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IFS Report

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Ethnic differences in private pension participation after automatic enrolment

Economic and Social Research Council

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Executive summary

This report examines ethnic differences in pension participation in the UK following the nationwide roll-out of automatic enrolment, the drivers of those gaps, and the consequences for wealth accumulation. It draws on an academic research paper (Cribb, O'Brien and Sturrock, 2025) published alongside this report which provides a fuller examination of these issues.

Key findings

1. Automatic enrolment into workplace pensions in the UK has substantially raised the proportion of employees participating in a workplace pension plan and has reduced inequalities in pension participation by age and earnings. Despite this, there still remain significant differences in pension participation by ethnicity. **While only 10% of eligible White employees are not participating in a pension plan, that rises to 16% for Pakistani employees and 24% for Bangladeshi employees.** The opt-out rates for other ethnicities are close to 10%.

2. These gaps in pension participation between White employees and employees from a Pakistani or Bangladeshi background cannot be explained by differences in earnings, age, sex, education or the characteristics of the job or of their employer. **Even examining employees working for the same employer and controlling for these characteristics, compared with White employees, Pakistanis are 5 percentage points and Bangladeshis 13 percentage points more likely to opt out of saving in a pension.**

3. However, controlling for religion eliminates the gap in pension participation for Pakistanis and reduces it to 9 percentage points for Bangladeshis. **We find a range of evidence that religious beliefs and/or norms in Islam are important in driving higher pension opt-out rates.** Islamic teaching generally bans particular investments: specifically, no interest income may be received and investments may not be in 'unethical' industries such as alcohol or tobacco.

4. In particular, we find that **Muslims who report that their religious beliefs make a greater difference to their life are particularly likely to opt out**. Muslims not from a Pakistani or Bangladeshi background are also disproportionately likely to opt out of workplace pensions. In addition, Muslims are more likely than other groups to report that their faith affects saving decisions, and they hold fewer interest-bearing assets than other groups.

5. Not participating in a workplace pension can lead to lower retirement income even if the same-value individual contributions are made to a non-pension savings plan such as an Individual Savings Account (ISA). This is because contributions to ISAs do not receive the employer contribution that workplace pensions receive, and do not attract the significant tax relief that private pension saving typically attracts. **A Pakistani or Bangladeshi employee on average earnings and making typical pension contributions throughout their career would see a 60% increase in their retirement income (including the state pension) compared with one who consistently opts out and saves in an ISA that receives the same net-of-costs return.**

6. **Policymakers should look for effective ways to increase awareness of Sharia-compliant pension saving in the public and private sectors, and to reduce the hassle cost of switching to Sharia-compliant funds in defined contribution arrangements.** The ethnic gaps in pension participation mean that the suggestion made by the IFS Pensions Review to make minimum employer pension contributions not contingent on the employee participating would have a particularly large impact on the retirement wealth accumulation of Pakistani and Bangladeshi employees. In contrast, proposals to raise minimum employer contributions that are conditional on the employee participating would be of no benefit to those who continue to opt out of pensions – and would potentially hurt them if wages are lower as a result.

Introduction

There is rising interest in wealth inequalities between different groups in society, including between people of different ethnic backgrounds. The UK is an ethnically diverse country, with around 9% of the population of England and Wales from an Asian ethnic group and 4% from a Black group according to the 2021 Census.[1] Average wealth holdings differ substantially by ethnicity in the UK; for example, median wealth for households with a White British household head is over £300,000, compared with under £70,000 for those with a Black African or Bangladeshi household head (Office for National Statistics, 2020). These wealth inequalities are important because of the ability of private wealth to insure families against adverse shocks, to provide an income in retirement and to be passed down to future generations.

However, understanding ethnic inequalities in wealth accumulation is complex and differences between groups could occur purely because of age differences, how long people have lived in

[1] Just under 4% of the population of England and Wales identified their ethnic group as 'Bangladeshi' or 'Pakistani'.

the UK, or because people with lower lifetime incomes may appropriately accumulate lower levels of retirement wealth, with the state pension providing much better replacement rates for lower earners than for higher earners. It is therefore important to examine specific mechanisms that may drive differences in wealth accumulation and how they interact with ethnicity.

