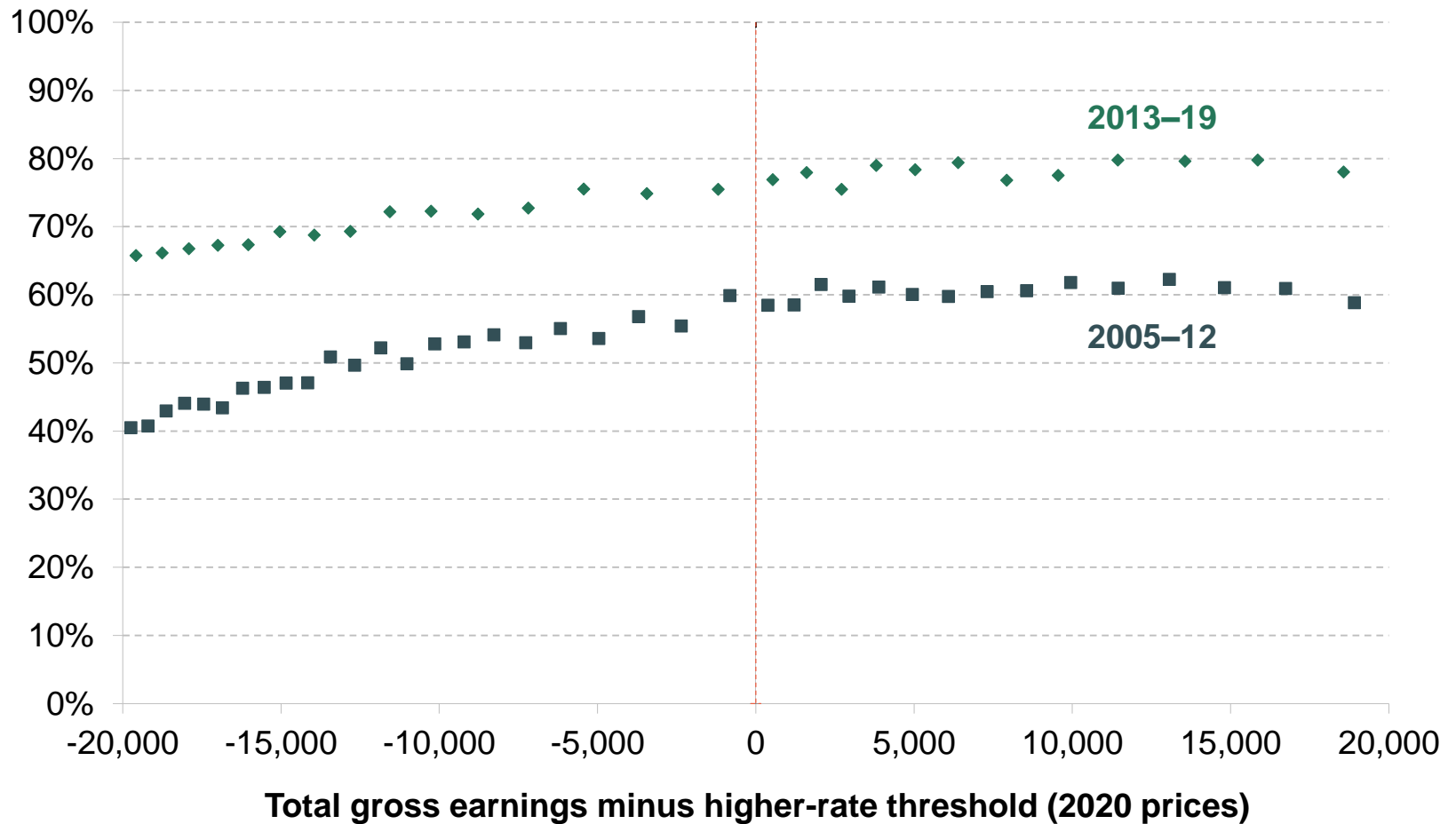
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# Tax incentives for employees

- Under the UK pensions tax system, there is a higher incentive to save the higher the marginal tax rate faced by individuals
- Notable change in income tax rate at the “higher rate threshold” (HRT; currently ca. £50k) 20% income tax → 40% income tax
  - Higher incentive to save in pension above HRT
- **Are employees more likely to save in a pension above the HRT?**



# Workplace pension participation of private sector employees



Source: Figure 3.1 of Cribb and O'Brien (2023).

# Tax incentives for employees

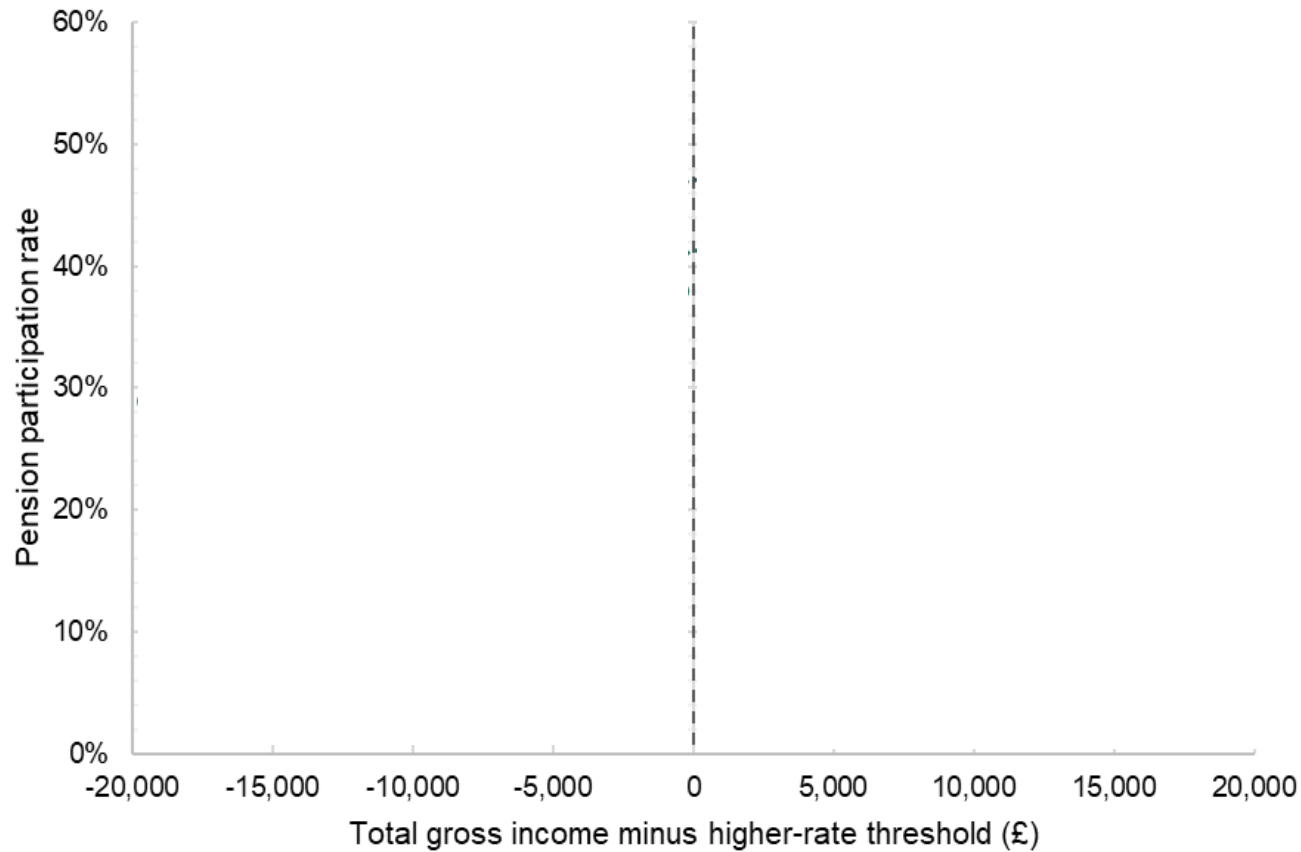
- Under the UK pensions tax system, there is a higher incentive to save, the higher the marginal tax rate faced by individuals
- Notable change in income tax rate at the “higher rate threshold” (HRT; currently ca. £50k) 20% income tax -> 40% income tax
  - Higher incentive to save in pension above HRT
- **Are employees more likely to save in a pension above the HRT?**
  - **No**
- **Do employees contribute more to their pension above the HRT?**
  - Before AE: **£150 p/year** for a typical employee close to HRT
  - After AE: **No effect**

# Tax incentives for self-employed



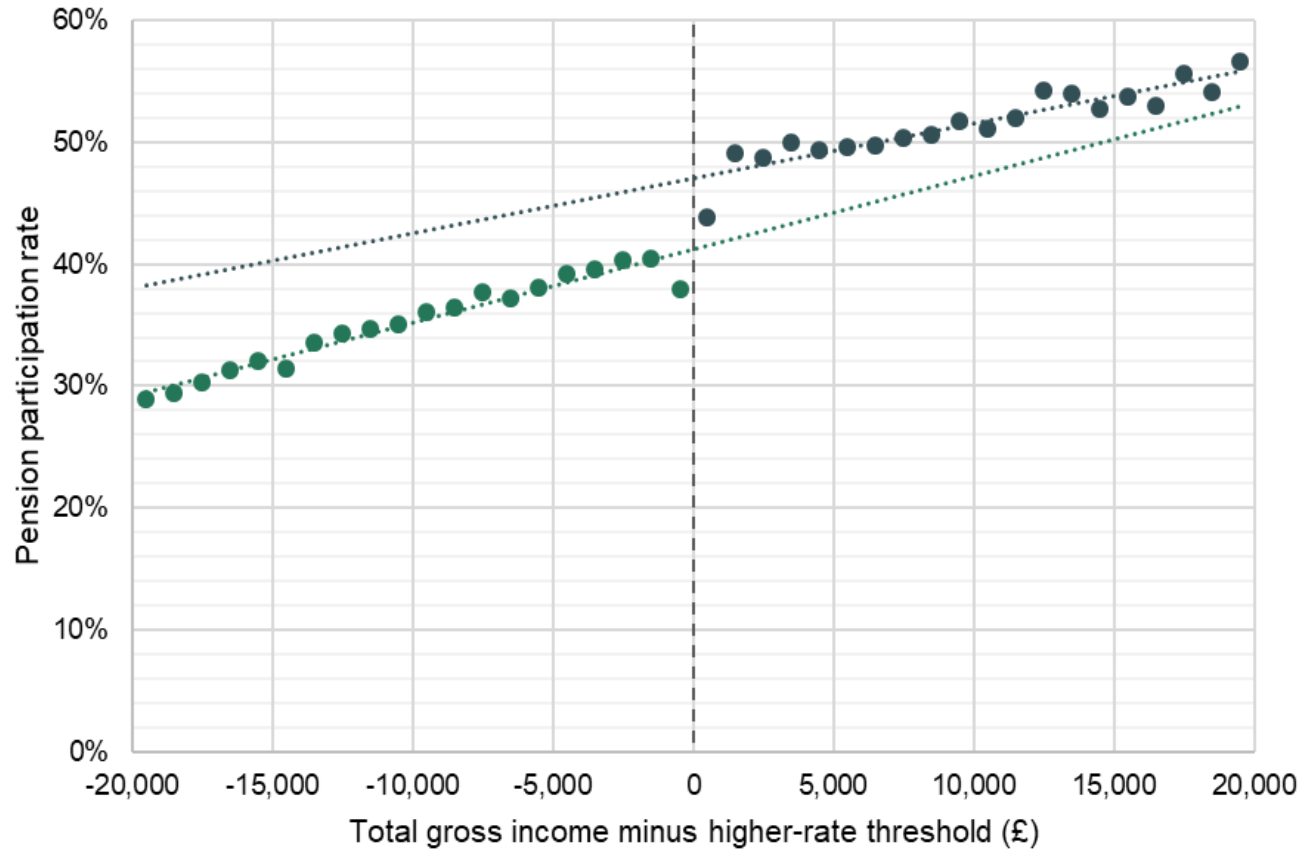
- Similar set of incentives for the self-employed to contribute more to a pension above the Higher Rate Threshold
  - Potentially more flexible pension arrangements; no AE
- **Are self-employed more likely to save in a pension above the HRT?**

# Private pension participation of the self-employed around HRT



Source: Figure 4.1 of Cribb and Karjalainen (2023).

# Private pension participation of the self-employed around HRT



Source: Figure 4.1 of Cribb and Karjalainen (2023).

# Tax incentives for self-employed

- Similar set of incentives for the self-employed to contribute more to a pension above the Higher Rate Threshold
  - Potentially more flexible pension arrangements; no AE
- **Are self-employed more likely to save in a pension above the HRT?**
  - **Yes.** 3 ppts higher as a result of increased incentives above HRT
- **Do self-employed contribute more to their pension above the HRT?**
  - **£100 p/year** more compared to average of £2,000 per year



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# How do 'life events' affect pension saving?

