

# IFS Retirement Saving Consortium



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PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION





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@TheIFS

# Ethnic differences in private pension participation



Economic  
and Social  
Research Council

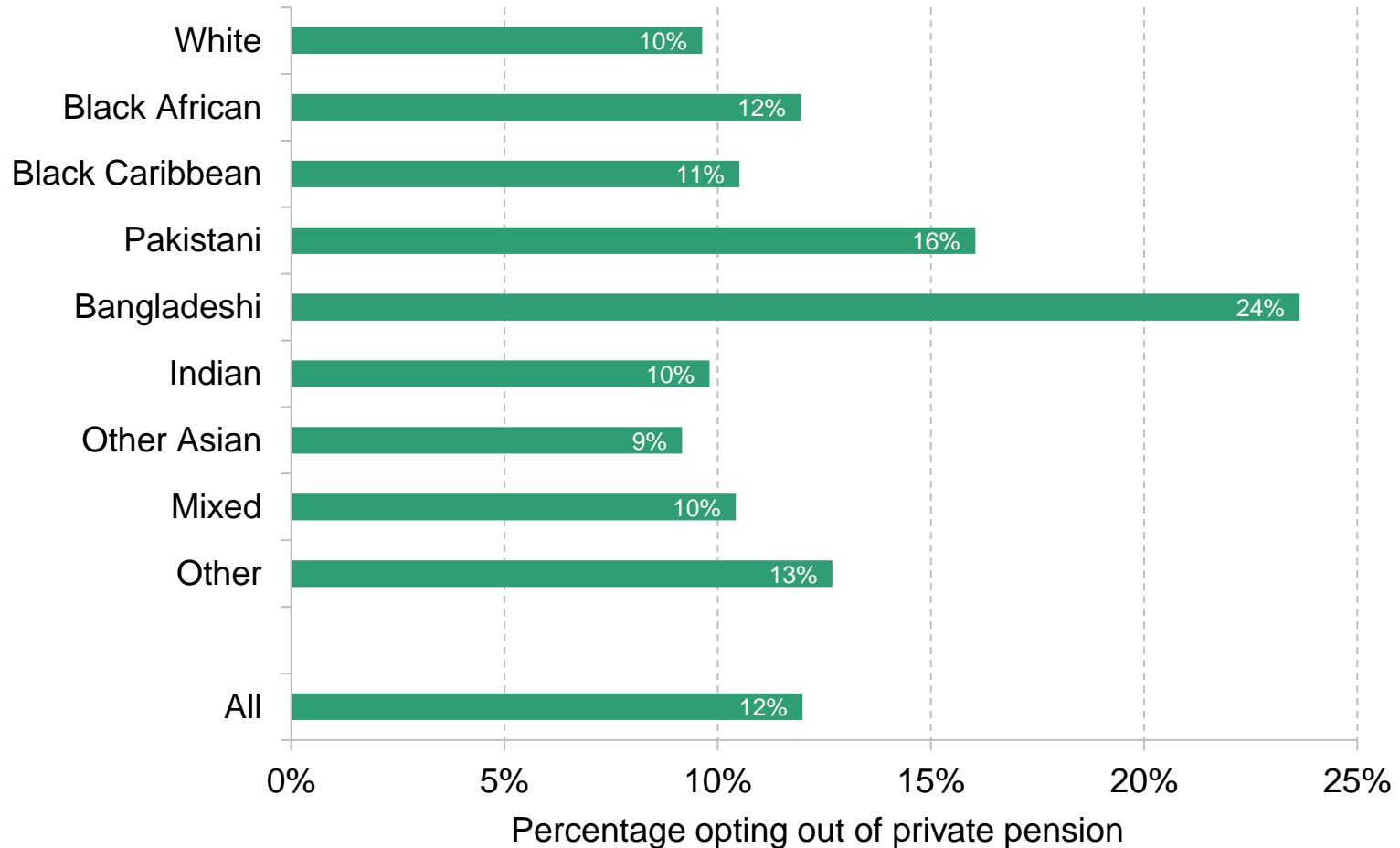
- UK is **ethnically diverse country**. According to 2021 Census:
  - Around 4% of England and Wales from Black ethnic group
  - 9% from Asian ethnic group
    - 4% from Pakistani/Bangladeshi background
  