This short report summarises new findings on ethnic differences in private pension participation in the UK, the drivers of those gaps and the consequences for wealth accumulation. This report draws heavily on a research paper published alongside this report (Cribb, O'Brien and Sturrock, 2025), which builds on a growing academic literature in this area (Derenoncourt et al., 2024; Choukhmane et al., 2024).

Importantly, most employees in the UK (those aged 22 to state pension age and earning over £10,000 per year) are automatically enrolled by their employer into a workplace pension scheme, though they can choose to leave the scheme (opt out) at any point if they wish. In the public sector, employees are generally auto-enrolled into a defined benefit pension plan, whereas in the private sector it is generally a defined contribution arrangement. For those who participate, there are minimum contributions (8% of 'qualifying' earnings, with at least 3% coming from the employer), though average contribution rates are higher, particularly in the public sector, where employer contributions alone are typically worth at least 23% of salary (Cribb, Dominguez and McKendrick, 2024).

Previous research has shown that automatic enrolment has both boosted pension participation substantially, to around 90% of eligible employees, and significantly reduced inequalities in pension saving by earnings and age (Cribb and Emmerson, 2020). This summary report shows, however, that even after automatic enrolment, there are still big differences in pension participation rates between ethnic groups, and these have important implications for incomes in retirement.

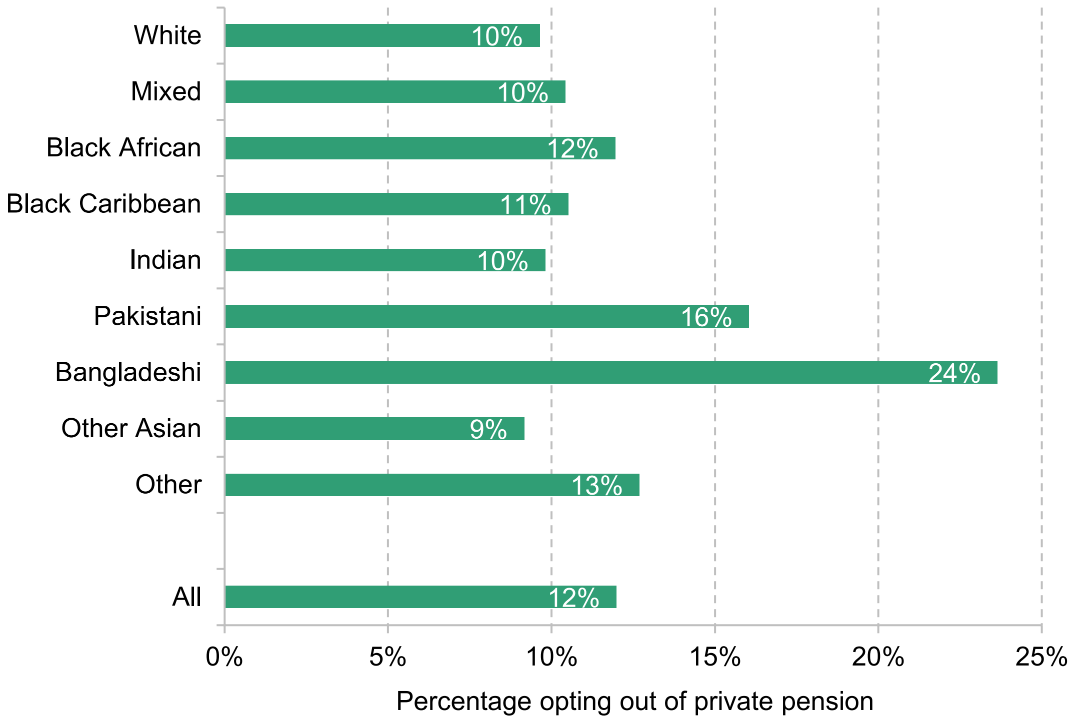
How and why do private pension participation rates differ by ethnicity in the UK?