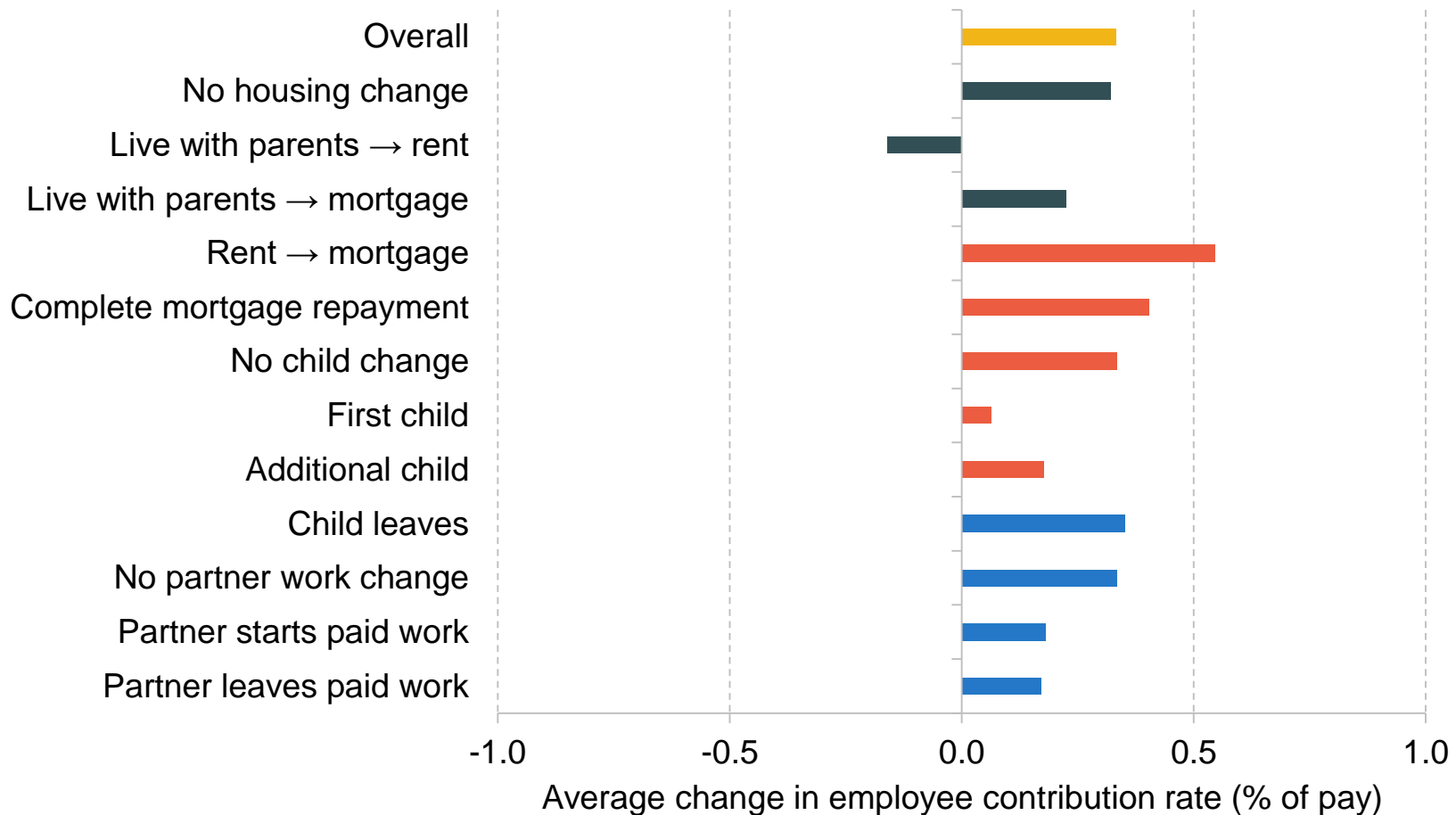
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# How do 'life events' affect pension saving?

- **In general we might expect (or hope) that pension participation and contributions would rise when:**
  - Mortgage paid off
  - Move from renting to owning home
  - Children move out
  - Partner gets a job
  
- **And would fall when :**
  - Children are born
  - Move from parents' home to renting



# Average change in employee pension contribution (% of pay)



Source: Figure 4.3 of Cribb and O'Brien (2023).

# How do 'life events' affect pension contributions?

- **Two 'life events' found to marginally increase pension contributions**
- **1. Move from renting to owning home**
  - Pension contributions tend to increase by around 0.4 per cent of pay *more* when people move from renting to having a mortgage
- **2. Children are born**
  - Pension contributions tend to be 0.3 per cent of pay lower after the arrival of a first child
  - Slightly larger effect on women than on men
  - No effect of additional children

# Policy implications (I)

- **Employees' pension saving decisions do not respond substantially to changes in earnings, tax incentives, or life events**
  - Particularly since the introduction of automatic enrolment
  - Highly driven by default options
- **Tax incentives alone not enough to encourage additional saving**
  - Even for self-employed who are more responsive
- **Good case for higher default employee contributions at higher levels of earnings**
  - Particularly above the higher rate threshold

# Policy implications (II)

- **Is it possible to encourage, or nudge, employees into being more responsive to life events?**
  1. Could have higher default employee contributions at older ages (50+? 55+?)
    - More likely that mortgage/student loans paid off; children more likely to have left home
  2. Possible to encourage people divert a share of mortgage repayment into a pension scheme when mortgage paid off?
  3. Integrate information on student loans to automatically increase contributions when loan is paid off?



Heidi Karjalainen

# Understanding pension saving among the self- employed

8 March 2023

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- Number of self-employed workers in the UK grew rapidly in the decades leading up to the Covid-19 pandemic
  - From 3.3 million people in 2001 to 5 million people in 2019
- The self-employed differ from employees in a number of ways
  - On average lower incomes, but share of very high earners also larger; incomes also tend to be more volatile
  - Different industry composition
  - On average older and more likely to be male
  - Lower rates of private pension participation
- **Today we present analysis on pension saving patterns among the self-employed using administrative tax data**

- We use administrative tax records from the HMRC (2005–06 to 2014–15)
  - First time these data is used to examine pension saving of the self-employed
- Benefits of these data:
  - (Close to) the whole population of the self-employed (sole traders and partners) in the UK
  - Can follow the self-employed over time
  - Detailed measures of income and pension contributions
- We focus on a specific sample of the self-employed
  - Long-term (self-employed at least 5 years)
  - Only self-employed (no employment income)



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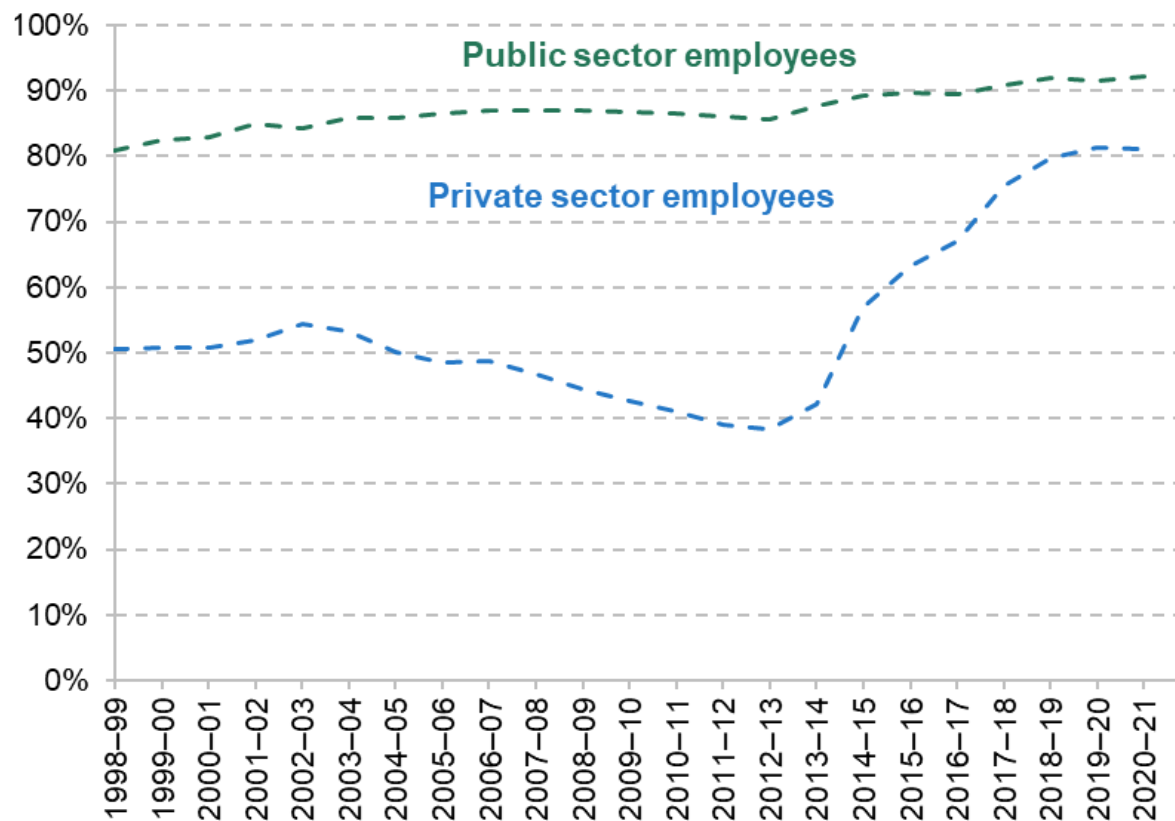
# Private pension participation among the self-employed

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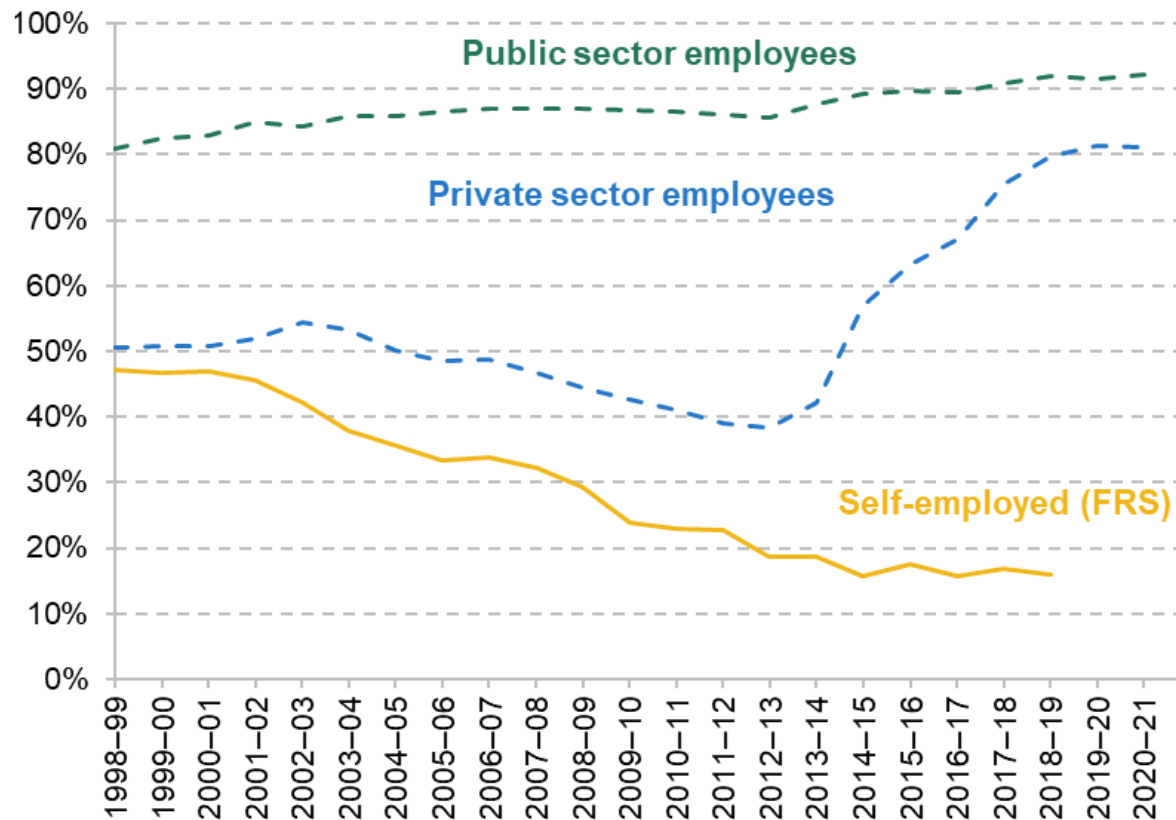
# Pension participation among the self-employed falling over time

Private pension participation among working-age employees and self-employed



# Pension participation among the self-employed falling over time

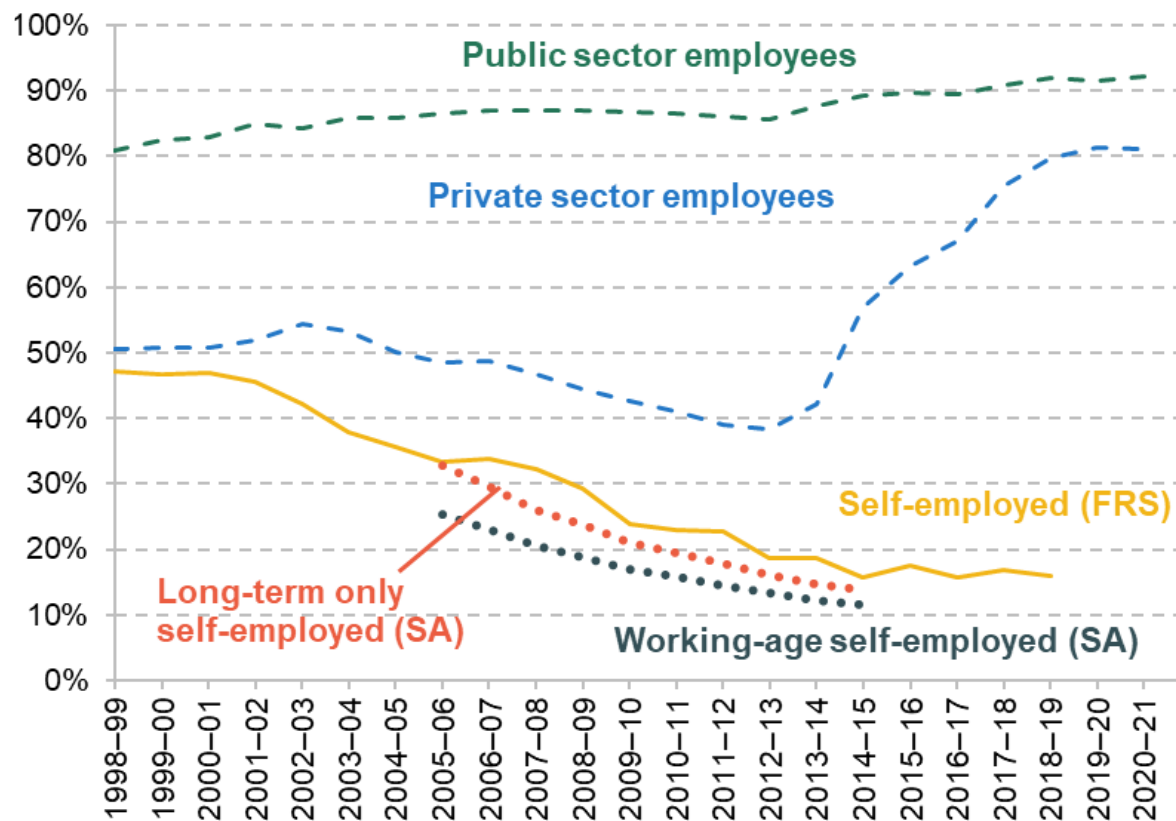
Private pension participation among working-age employees and self-employed



Source: Cribb and Karjalainen (2023) Figure 2.1. Working age only.

