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Who Saves for Retirement? 2: Eligible non-savers

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About this report

This document contains a report of research carried out by the Institute for Social and Economic Research (ISER) on behalf of the Strategic Society Centre.

The original research design was by James Lloyd of the Strategic Society Centre and Dr. Mark Bryan of the Institute for Social and Economic Research. This research design was then implemented by Mark Bryan.

A discussion paper, entitled 'Beyond Auto-enrolment: The opt-out opportunity' was published simultaneously by the Strategic Society Centre to provide accompanying policy analysis and discussion.

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All responsibility for the content of this report rests with the authors.

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[1] Office for National Statistics. Social Survey Division, *Wealth and Assets Survey, Waves 1-2, 2006-2010: Special Licence Access* [computer file]. *8th Edition*. Colchester, Essex: UK Data Archive [distributor], October 2012. SN: 6415 , http://dx.doi.org/10.5255/UKDA-SN-6415-3.

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Contents

Executive Summary

This report uses the first two waves of the Wealth and Assets Survey to:

- Examine how levels of pension eligibility and participation changed over 2006-10;
- Analyse transitions in pension participation among individual employees;
- Investigate characteristics, attitudes and motivations of 'eligible non-savers': those employees eligible for a workplace pension with employer contributions but who do not participate.

In October 2012, the UK government began rolling implementation of reforms to private pension saving, built around automatic enrolment and guaranteed access among eligible workers to a decent workplace pension scheme with employer contributions.

By February 2018 the Government expects the number of individuals newly saving or saving more in a workplace pension to increase by around eight million.

Nevertheless, policymakers have long known that despite the enhanced incentives and 'nudges' toward saving provided by the reforms, some workers would choose to opt-out of their workplace pension scheme.

The reforms therefore define new a target group for policymakers seeking to maximise participation rates in pension saving: the 'eligible non-saver', who chooses not to contribute to a pension despite being eligible for an approved workplace scheme with contributions from their employer.

Achieving the objective of maximising participation rates in workplace pension saving will require an understanding the factors that explain why individuals may decline to join a workplace pension (or opt out of one) even when the employer is making contributions and, conversely, what factors may induce them to (re)join.

This report provides evidence about trends in pension participation before the 2012 reforms, the prevalence of eligible non-savers, and transitions into and out of pensions. It describes the personal, household and job characteristics of eligible non-savers and identifies the key predictors of being an eligible non-saver, of leaving a pension to become an eligible non-saver, and of joining a pension after being eligible non-saver. The report considers both objective characteristics (such as age, gender, household structure and financial circumstances) and subjective factors including financial attitudes, knowledge and views about retirement saving, and self-assessed financial management.

Changes in pension participation 2006-10

- Overall pension participation was stable among employees between 2006-10; but there was a small drop in participation in personal pensions by women, from 6% to 5%.
- Overall 11% of employees are eligible non-savers. Young people are much more likely to be eligible non-savers than older age groups. About 35% of 16-24 year old employees, and

15-20% of 25-34 year old employees, are eligible non-savers, compared with under 10% of older age groups. Eligible non-saving rates may have increased among 16-24 year old men between 2006-08 and 2008-10.

- Despite aggregate stability, there were considerable movements in and out of pensions at the individual level over the period. About 13% of non-savers (and 23% of eligible non-savers) in 2006-08 had joined an occupational pension by 2008-10, and about 3% of non-savers had joined a personal pension.
- About 7% of occupational pension savers stopped saving between 2006-08 and 2008-10. About half of these changes were accompanied by a job change and three quarters by a loss of eligibility. Around 17% of occupational pension leavers became eligible non-savers.
- 1.4% of employees who remained eligible for an occupational pension with employer contributions stopped saving between 2006-08 and 2008-10 (declining to 0.8% for those who also stayed in the same job).
- About 18% of personal pension savers stopped saving between 2006-08 and 2008-10, 11% switched to an occupational pension and 7% began saving to both.
- Perceived levels of pension knowledge increased between 2006-10 and were higher throughout for men than women. 55% of men said they knew enough about pensions to make retirement decisions in 2006-08, increasing to 60% in 2008-10; while 35% of women said they knew enough about pensions in 2006-08, increasing to 40% in 2008-10.

Who are eligible non-savers?