Figure 1 shows the key differences in pension participation along the lines of ethnicity for employees in the UK. Looking only at employees who are eligible for automatic enrolment (AE), it shows that, after being automatically enrolled, 10% of White employees opt out of their workplace pension plan, and although most other ethnicities have similar opt-out rates,[2] this rises to 16% for employees from a Pakistani background and 24% for employees from a Bangladeshi

[2] Opt-out rates are defined here as '1 – pension participation', so employees can have left their pension scheme either shortly after being automatically enrolled (formally termed by the Department for Work and Pensions as 'opting out') or at a later point (formally termed by the Department for Work and Pensions as 'cessation').

background (or 18% when looking at Pakistanis and Bangladeshis together). This is a striking difference compared with other ethnic groups. The opt-out rate among all employees who are matched to the Census and who are not of Pakistani or Bangladeshi origin is 9.7%.

Figure 1. Private pension opt-out rates by ethnicity in 2018 among AE-eligible employees

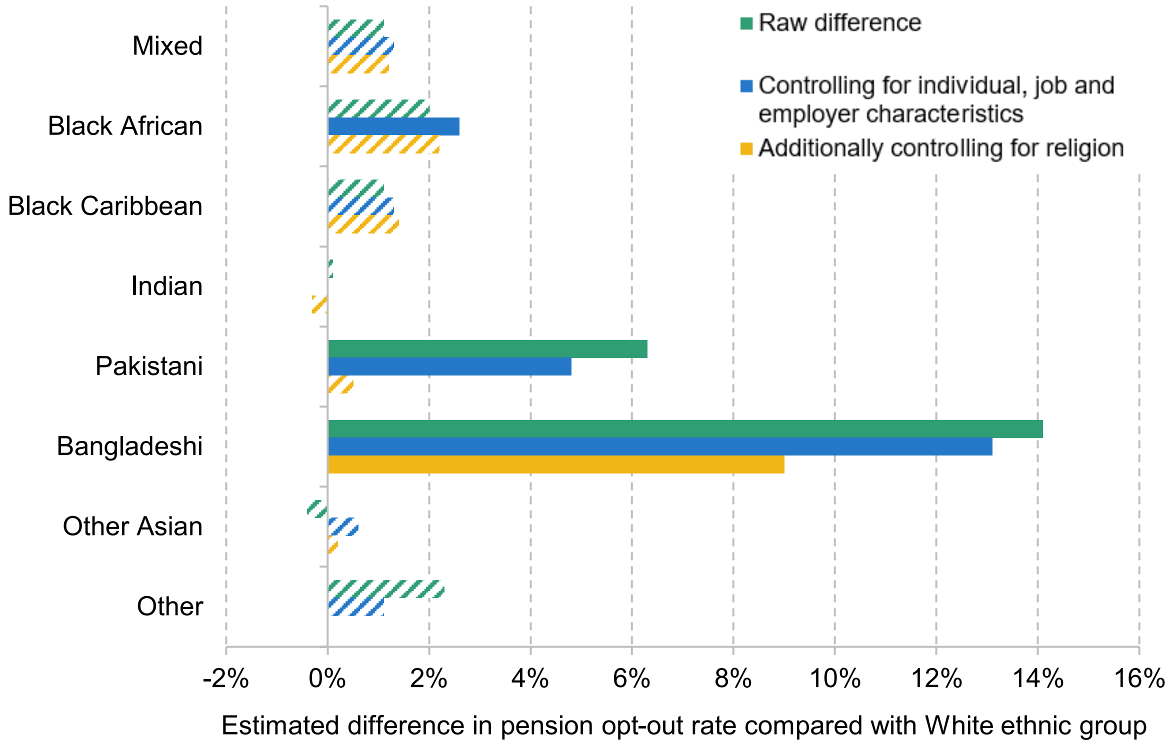


Note: This figure shows the share of AE-eligible employees in 2018 who are not participating in a workplace pension, separately by ethnic group. AE-eligible employees are those earning over £10,000 per year and with at least three months' job tenure, aged between 22 and state pension age.

Source: Figure 1 of Cribb, O'Brien and Sturrock (2025) based on analysis of ASHE–Census data.