# Pension participation among the self-employed falling over time

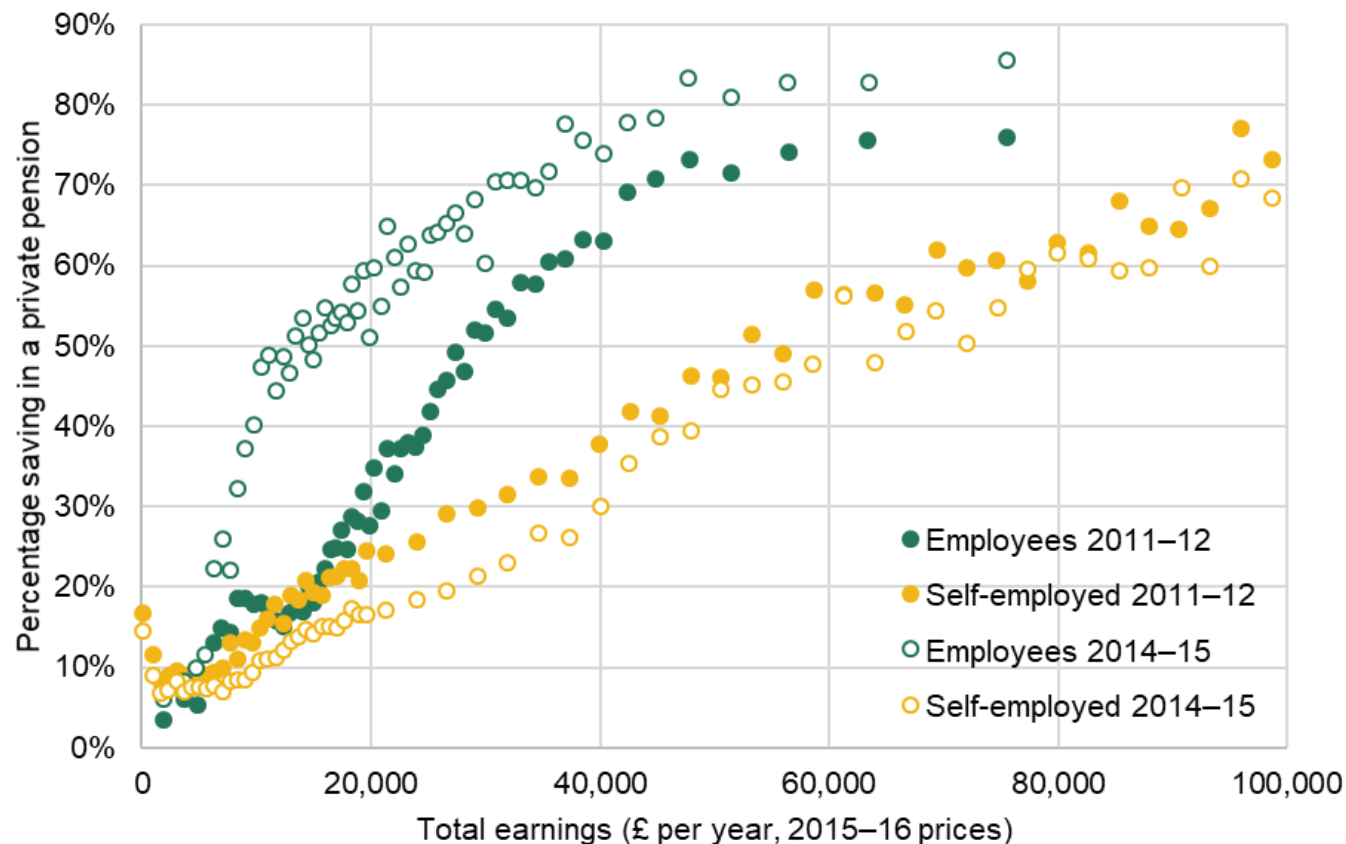
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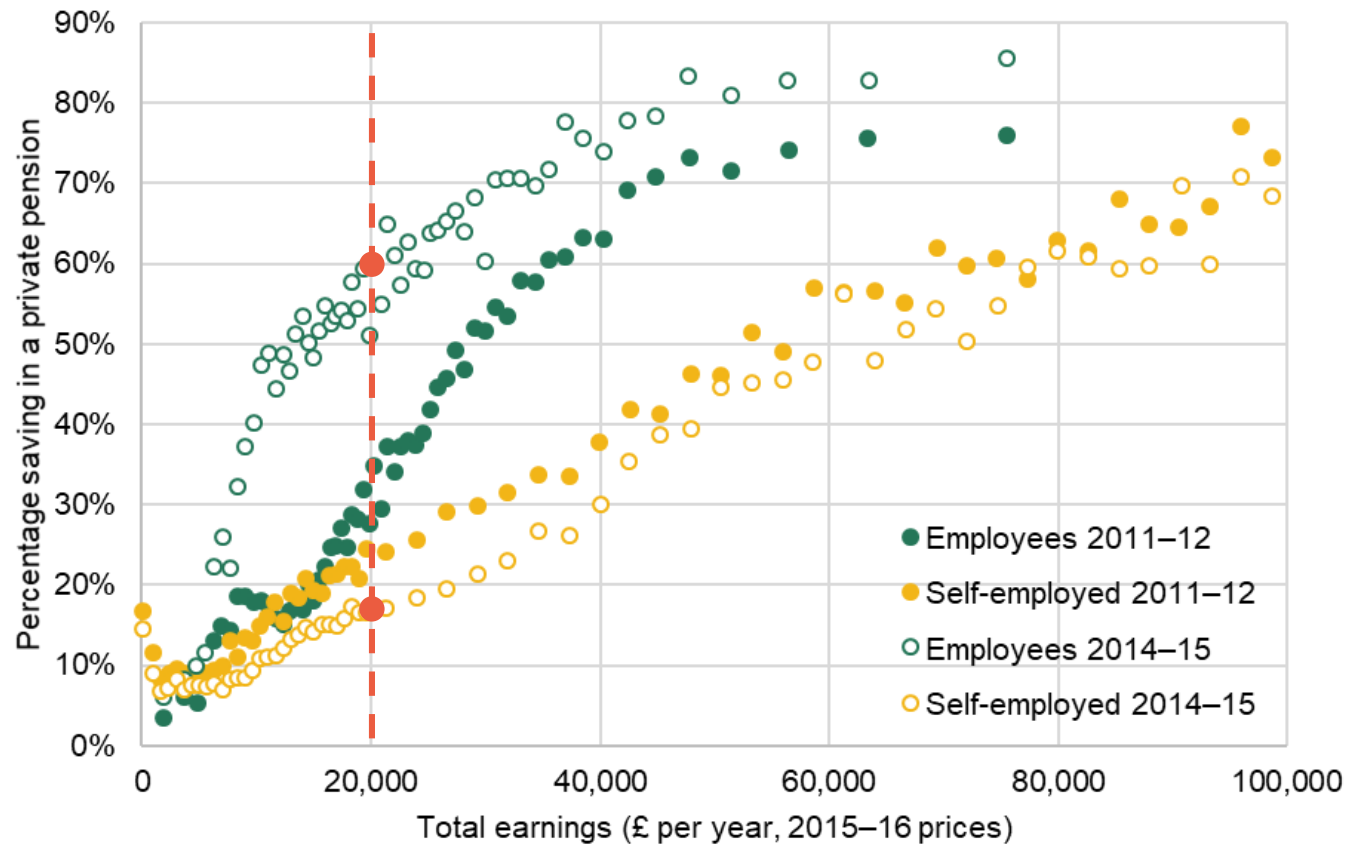
# Do differences in incomes explain differences in saving rates?

Proportion of self-employed workers and private sector employees saving in a pension by earnings



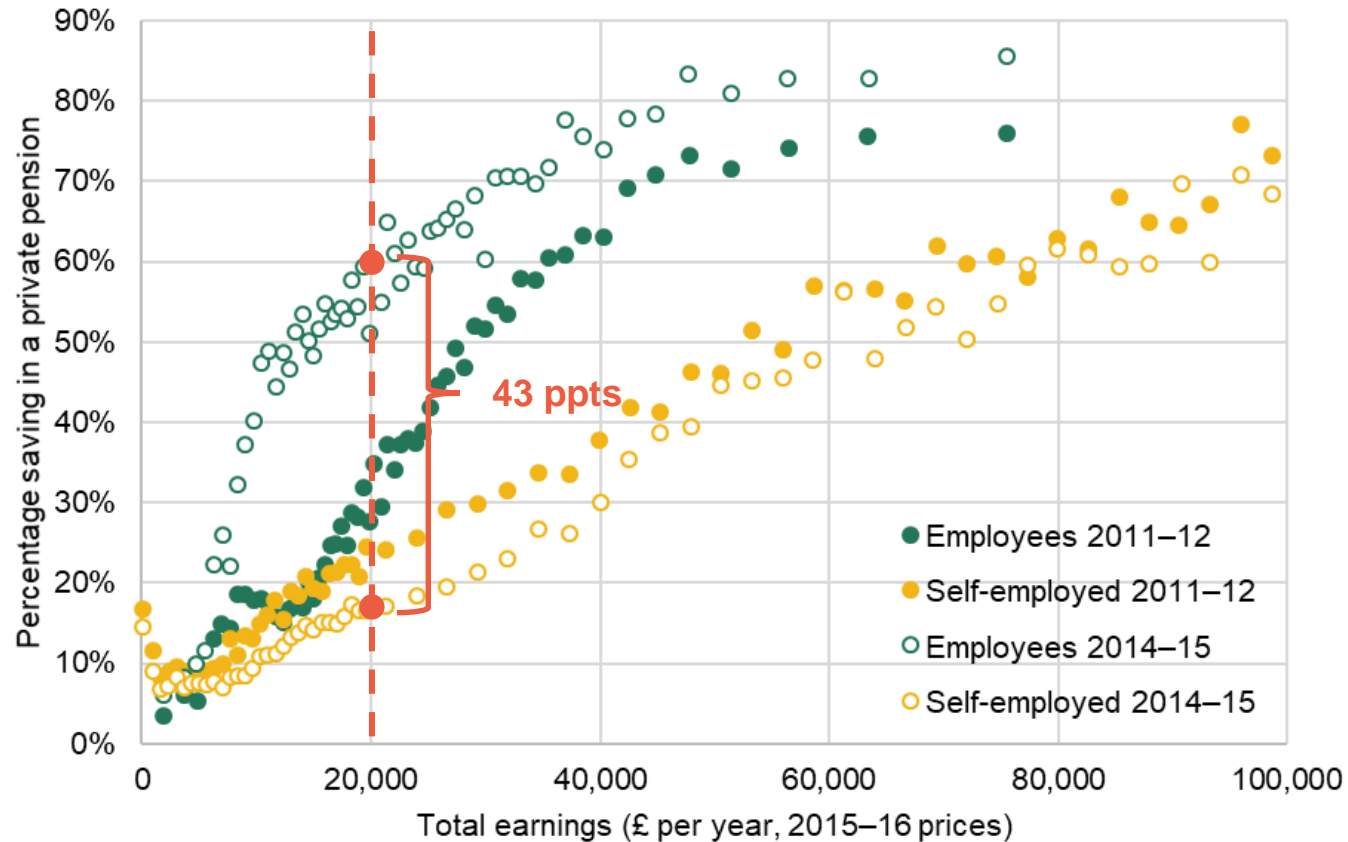
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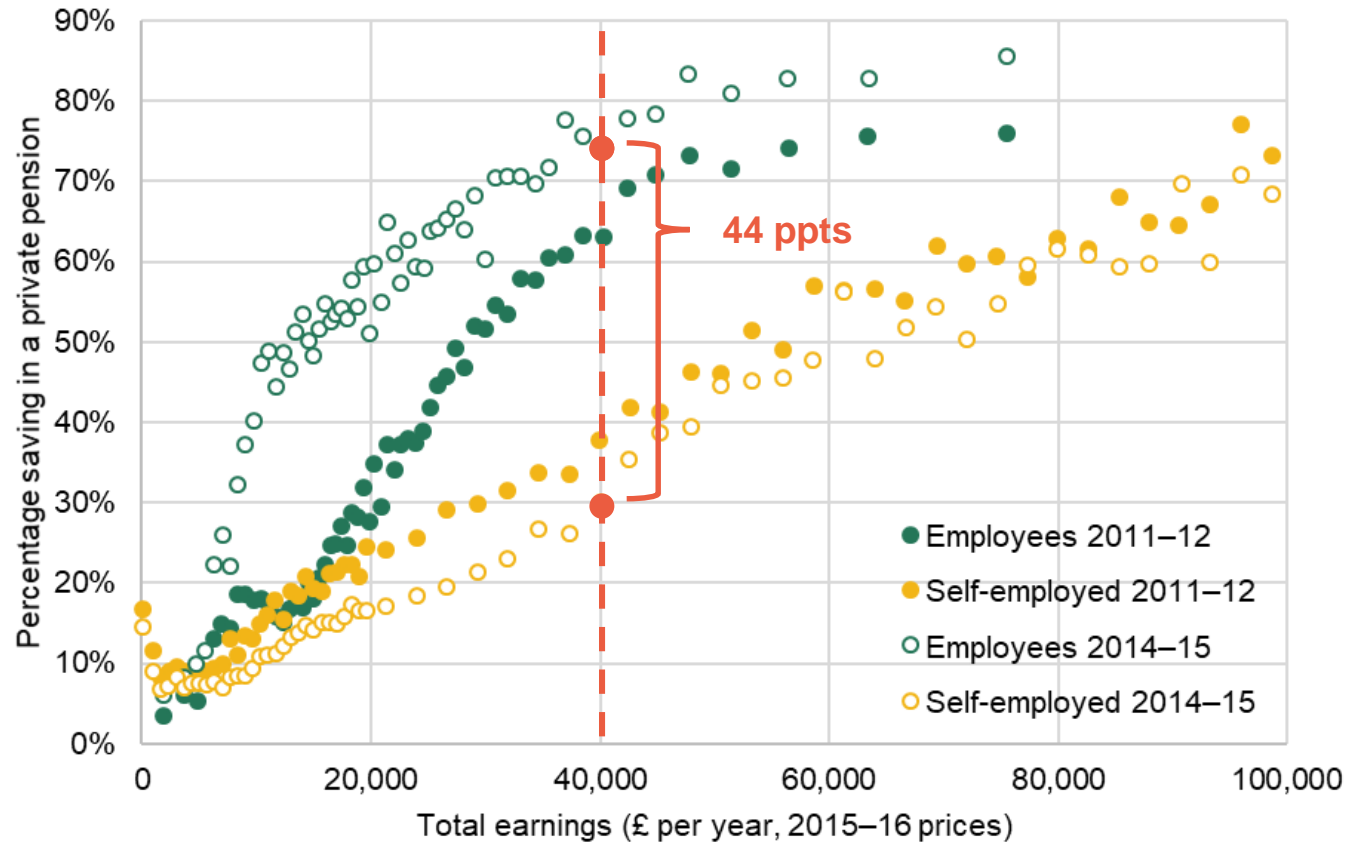
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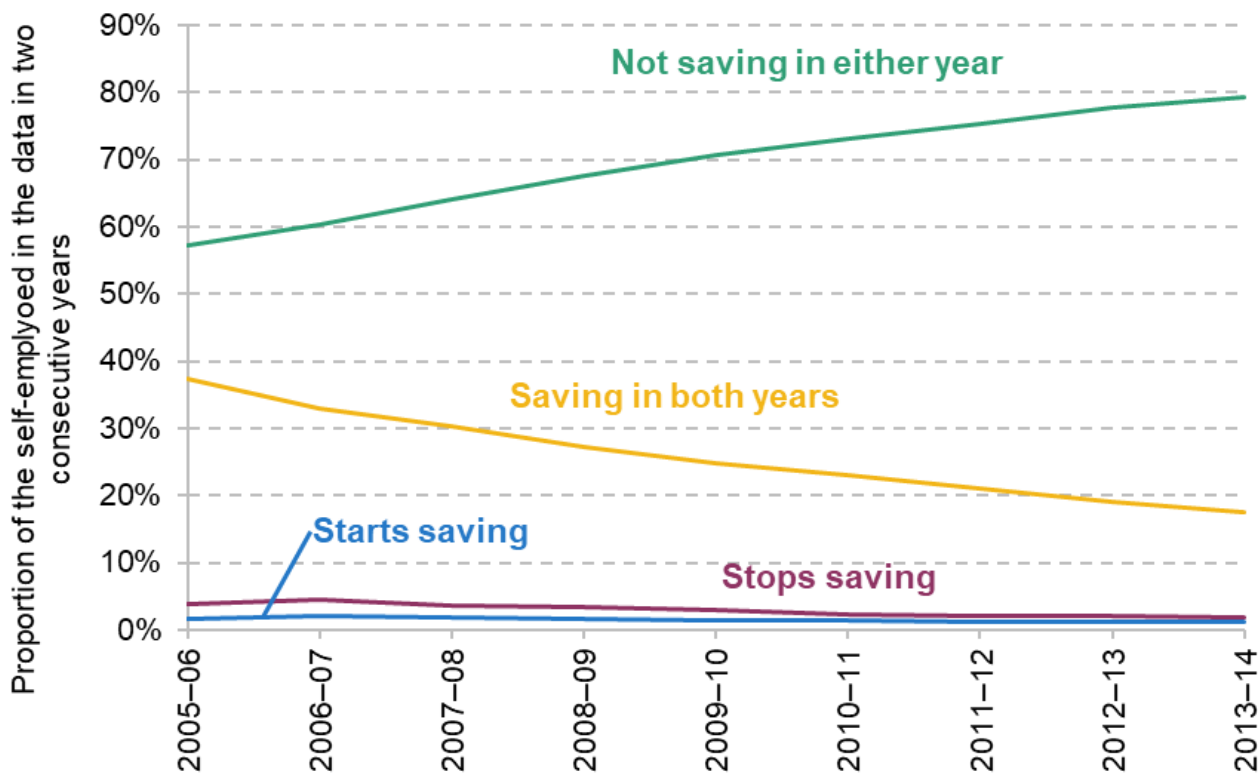
# Do differences in incomes explain differences in saving rates?