- **Average wealth levels differ substantially by ethnicity** in UK
  - Average wealth for households with White British head over £300k
  - <£70k for households with Black African or Bangladeshi head
  
- Significant differences in the types of assets invested in by ethnicity (Karagiannaki, 2023)

- **Automatic enrolment** (AE) into workplace pensions introduced between 2012 and 2018
  - Eligible employees automatically enrolled into workplace pension
    - Eligible: Earn £10k per year, aged 22-SPA, worked for employer for at least 3 months
  - This reduced gaps in pension participation by age and earnings
- We focus on differences in pension participation rates among **AE-eligible employees** by ethnicity
  - What are the drivers of these differences?
  - What financial implications might they have for retirement?

- **Annual Survey of Hours and Earnings (ASHE)** linked to **2011 England and Wales Census**
  - ASHE completed by employers for 1% sample of employees in GB
  - Matched to Census in 2011 to obtain information on ethnicity, religion, education
  - Our focus will be on 2018
  
- Supplement with **Understanding Society** household survey dataset

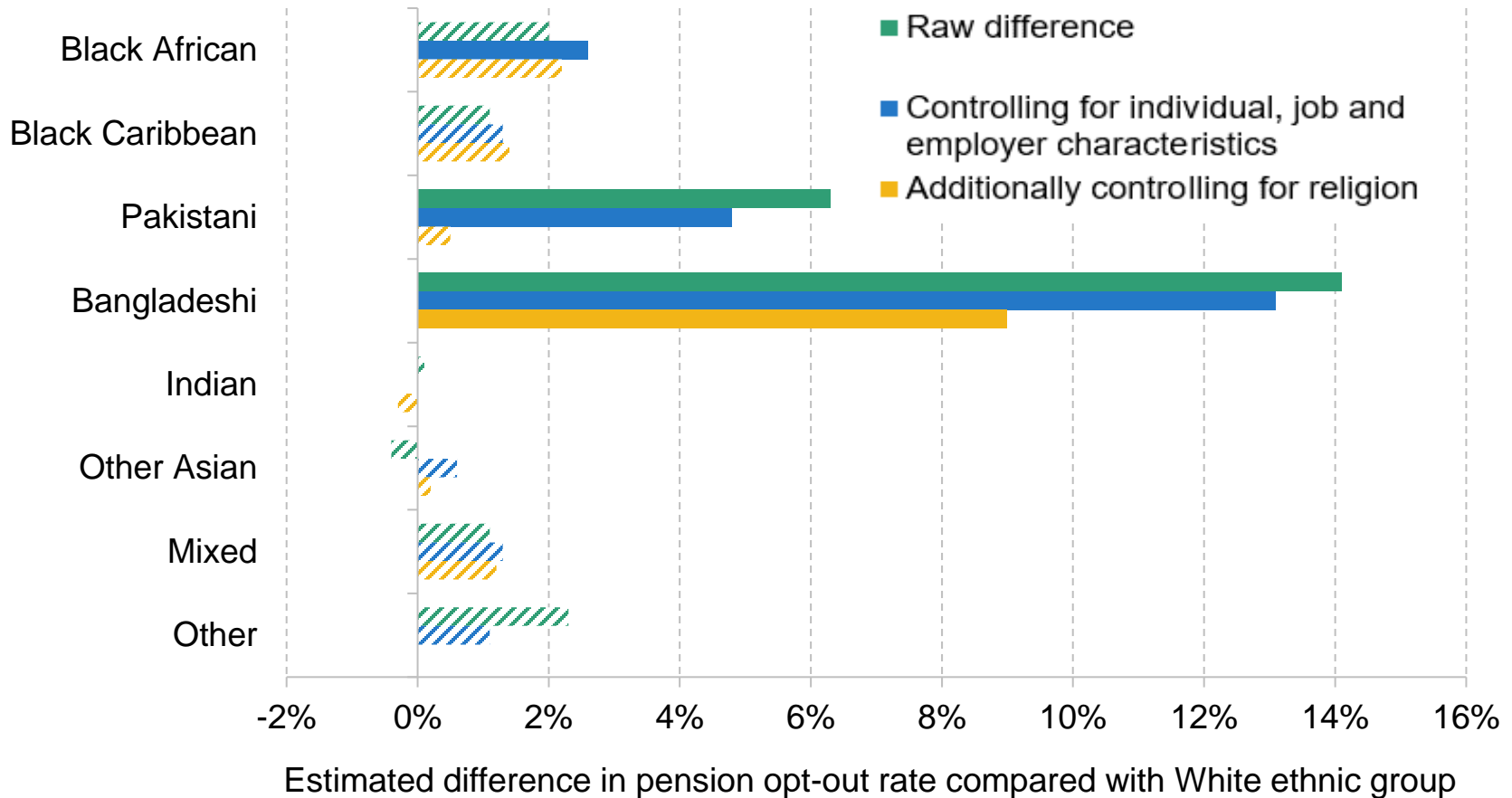
# Pakistani and Bangladeshi employees more likely to opt out