One potential reason for these differences could be the characteristics of the individual, their job and their employer. For example, lower-paid employees are more likely to opt out than higher-paid ones (Cribb and Emmerson, 2020). Figure 2 therefore shows how controlling for different characteristics affects gaps in opt-out rates between different ethnic minority groups of employees compared with the White majority. Positive numbers here therefore imply higher opt-out rates for the ethnic minority group. The green bars show the differences in opt-out rates not controlling for any characteristics, and reflect the differences shown in Figure 1. The blue bars subsequently control for age, earnings, education (interacted with age), region, sex, migrant status, part-time/full-time worker, occupation, and the sector, industry and size of the specific employer worked for. The gaps between White employees and Pakistani and Bangladeshi employees are barely changed compared with the raw differences. Therefore even examining similar employees working for the same employer, compared with White employees, Pakistanis are still 5 percentage points more likely to opt out of saving in a pension and Bangladeshis are 13 percentage points more likely.

Figure 2. Percentage-point differences in pension opt-out rates of employees compared with the White ethnic group, by ethnicity



Note: Striped bars indicate that the estimated coefficient is statistically insignificantly different from zero at the 5% significance level. Full bars are statistically different from zero at this level.

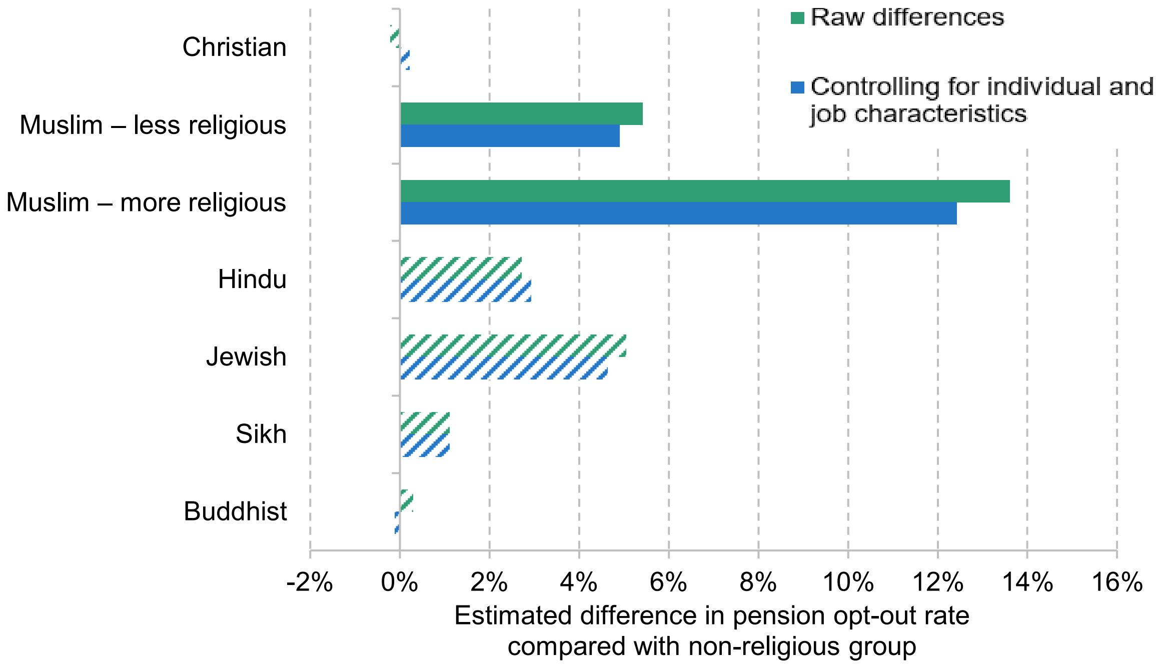
Source: Table 2 of Cribb, O'Brien and Sturrock (2025), columns 1, 5 and 6, based on analysis of ASHE–Census data.

The yellow bars in Figure 2 additionally control for each individual's religion. Controlling for religion eliminates the gap in pension participation for Pakistanis and reduces it to 9 percentage points for Bangladeshis. Given that around 90% of Pakistanis and Bangladeshis are Muslim, this points to religion, and Islam specifically, potentially being an important determinant of pension participation behaviour.