Proportion of self-employed workers and private sector employees saving in a pension by earnings



# Do the self-employed move in and out of pension saving?

Flows between starting and stopping pension saving between two consecutive years, over time







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# Pension contributions among self-employed savers

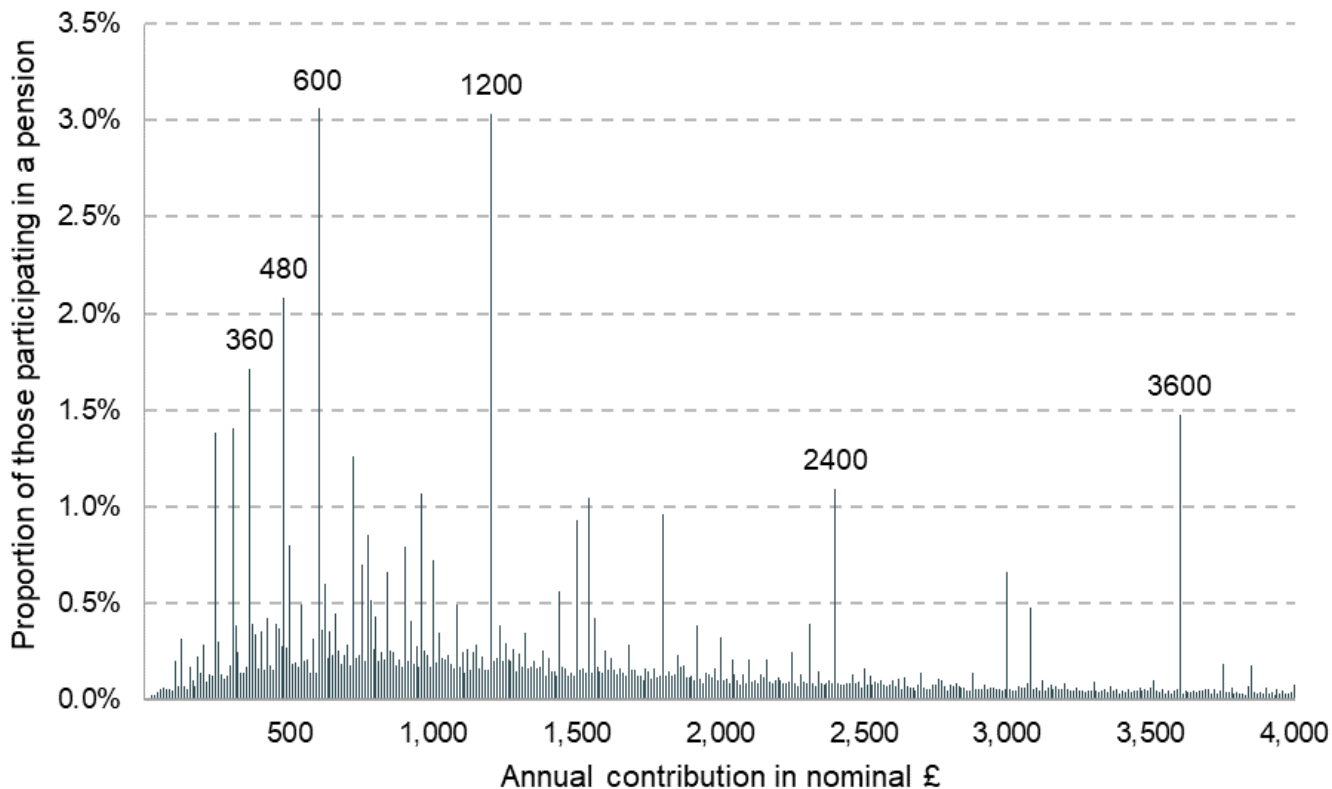
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# How much do the self-employed savers save into a pension?

- Contributions (as % of earnings) among self-employed savers are on average higher than employee's own contributions into DC pots
- But accounting for employer contributions for employees:
  - Among those earning below £20,000 per year, average self-employed contributions are higher or similar to total contributions among employees
  - Contribution rates are higher for employees in the middle of the earnings distribution

# How do the self-employed choose amounts they save?

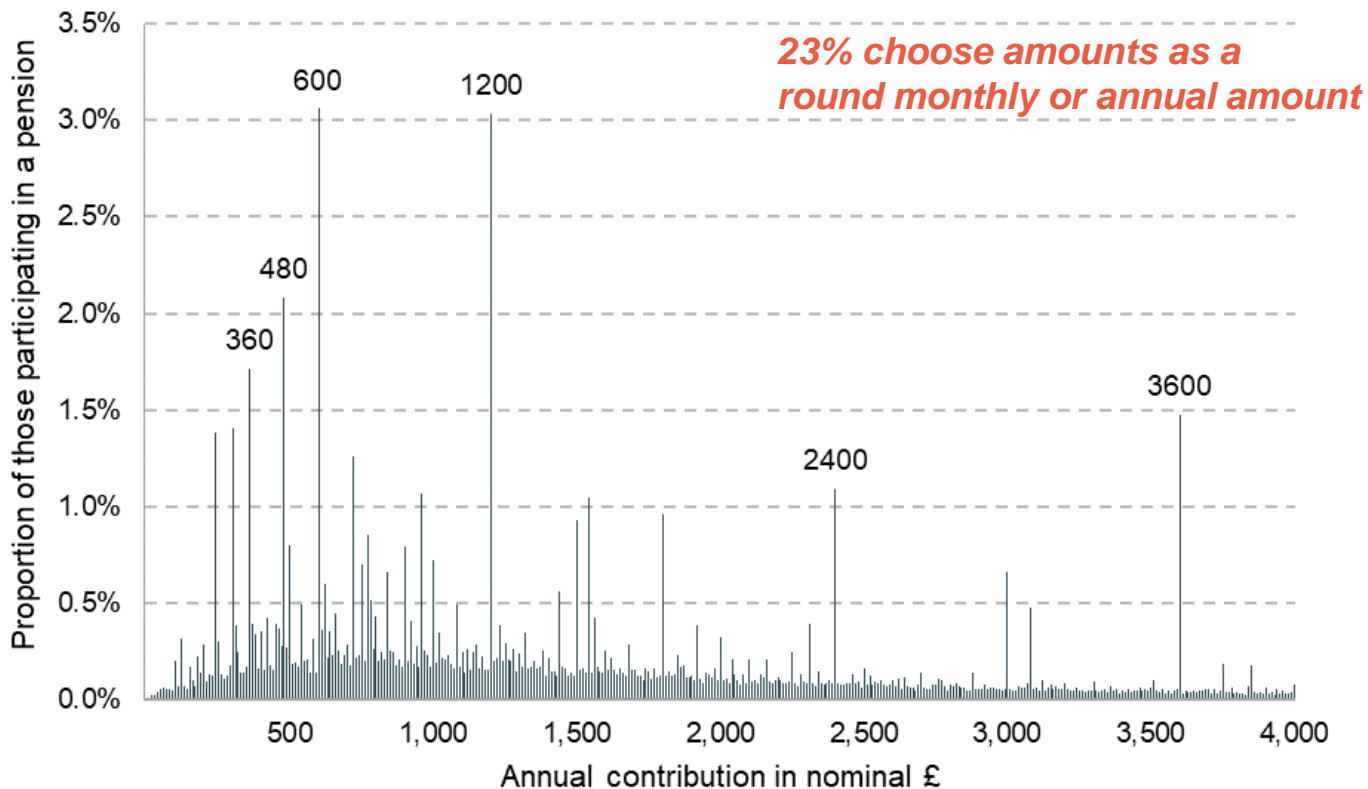
Distribution of cash pension contributions among the self-employed, pooling data from 2005–06 to 2014–15



Source: Cribb and Karjalainen (2023) Figure 2.3. Round numbers are defined as £10, £20, £25, £30, £40, £50, £60, £70, £75, £80, £90, then multiples of £100 up to £1,000, then multiples of £1,000 up to £50,000, either at annual or monthly level.