- Eligible non-savers are disproportionately male, younger, single, and have fewer children than savers to occupational pensions. They are less qualified than savers, earn less, and are more likely to be tenants rather than homeowners.
- Eligible non-savers are less likely to save into non-pension products, have lower levels of liquid savings, more liquid debt and are more likely to be in arrears with household bills than occupational pension savers. Eligible non-savers are more likely to have a personal pension but the proportion is small (only 6%).
- Four fifths of eligible non-savers are in the private sector, they work in smaller establishments than occupational pension savers and they are disproportionately in retail and catering (and slightly more likely to be part-time). However, while exit rates from a pension to being an eligible non-saver are higher in the private sector, they do not appear to be higher in smaller establishments or in the retail sector.
- Controlling for other factors, the key predictors of being an eligible non-saver are: age (-), gender (-), number of children (-), qualifications (-), being a tenant rather than a homeowner (+), mortgage loan-to-value (+), earnings (+) and saving to non-pension products (+). Part-time employment and marital status have no association with being an eligible non-saver.
- Controlling for other factors, the key predictors of leaving a pension to become an eligible non-saver are: age (-), liquid savings (-) and changing jobs (+).
- Controlling for other factors, the key predictors of joining a pension after being an eligible non-saver are: number of children (+), being a tenant rather than a homeowner (-) and changing jobs (+).
- Being a tenant is the single largest predictor of being an eligible non-saver (+ 8 percentage points) and the largest ‘barrier’ to joining a pension (-26 percentage points).

- Changing jobs (where both jobs offer a pension) is the strongest predictor of leaving a pension and the second strongest predictor (after tenancy status) of joining a pension, suggesting it is a focal point for the decision.

Motivation, attitudes and knowledge of eligible non-savers

- Eligible non-savers are more likely than occupational pension savers to hold attitudes that favour current spending and receipt of income over saving for the future.
- Eligible non-savers report more difficulties with financial management, including running out of money and buying things they cannot afford. However, they report more optimism and less pessimism about their medium-term financial prospects than savers, and are more risk tolerant.
- Eligible non-savers have less favourable views than occupational pension savers of (employer) pensions as savings products, and more favourable views about property and personal pensions. Eligible non-savers are less likely to report they understand enough about pensions.
- These relationships broadly remain after controlling for 'objective' factors. The key predictors of being an eligible non-saver are: preferences for present versus future spending (+), financial management success/difficulties (-/+), favourable views about pensions vs. property (-), self-assessed pension knowledge (-), and risk tolerance (+).
- Controlling for other 'objective' factors, the key attitudinal and behavioural predictors of leaving an occupational pension are: rating property as the best way to save (+), preferring a good standard of living today (+) and being willing to delay the receipt of money (-).
- Controlling for other 'objective' factors, the key attitudinal and behavioural predictors of joining an occupational pension are: having money left over at the end of the week/month (+), preferring a good standard of living today (-), and being willing to delay the receipt of money (+).
- Evaluations of the quality of (employer) pensions versus property and personal pensions emerge as major predictors of being an eligible non-saver and of leaving an occupational pension.
- A quarter of eligible non-savers say they are not in an occupational pension because they cannot afford it. They earn somewhat less than eligible non-savers who give other reasons for non-participation, but they also tend to prioritise consumption over saving and report more money management problems. The two groups do not differ in their evaluations of pensions versus property.

Overall the report finds that both objective factors (demographics and financial circumstances) and subjective attitudes help to explain being an eligible non-saver, and their effects are typically of comparable size. Some, such as housing tenure, personal finance skills, and pension quality, may be more directly amenable to policy intervention but some, such as ingrained preferences for a good life today at the expense of the future, may be less so. Changing jobs emerges as a focal point for taking a decision about a pension, pointing to the importance of providing information about occupational pensions when people start new jobs, and the important role of automatic enrolment for individuals three months into their new role.

1. Introduction

1.1 UK workplace pension reform: objectives

The UK-government began a rolling implementation of wide-ranging reforms to workplace pension saving in October 2012. The principal aim of the reforms is to:

- Increase participation in workplace pension saving by UK employees.

In particular, the government wants to reverse the long-term decline in workplace pension saving which, between 2003 and 2012, saw the number of eligible employees participating in a workplace pension decline from 12.3 million (65%) to 10.9 million (55%).[2]

As a result of increased participation, the government anticipates:

- Higher stocks of private pension saving;
- Higher retirement incomes among those subject to the reforms.

The government has said that once completed, it anticipates the reforms will:[3]

- Increase the number of individuals newly saving or saving more in a workplace pension by around eight million, within a range of six to nine million;
- Increase the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to £12 billion.

Modelling by the Department for Work and Pensions suggests that the government's automatic enrolment reforms to workplace pension saving will halve the number of people retiring with no private pension at all from 27% to 12% in 2050.

1.2 Reforms to UK workplace pension saving: an overview

The government's reforms to workplace pension saving are based on the recommendations of the Pension Commission, chaired by Adair Turner, which published its final report in 2006.

The reforms are built around three central pillars:

- Ensuring **access** to a decent workplace pension scheme through a duty on employers;
- Improved **incentives** to save through employer duties to make employer contributions to the pension schemes of workers participating in workplace pension saving;
- Utilising **inertia** among workers in relation to pension saving, by applying 'automatic enrolment' into pension saving for new and non-participating employees, thereby requiring workers to actively opt-out if they are not to contribute to a pension.

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[2] Source: DWP estimates derived from the ONS ASHE covering Great Britain.
[3] DWP (2013) *Automatic Enrolment evaluation report* - Research Report No 854, DWP, London

The legislative changes required by the reforms were set out in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011), as well as accompanying regulations.