Indeed, we find a range of evidence that points towards religious beliefs and/or norms in Islam being important in driving higher pension opt-out rates. Importantly, Islamic teaching generally bans particular investments: specifically, no interest income may be received and investments may not be in 'unethical' industries such as alcohol or tobacco.

Figure 3 shows a key piece of evidence: Muslims who report that their religious beliefs make a great deal of difference to their life are particularly likely to opt out of workplace pension participation. Controlling for their individual (e.g. age, sex, education) and job (e.g. earnings, occupation) characteristics, Muslims who report that religion makes a great difference to their life ('more religious' Muslims) are 12 percentage points more likely to opt out than non-religious employees, whereas 'less religious' Muslims are 5 percentage points more likely to opt out than non-religious employees. This means that 20% of 'more religious' Muslims opt out of workplace pension participation, compared with 12% of 'less religious' Muslims and 6% of Christian or not religious employees. Muslims from both Pakistani and Bangladeshi backgrounds, as well as from other ethnic backgrounds (such as Indian or Black African), are more likely than other groups to opt out of pension participation.

Figure 3. Percentage-point differences in pension opt-out rates of employees compared with non-religious employees, by religion

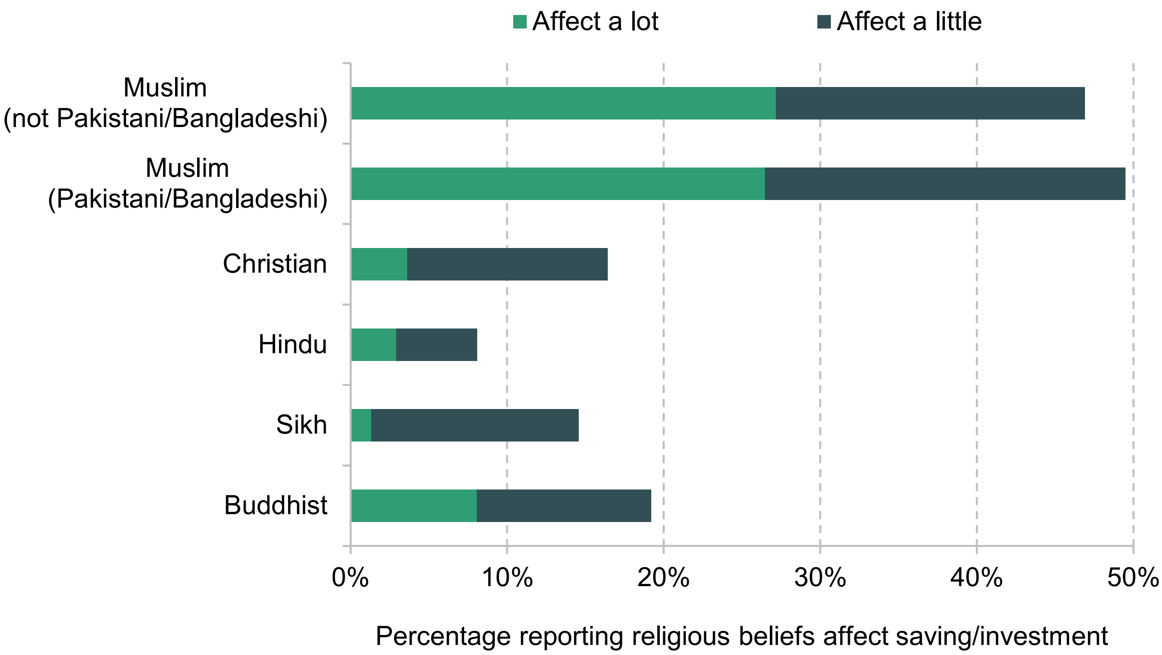


Note: Striped bars indicate that the estimated coefficient is statistically insignificantly different from zero at the 5% significance level. 'Muslims – less religious' refers to Muslims who report that their religious beliefs do not make a great difference to their life. 'Muslims – more religious' refers to Muslims who report that their religious beliefs do make a great difference to their life.