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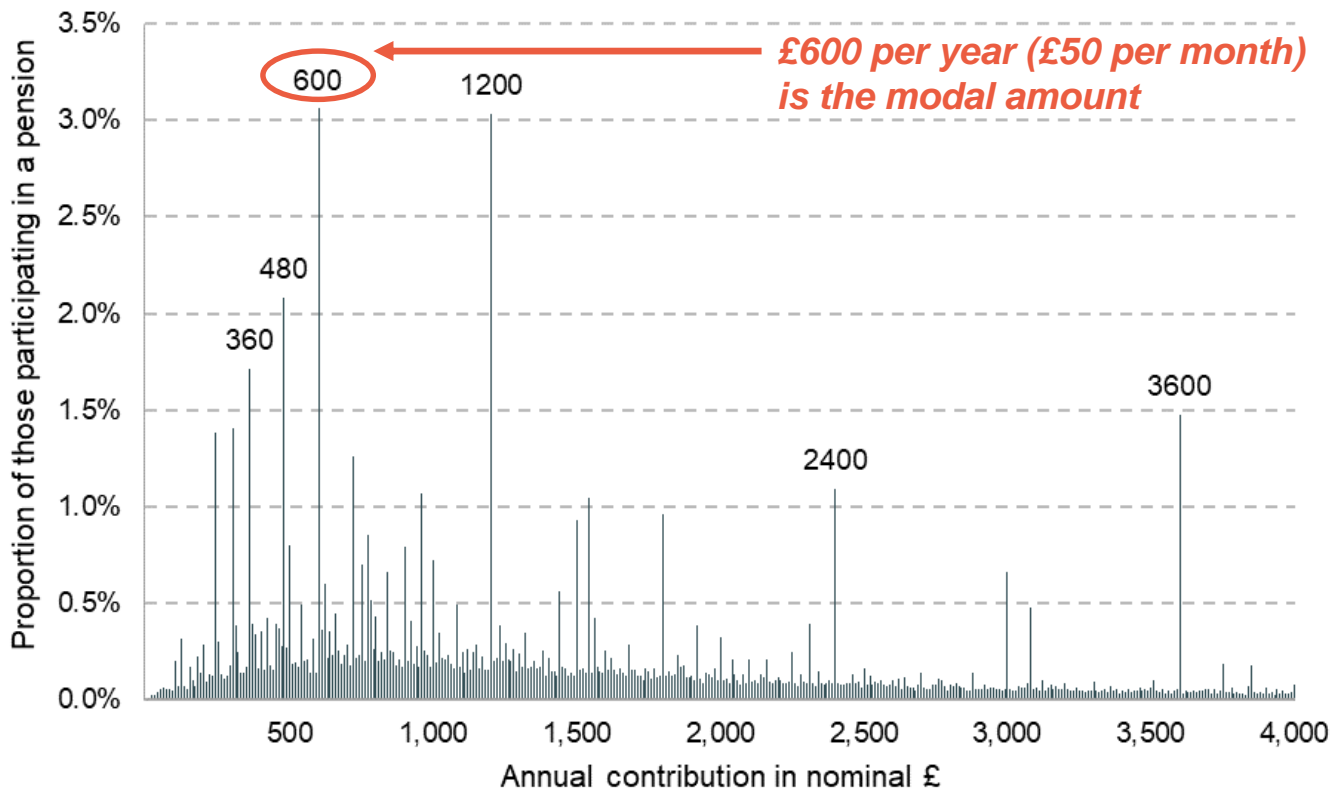
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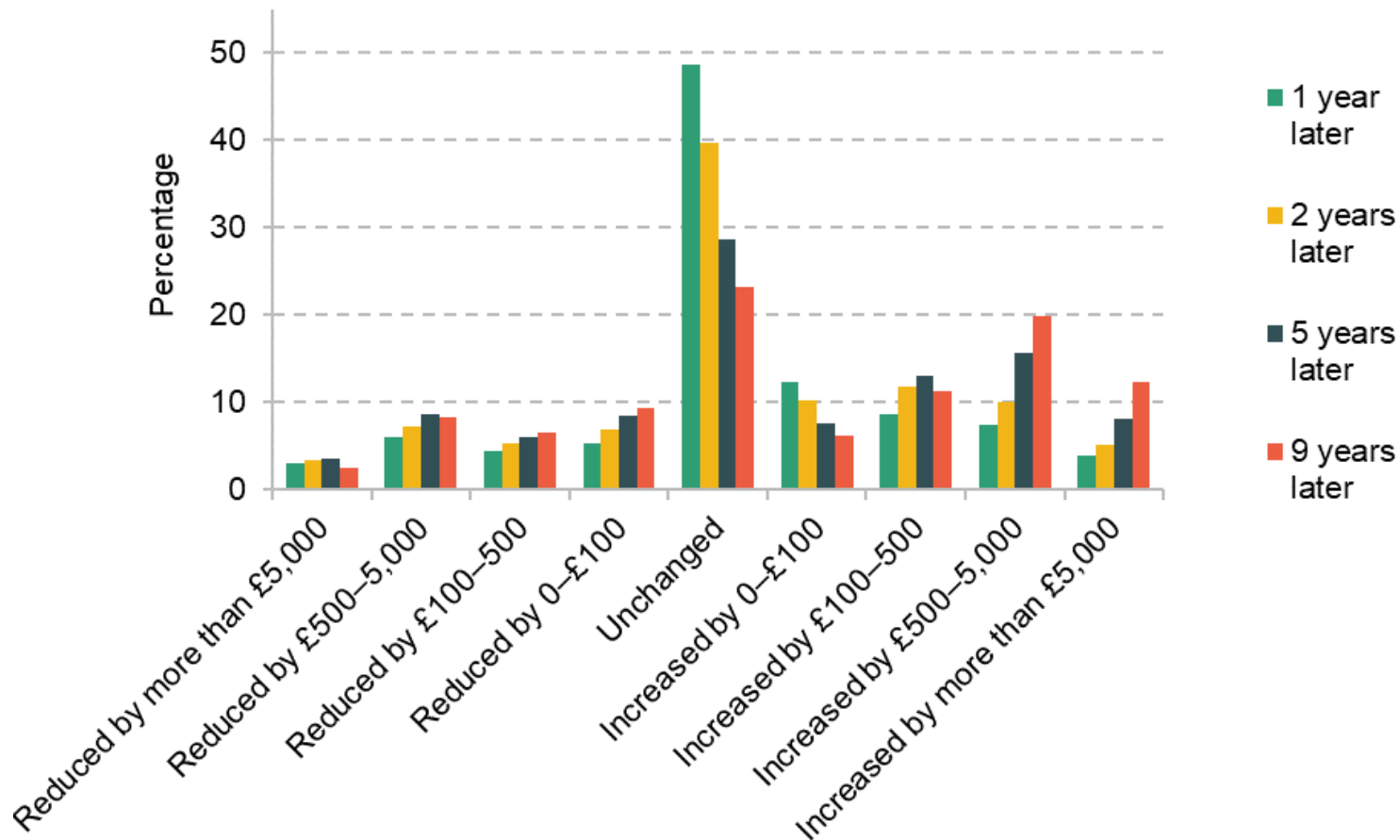
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# How do the self-employed change amounts saved over time?

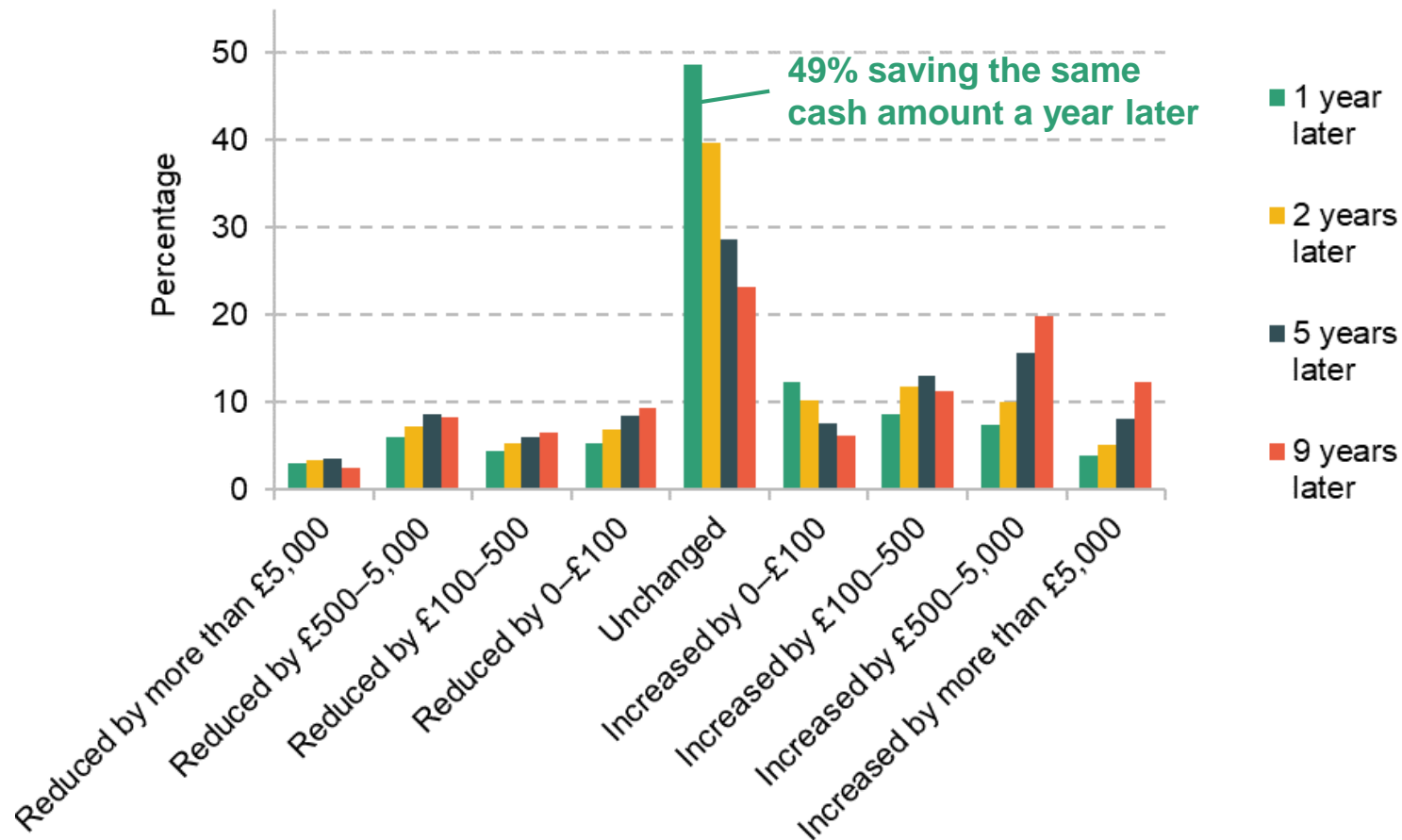
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Source: Cribb and Karjalainen (2023) Figure 2.4.

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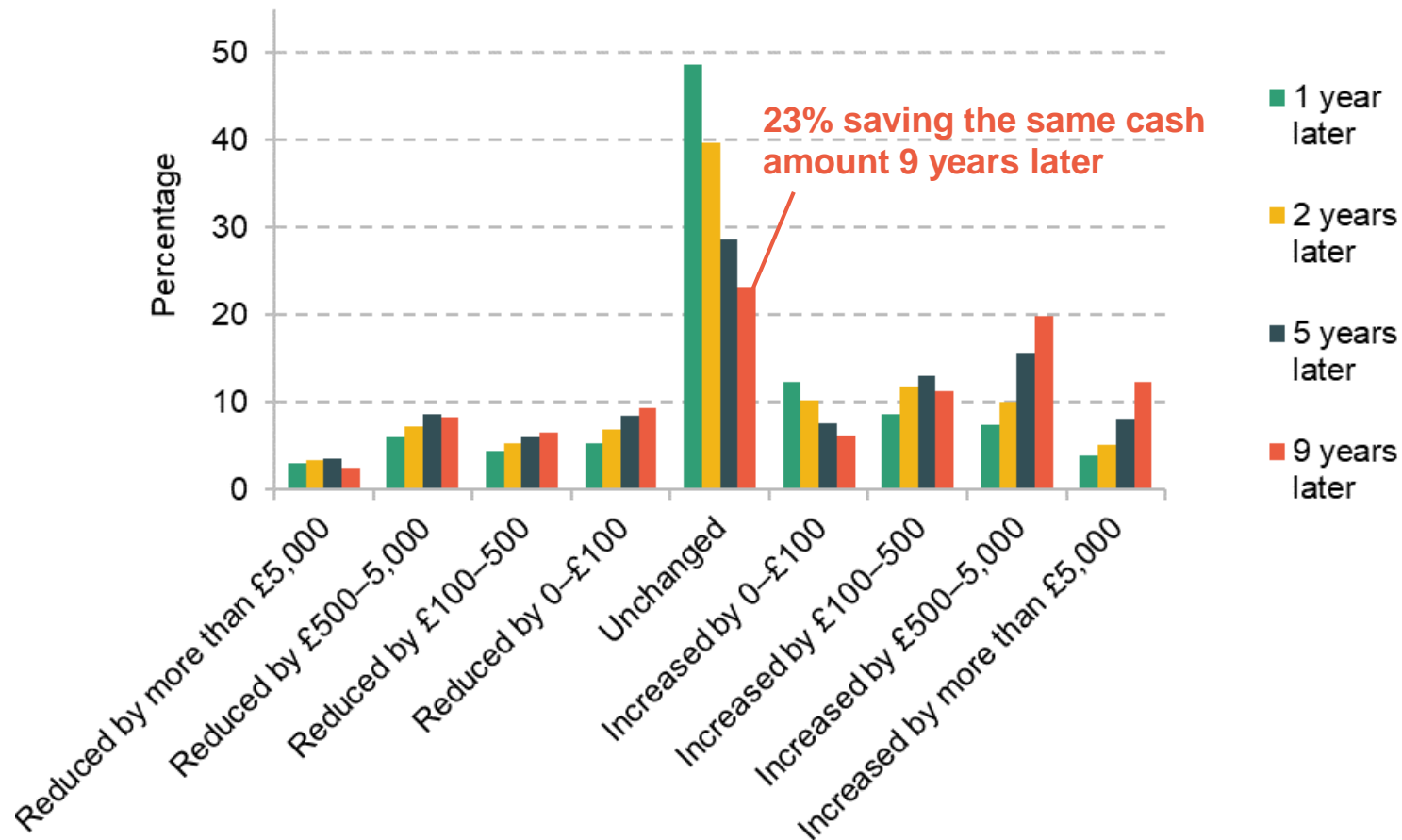
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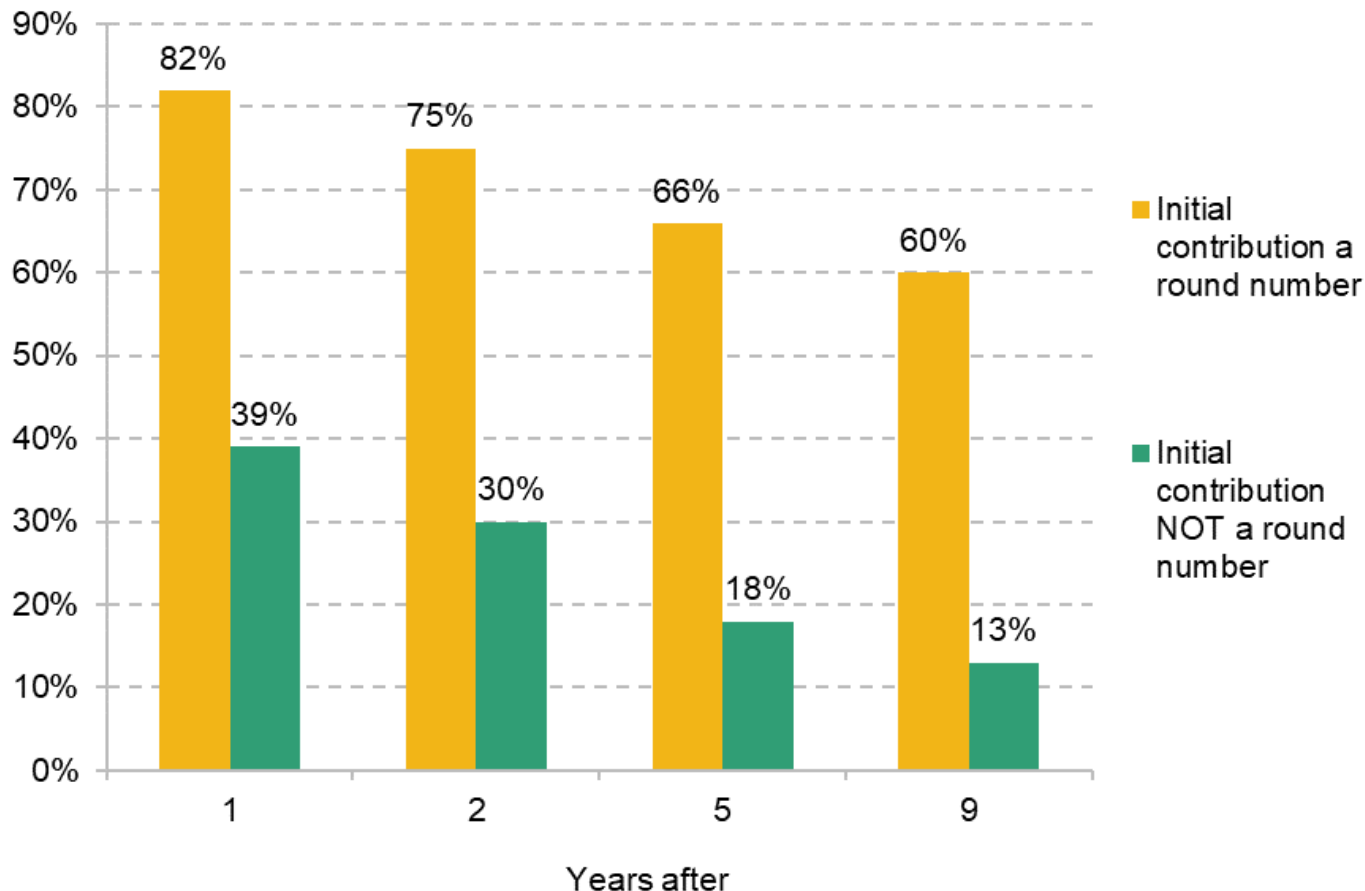


Source: Cribb and Karjalainen (2023) Figure 2.4.