Private pension opt-out rates by ethnicity in 2018 among AE-eligible employees



# Controlling for differences in characteristics shrinks gaps marginally

Percentage-point difference in AE-eligible employees' pension opt out rate compared to white ethnic group, by ethnicity



Note: Dashed bars indicate the estimated difference is not statistically significant from zero.

Source: Figure 2 from Cribb, O'Brien and Sturrock (2025)

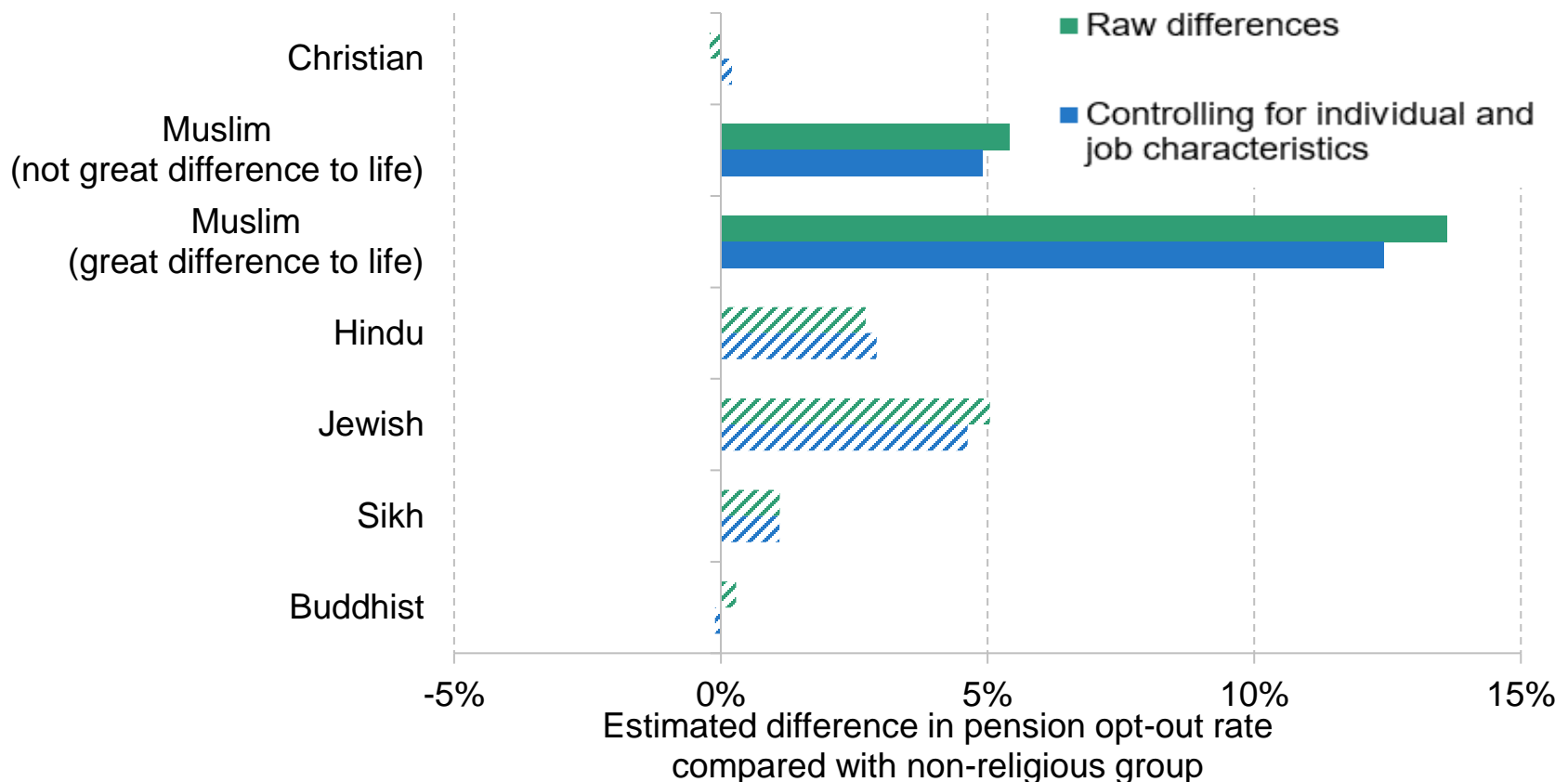
# Why might religion be associated with higher opt-out rates?

- Around 90% of Pakistani and Bangladeshi employees are **Muslim**
- Islam provides teachings on savings and investments:
  - **No interest**: avoid bonds etc.
  - **Ethical investments**: avoid e.g. alcohol, tobacco industries
  - **Transparent**: avoid complex investment methods
- Whether private pensions Sharia compliant depends on type:
  - Defined benefit: typically considered Sharia compliant
  - Defined contribution: depends on fund invested in