Source: Table 4 of Cribb, O'Brien and Sturrock (2025), columns 1 and 4, based on analysis of Understanding Society (waves 8, 10 and 12).

Figure 4 shows another piece of evidence that points to Islamic teaching on investments being important in driving saving behaviour: over a quarter of Muslim employees (from either Pakistani/Bangladeshi backgrounds or other backgrounds) report that their religious beliefs affect their saving and investment decisions a lot, with almost another quarter reporting that their religious beliefs affect these decisions a little, both of which are far higher than for other religions. Consistent with this, we find that Muslim employees from Pakistani/Bangladeshi backgrounds (and Muslims more generally) are significantly less likely to hold assets in interest-bearing accounts than White employees. In addition, we find that these gaps are not likely to be driven by differences in beliefs over the rate of return on different forms of saving. Employees from Pakistani/Bangladeshi backgrounds have similar beliefs to people of other ethnicities over whether private pensions are the safest or highest-return form of saving for retirement.

Figure 4. How religious beliefs reportedly affect saving and investment decisions, by religion



Note: The question asks 'Which of the following statements applies to you? My religious beliefs affect my decisions related to investment and savings: (1) Yes, a lot; (2) Yes, a little; (3) Not at all'.

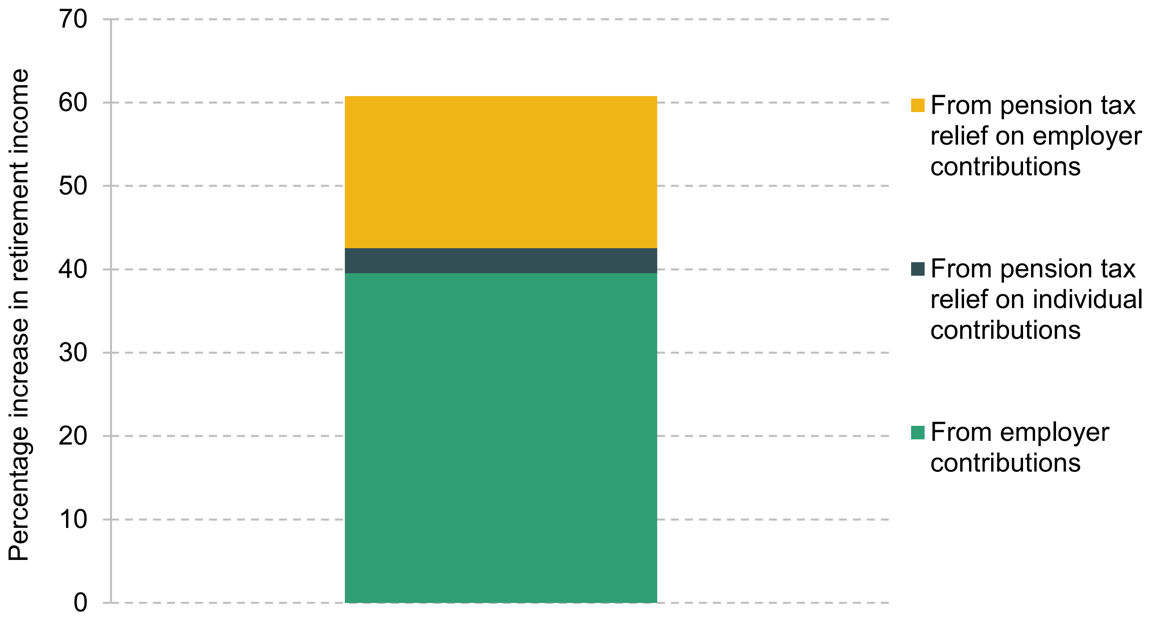
Source: Figure 3 of Cribb, O'Brien and Sturrock (2025), based on analysis of Understanding Society Data (wave 4).