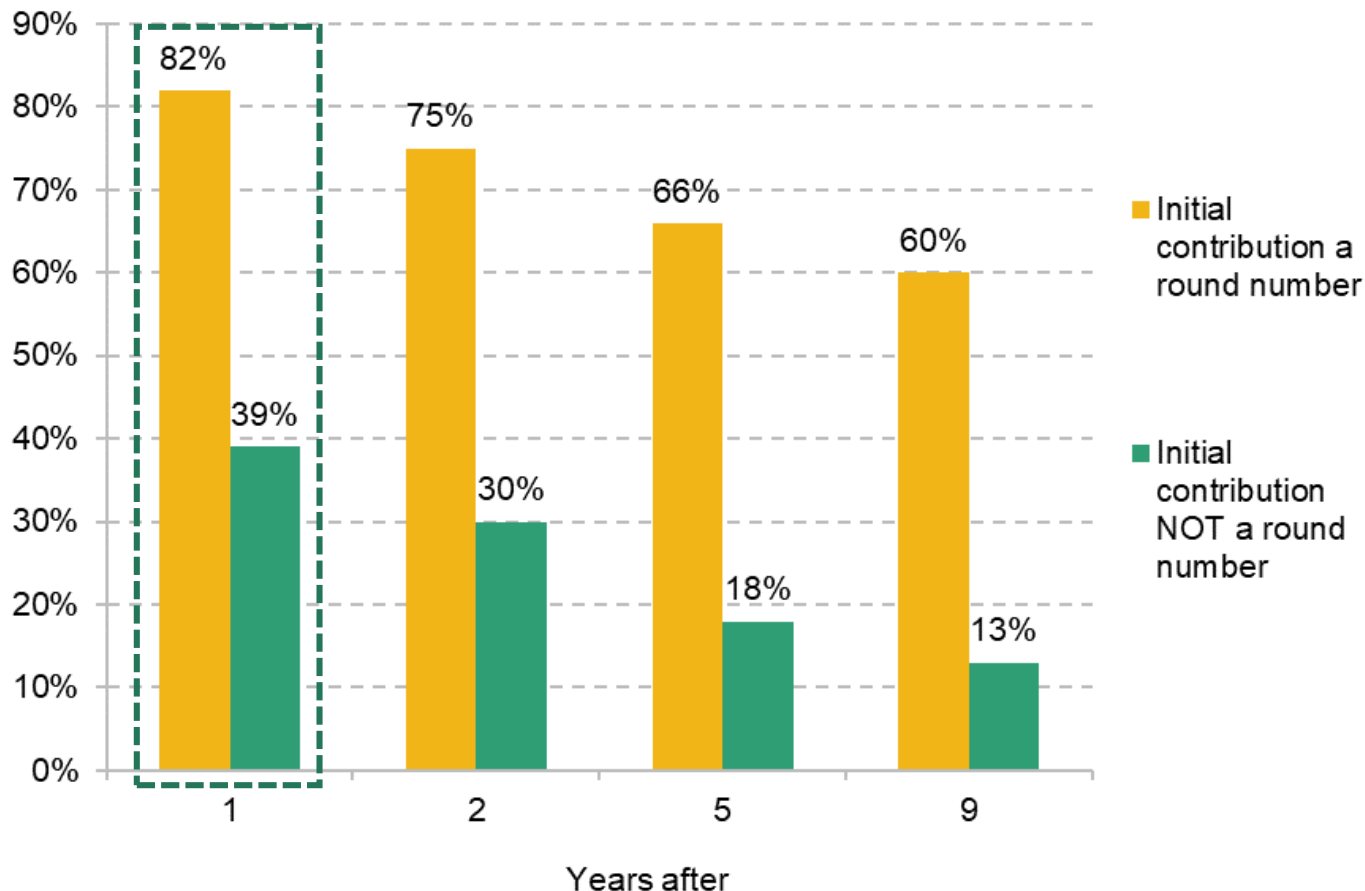
# How do the round amount savers change amounts saved over time?

Proportion saving the same cash amount after different periods of time, based on whether their initial contribution was a round number in monthly or annual terms



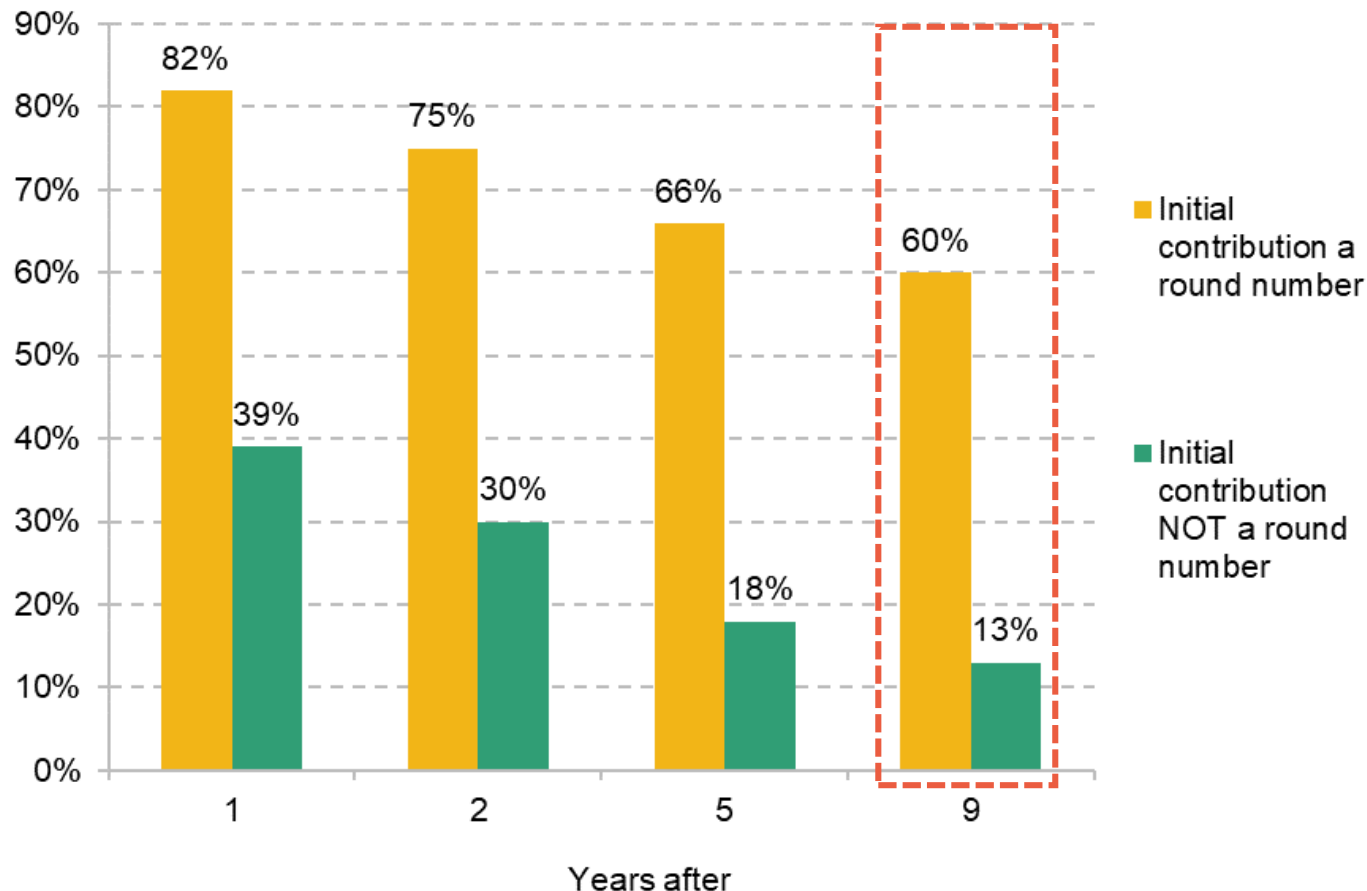
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# How do the round amount savers change amounts saved over time?

Proportion saving the same cash amount after different periods of time, based on whether their initial contribution was a round number in monthly or annual terms



# Conclusion

- Key policy challenge: encourage self-employed people to engage with the private pension system and start saving into a pension
  - But we also need to think about the amounts saved among those who do save
- Among the self-employed savers, a form of auto-escalation could be a good way to boost pension saving
- For meaningful change, new innovations on how to incorporate pension saving defaults for the self-employed are needed



Laurence O'Brien

8 March 2023

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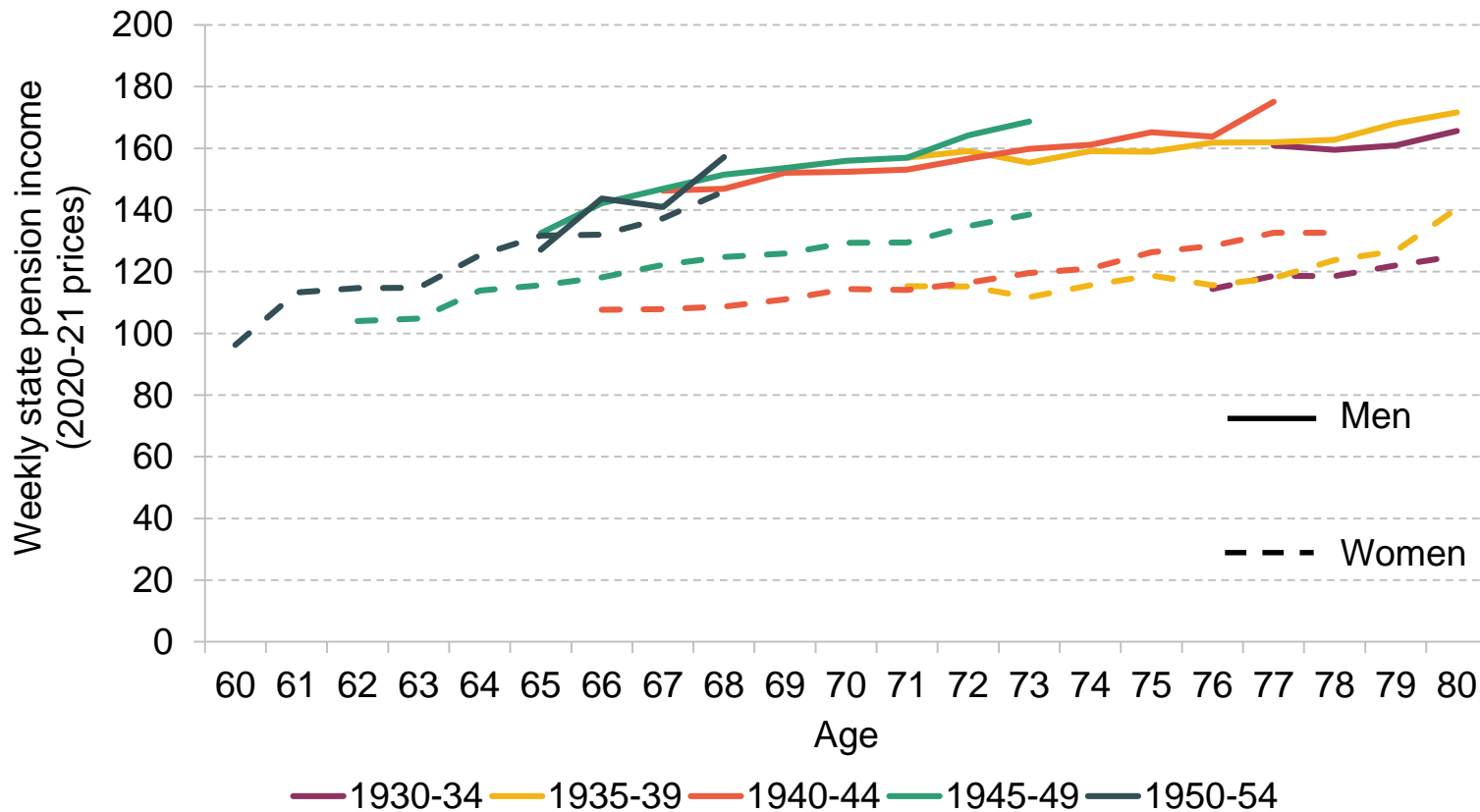
# The gender gap in pension saving

# The gender pension gap

- Gender pension gap generally refers to difference in retirement incomes between men and women
- Understanding the drivers behind the gap crucial for evaluating effectiveness of different policies
- Important to be clear which gap is being analysed, and for which group
  - Gaps in pension incomes, pension participation, pension contributions?
  - For retirees, people of working age, people working in specific sectors?