# Muslims whose beliefs make greater difference to life more likely to opt out

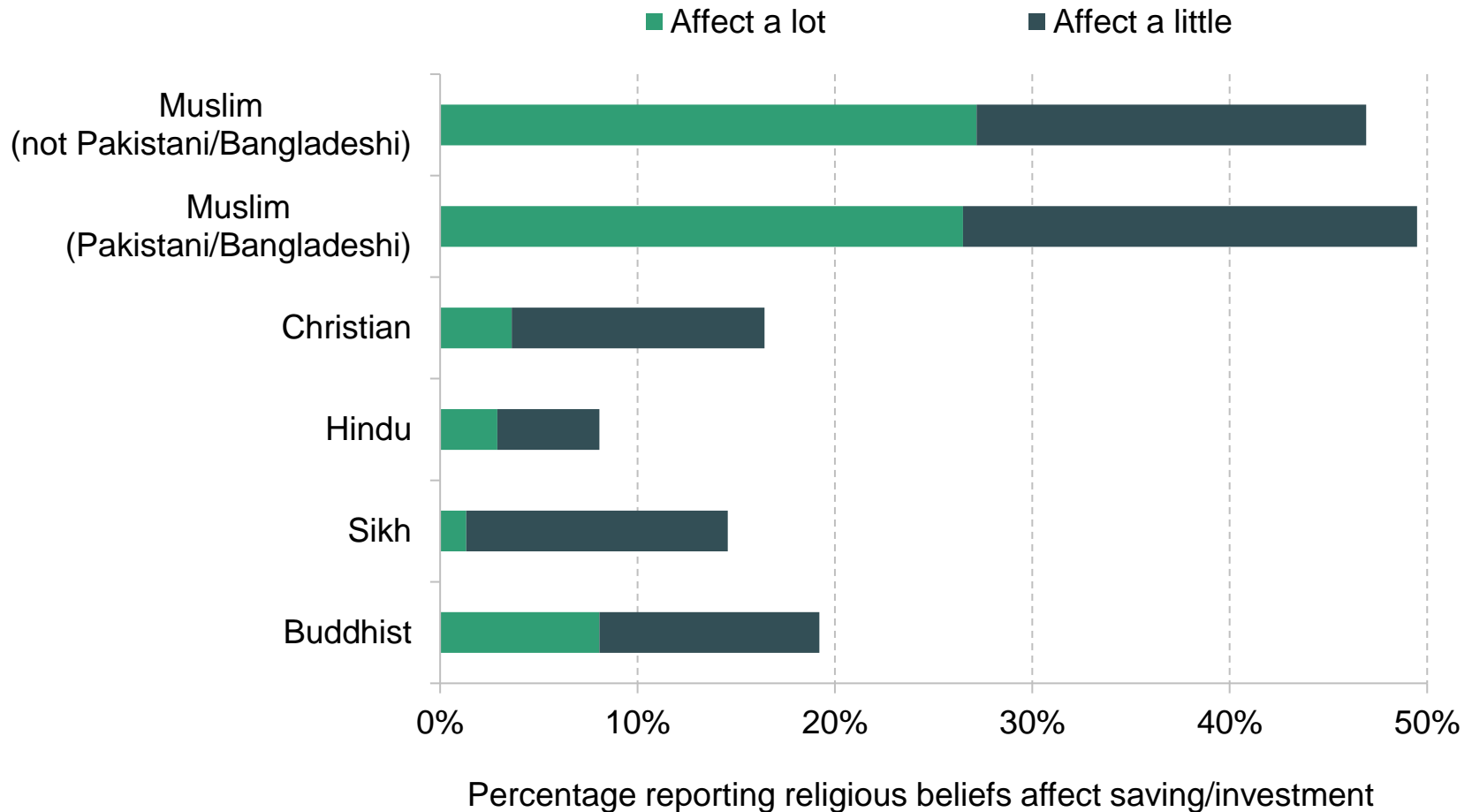
Percentage-point differences in pension opt-out rates of AE-eligible employees compared with non-religious employees, by religion



Note: Dashed bars indicate the estimated difference is not statistically significant from zero.

Source: Figure 3 from Cribb, O'Brien and Sturrock (2025)