Finally, we show how important these patterns in pension participation are for wealth accumulation. We do this by showing how much higher incomes in retirement could be for individuals who participate in private pensions over the course of a career compared with those who opt out. Here we assume that employees who opt out of pension participation make equivalent *individual* contributions into an ISA for use in retirement, and they can achieve the same rate of return (net of fees) in that ISA as in a private pension.[3]

Figure 5 shows that participating in a pension boosts retirement income (including the state pension) by 60% in total for an average-earning Pakistani/Bangladeshi worker with average pension contributions. This increase is worth around £16,500 in cash terms. Most of it comes from employer pension contributions, which opting-out employees miss out on, but in addition people participating in private pension schemes benefit from tax relief on employee and employer pension contributions. This highlights how important persistently opting out of private pension saving can be for retirement wealth accumulation.

[3] We also assume that tax relief on pensions, compared with ISAs, is 'incident' only on pension contributions. In other words, the pre-tax individual and employer contributions are unchanged whether they are made to a pension or to an ISA. This means that all effects of differential tax relief show up in retirement incomes, rather than in working-life consumption or in firm profits, allowing for easier comparison.

Figure 5. Percentage increase in retirement incomes from saving in a private pension as opposed to an ISA for a typical Pakistani/Bangladeshi employee



Note: This figure shows the percentage increase in retirement income (including the state pension) from saving in a private pension throughout working life rather than in an ISA, decomposed into the increase due to tax relief and employer contributions. Based on simulations of a Pakistani/Bangladeshi employee with average earnings and average pension contributions.

Source: Table 7 of Cribb, O'Brien and Sturrock (2025), row 'No salary sacrifice, average contributions: Including state pension'.

Conclusion and policy implications

Our research highlights a substantial disparity in pension participation among ethnic groups in the UK workforce, with employees from Pakistani and Bangladeshi backgrounds almost twice as likely to opt out of workplace pensions (18%) compared with White employees (10%). These gaps persist even when comparing people with similar individual and job characteristics and working for the same employer. Most Pakistani and Bangladeshi employees are Muslims and there is a broad set of evidence suggesting that religious beliefs and norms in Islam play a central role in driving lower rates of private pension participation. This is despite most public service pension schemes being understood to be Sharia-compliant,[4] and there generally being Sharia-compliant investment options for people enrolled into defined contribution pension schemes. Moreover, we estimate that saving in a workplace pension could increase retirement income by 60% for Pakistani and Bangladeshi employees compared with saving in an ISA, due to employer pension contributions and the tax advantages of private pensions.

[4] See, for example, https://www.islamicfinanceguru.com/articles/is-my-pension-halal-a-really-really-simple-guide-ifg.

What are the policy implications of these results? First, these findings suggest there is a case for increasing awareness amongst Muslims in the public sector regarding the Sharia-compliance of public sector defined benefit pension schemes. Similarly, for employees offered private sector defined contribution pension arrangements, policymakers concerned by these gaps could address them by ensuring all have access to Sharia-compliant investment funds, raising awareness of these funds and reducing the hassle of switching to them.

More broadly, the findings reiterate the obvious point that the only people who benefit from the employer contributions and tax advantages of private pension saving are those who participate in private pensions. Pakistani and Bangladeshi employees are therefore more likely to miss out. This means that a move towards compulsory provision of (at least a low level) of employer pension contributions, irrespective of whether the employee contributes, as suggested by the IFS Pensions Review (Cribb et al., 2024), would disproportionately benefit Pakistani and Bangladeshi employees and would likely act to slightly reduce some ethnic gaps in wealth accumulation.

In contrast, these findings highlight how certain groups would be differentially affected by proposals to increase minimum employer pension contributions. For example, there is often discussion about raising minimum employer contributions to 6% of all earnings (e.g. Broome, Mulheirn and Pittaway, 2024). Employees who opt out would – at best – not benefit from these proposals. At worst, higher minimum pension contributions for those participating could push down pay (as is likely; see Cribb et al. (2024) for a review of the evidence). This would leave those who opt out (disproportionately Pakistani and Bangladeshi employees) unambiguously worse off – they would have lower pay and no boost in their provision for retirement.

Finally, given the rising fraction of the population that is from a Bangladeshi or Pakistani background (or indeed is Muslim), the potential gap in wealth accumulation generated by differing pension participation decisions and the salience of some of these gaps, there is a good case for more specific research into this issue and the potential for trialling a range of options to encourage appropriate pension participation for Muslims in products that are compliant with their religious beliefs.

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