# Gender gap in state pension incomes almost closed

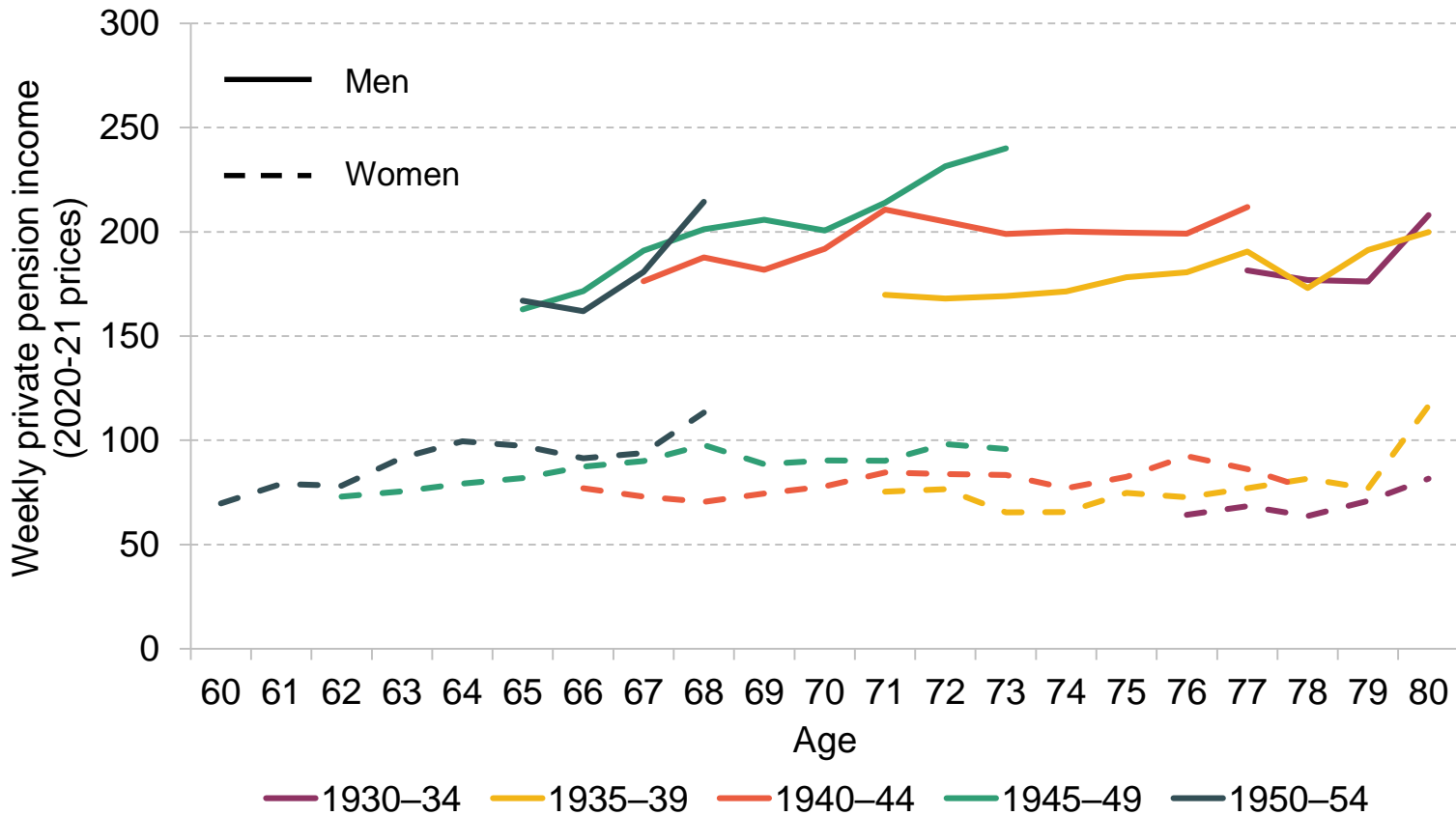
Average state pension income of men and women over state pension age, by age and birth cohort



Source: Figure 1 of Cribb, Karjalainen and O'Brien (2023)

# Gap in private pension incomes still prevalent

Average gross private pension income of men and women over state pension age, by age and birth cohort

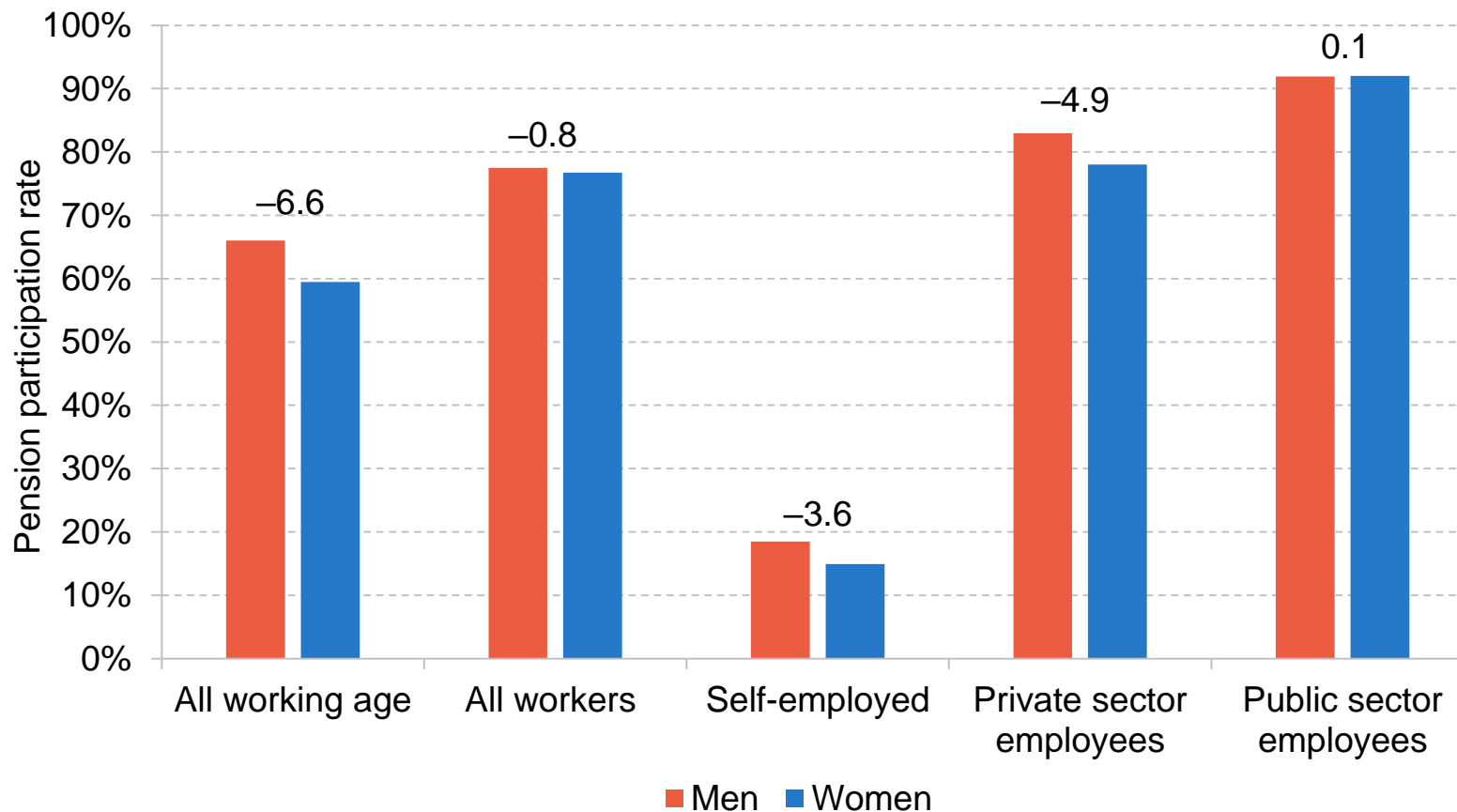


Source: Figure 2 of Cribb, Karjalainen and O'Brien (2023)



# Gaps in pension participation driven by employment rates

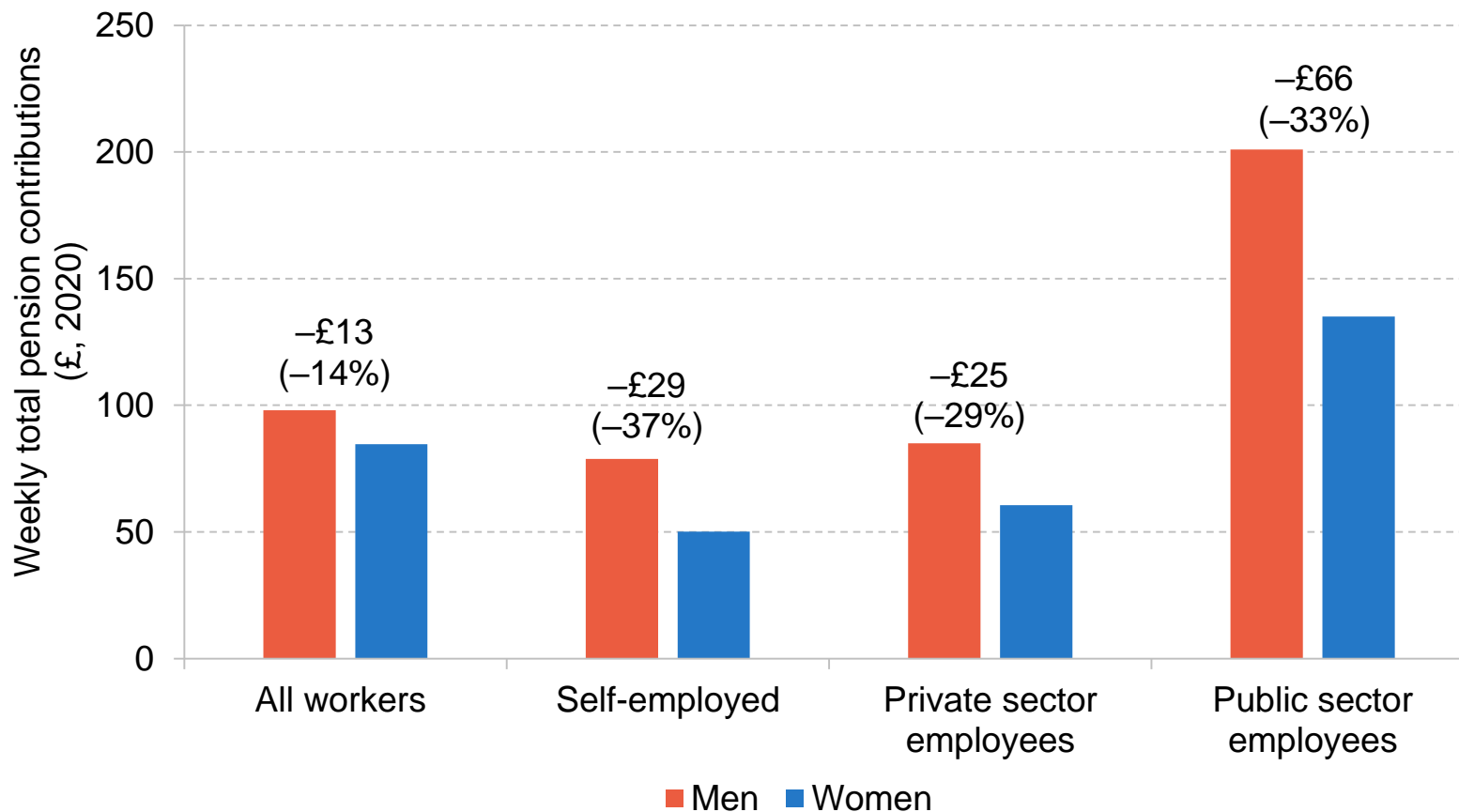
Pension participation rates for different groups of men and women aged 22–59 in 2019



Source: Figure 3 of Cribb, Karjalainen and O'Brien (2023)

# Differences in sector composition offset gaps in pension contributions

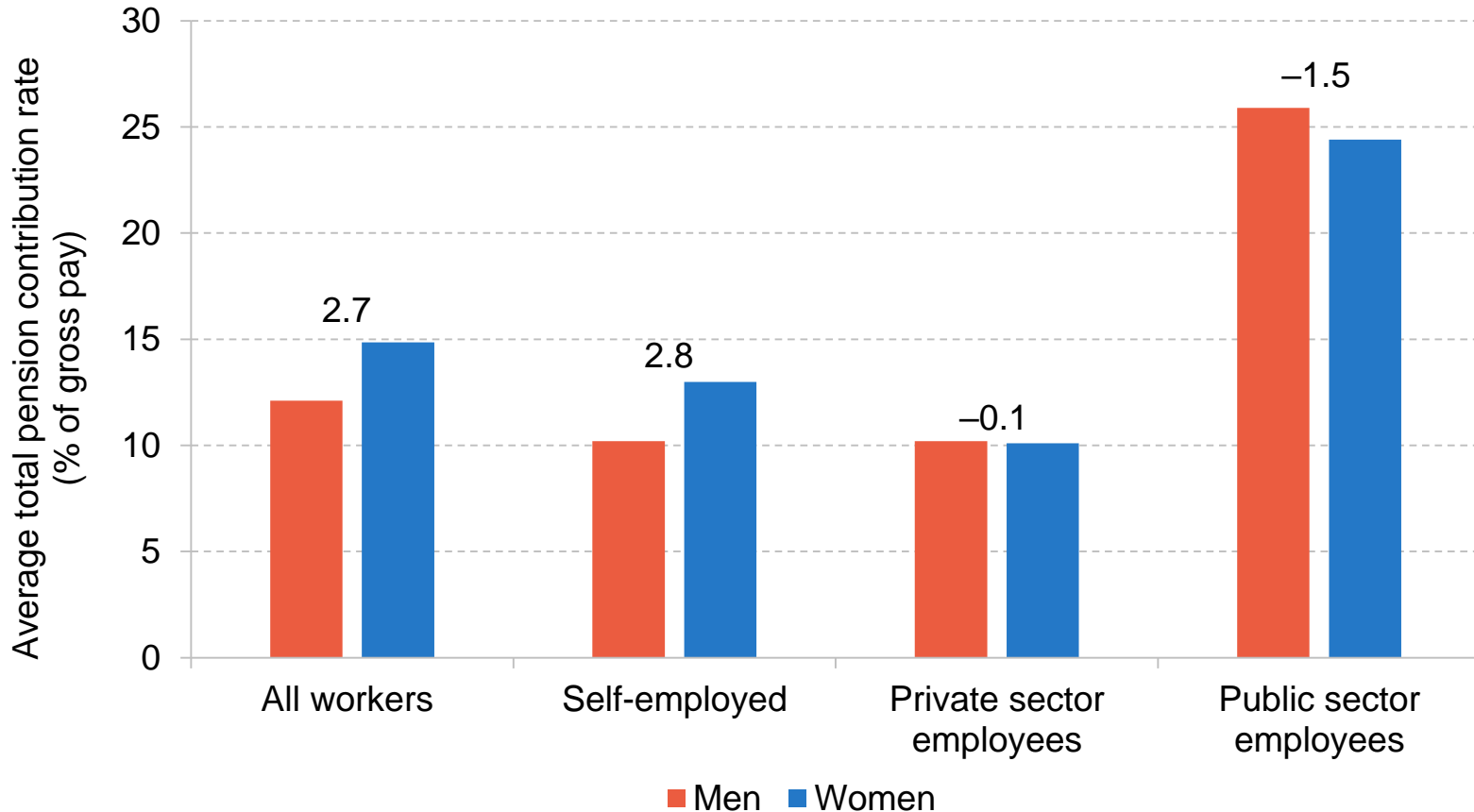
Average total pension contributions for different groups of men and women aged 22–59 in 2019, for those participating in a pension scheme