# Half of Muslims say religious beliefs affect saving and investment decisions IFS



# Further evidence that religion is associated with ethnic gaps

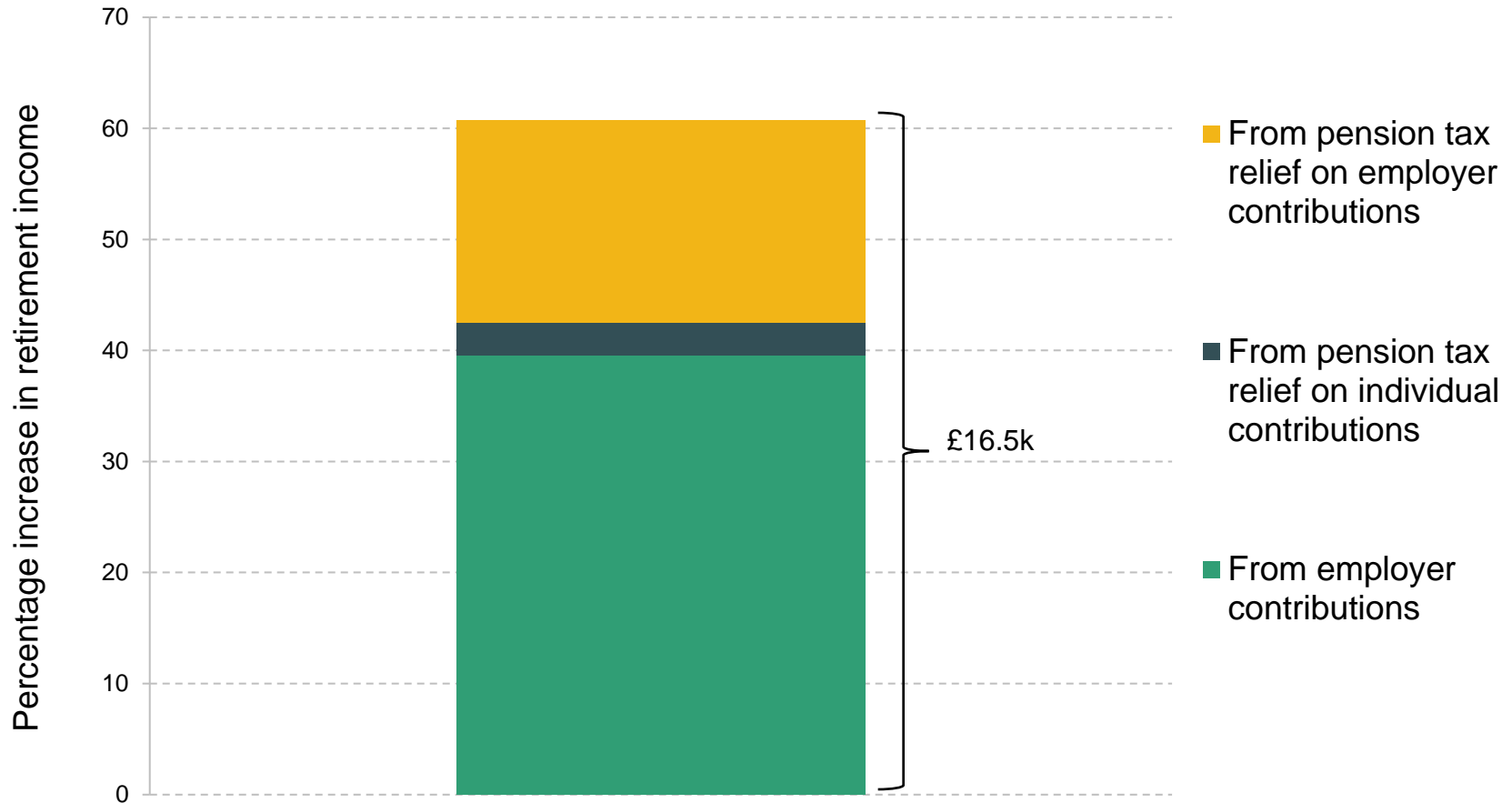


- Pakistani and Bangladeshi employees hold more financial wealth in non-interest-bearing assets
- They also hold more wealth in (non-main) property
- No evidence of different expected returns from pensions vs. other assets

# What are the financial implications of consistently opting out of pension?

- Take a typical Pakistani/Bangladeshi employee who opts out of their pension
- Compare retirement incomes when:
  - Employee saves in a **private pension** vs. **ISA** consistently throughout working life
- Assumptions:
  - Constant saving rate throughout working life
  - All saving receives same rate of return
  - Retire at state pension age and buys inflation linked annuity

# Saving in pension leads to large increase in retirement income



# Policy implications

- Case for increasing awareness of Sharia-compliant pensions
- And reducing hassle costs of switching to them for DC schemes
- Pakistani and Bangladeshi employees would disproportionately benefit from non-contingent employer pension contribution
- Increases in (contingent) employer contribution might make employees who opt out worse off
- Good case for more specific research into this issue and trialling policy options

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