Source: Figure 4 of Cribb, Karjalainen and O'Brien (2023)

# Women actually have higher average contribution rates than men

Average total pension contribution rates for different groups of men and women aged 22–59 in 2019, for those participating in a pension scheme



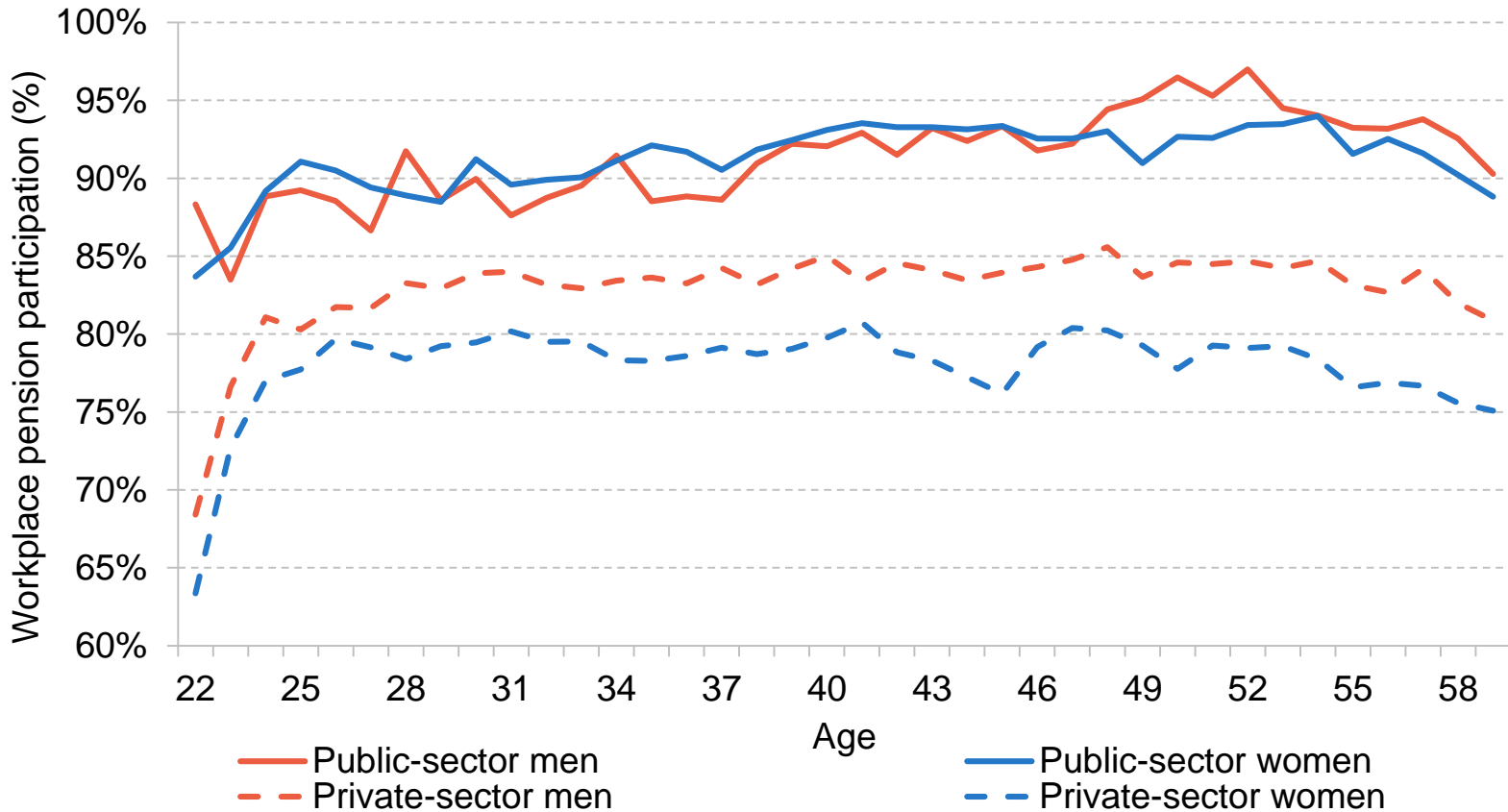
Source: Figure 5 of Cribb, Karjalainen and O'Brien (2023)

# Gender gaps in pension saving within sectors

- Differences in labour market experiences between men and women drive gender gaps in amounts saved into pensions
  - → This will be a key determinant of the gender gap in pension incomes for future retirees
- But there are also differences in pension participation and saving rates when looking at men and women working in the same sectors

# Gaps in participation for employees open up slightly with age

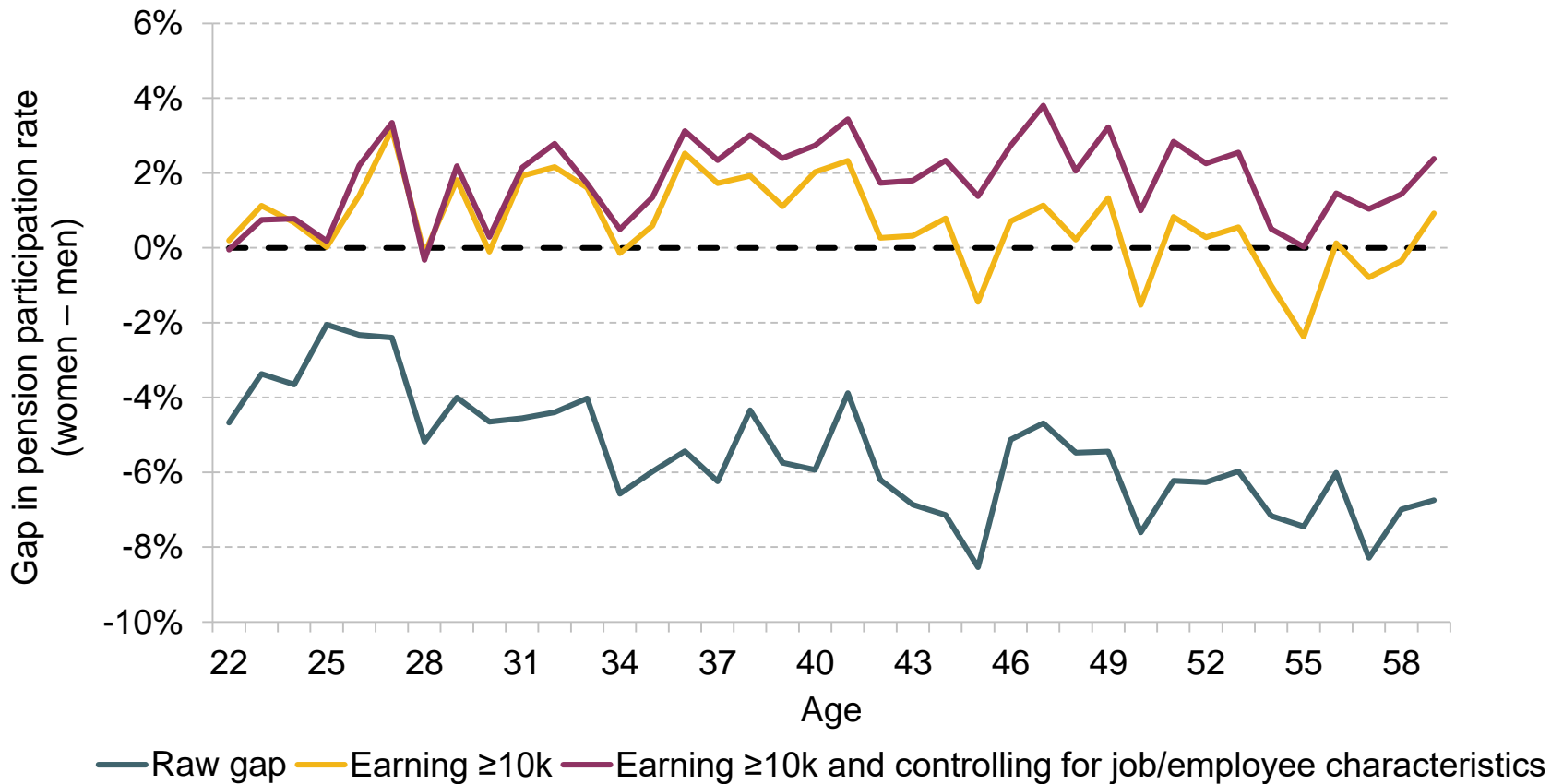
Workplace pension participation for male and female employees, by age and sector (2019 to 2020)



Source: Figure 8 of Cribb, Karjalainen and O'Brien (2023)

# Participation gap in private sector due to automatic enrolment threshold

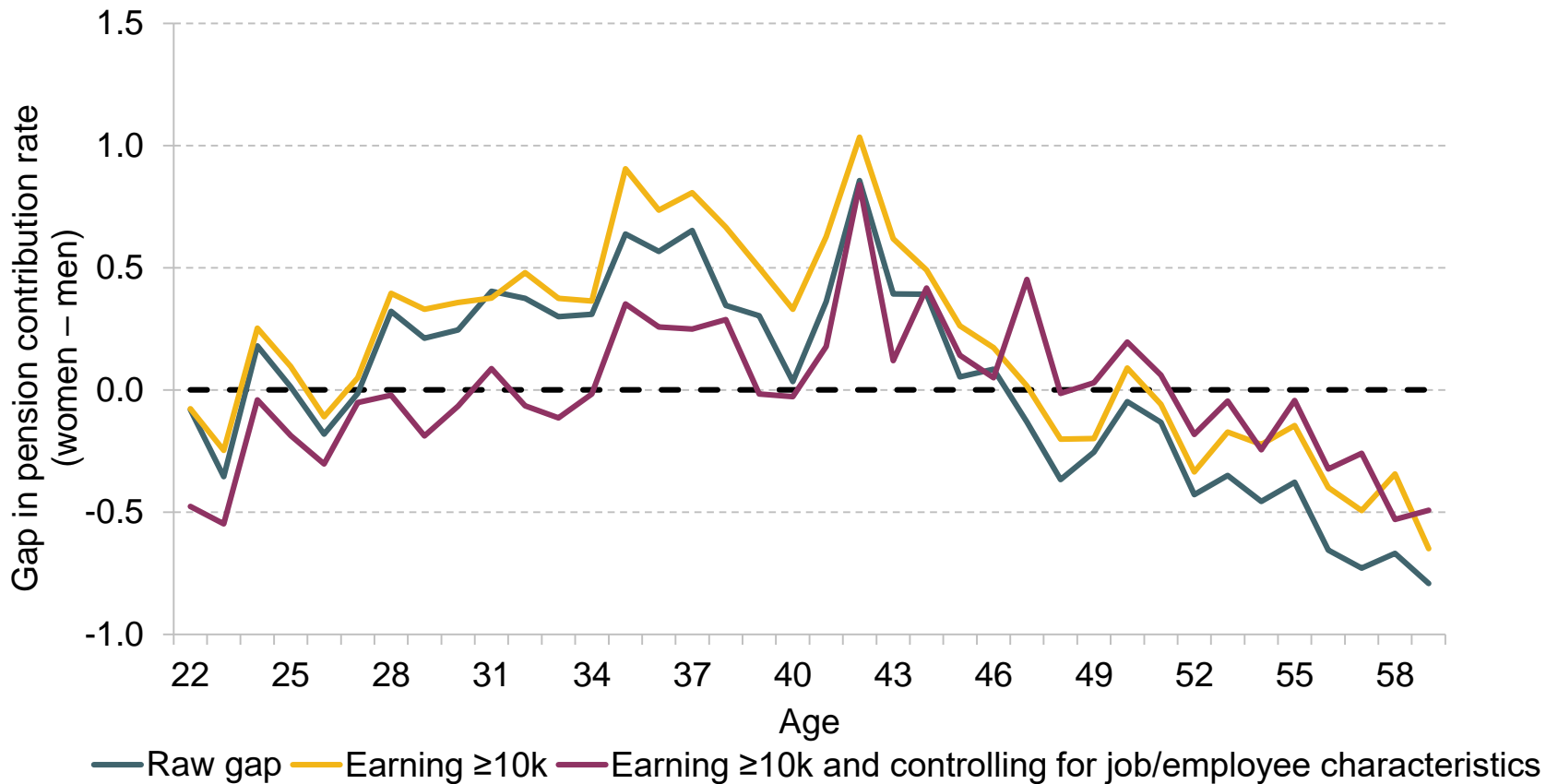
Explaining the gap in pension participation among private sector employees (2019 to 2020)



Source: Figure 10 of Cribb, Karjalainen and O'Brien (2023)

# Small gender gap in contribution rates in private sector

Explaining the gap in pension contribution rates among private sector employees participating in a pension (2019 to 2020)



Source: Figure 10 of Cribb, Karjalainen and O'Brien (2023)

# Within-sector gender gaps mainly driven by differences in earnings

## ■ **Public sector:**

- Very little participation gap
- Gender gap in contribution rates in favour of men (1.5ppt) closes to near zero after controlling for earnings and other individual/job characteristics
  - Due to structure of public sector DB schemes with higher contribution rates for higher earners

## ■ **Self-employed:**

- Gender gap in participation (3.6ppt) shrinks after controlling for earnings, but does not close completely, especially at older ages
- Among savers, women have higher average contribution rates



# Summary

- While gender gap in state pension incomes essentially closed for recent retirees, still large gap in private pension incomes
- Main determinants of gender gap in private pension saving are differences in labour market experiences
  - These particularly open up after women have children
- Differences in sectoral composition offset some of the within-sector gaps in pension saving
- Gender gaps in pension saving within sectors largely driven by differences in earnings

- Gender gap in pension saving driven by differences in employment rates, hours worked, and hourly wages
  - → Gender gap in private pension incomes will remain for decades
- Policymakers should see gender pension gap as a further consequence of labour market inequalities
  - Labour market policies might be better placed to target gap than pension saving policies
- Gap in pension participation in private sector due to £10k threshold for AE
  - But there are good reasons for many earning <£10k to not save in a pension

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