To help those employers without qualifying workplace pension schemes, the government created a new workplace pension scheme provider - the National Employment Savings Trust (NEST) – subject to a Public Service Obligation to accept any employer that wishes to use NEST to fulfil its workplace pension duties.

Legal duties on employers to automatically enrol non-participating employees are being applied in stages. This process began in October 2012 with the largest employers, and will complete in February 2018.

Once automatically enrolled into a workplace pension, individuals have the right to opt-out within a specified period of one month. After this period, their contributions will be locked into a pension, and will remain there even if they subsequently opt-out.

Workers can also choose to cease active membership of the pension scheme after the opt-out period has closed. Those who opt out will also be enrolled again every three years by an employer, or after three months at a new job, at which point they will need to complete the opt-out process again.

1.3 Who Saves for Retirement? 2

Although the government expects the auto-enrolment reforms to increase participation in workplace pension saving, it has always accepted that some workers would exercise their right to opt-out. In this way, the automatic enrolment reforms switch the objective of pension policy from encouraging workers to contribute to a workplace pension to minimising the number of workers who opt-out of workplace pension saving.

The implementation of the reforms to workplace pension saving highlights the importance of understanding transitions into and out of pension saving. Policymakers need to understand what factors are associated with withdrawing from workplace pension schemes, and what distinguishes those who stop pension saving from those who remain in their workplace scheme.

Research objectives

This report builds directly upon the research report *Who Saves for Retirement?*, published in December 2011.[4] This research used data from Wave 1 of the Wealth and Assets Survey (WAS) to examine the predictors of pension saving at a single point in time (the survey period 2006-08).

The subsequent release of the second wave of WAS, covering 2008-10, creates an opportunity to build on this analysis by examining how pension saving has changed over time. In particular, pension savers and non-savers are not static groups: individuals constantly

[4] Bryan M, Lloyd J, Rabe B and Taylor M (2011) *Who Saves for Retirement?*, Strategic Society Centre, London

move into and out of pension saving, and between different types of pension saving. Since WAS re-interviews each individual from wave 1 two years later in wave 2, we are able to map and explore transitions in pension saving across the years 2006-08 and 2008-10 for a large, representative sample of UK workers.

In order to examine the factors driving participation and transitions in workplace pensions, this report focuses on the pre-reform group of 'eligible non-savers', i.e. employees eligible for a workplace pension scheme who choose not to participate despite the availability of employer contributions. In effect, 'eligible non-savers' are those individuals who, for a variety of potential reasons, are so resistant to pension saving that key policy innovations comprising the post-2012 workplace pension reforms – namely access to a workplace scheme and employer contributions – are likely to be inadequate to nudge them durably into pension saving.

This report provides evidence from 2006-10 about changes in pension participation at both the aggregate and individual level, with a focus on the behaviour and attitudes of eligible non-savers. The report documents how levels of pension eligibility and participation changed from 2006-08 to 2008-10, explores transitions in pension saving among individual employees, and examines the characteristics and motivations of eligible non-savers. Evidence about the drivers of eligible non-saving can inform the design of policy interventions, while the detailed profile provided of eligible non-savers enables more effective targeting of policy. The research explores the following themes:

Changes in pension participation over 2006-08 to 2008-10

- How did levels of pension eligibility and participation change over the period?
- What were the rates of eligible non-saving and did they change?
- How did levels of knowledge about pension saving change over time?

Transitions in pension participation over 2006-08 to 2008-10

- What proportions of employees stopped and started occupational pension saving, and what proportions of these transitions were associated with job changes?
- What proportions of employees stopped and started personal pension saving?
- How much switching was there between occupational and personal pensions?

Understanding eligible non-savers

- What is the prevalence of 'eligible non-saving' and how has it changed during 2006-2010?
- How much movement is there into and out of eligible non-saving?
- What are the characteristics of eligible non-savers and how do they differ from their counterparts saving to a workplace pension (personal, household and job characteristics)?
- How do eligible non-savers differ from pension savers in their financial attitudes, motivation and knowledge?
- What reasons do eligible non-savers report for not saving?

Data

The Wealth and Assets Survey (WAS) was launched in 2006 to address gaps in knowledge about the asset position and savings of households in Great Britain. The first wave was collected between July 2006 and June 2008 and the second wave between July 2008 and June 2010 (future data releases will include waves 3 and 4, begun in July 2010 and 2012 respectively). Households are followed from wave to wave with a gap of two years between interviews. WAS aims to capture the distribution of assets, debts and savings among British households, together with details of retirement saving and other financial planning.

In its first wave, WAS interviewed approximately 53,000 adults (aged 16+) in 31,000 private households, while wave 2 achieved interviews with some 35,000 adults in 20,000 households.[5] The survey oversampled wealthier households (because of the skewed nature of the wealth distribution) and we weight all of our descriptive estimates to account for the survey design and for non-response.

The pensions module in WAS includes details of workplace pension eligibility, membership, and saving, as well as information about employer contributions. In addition it asks about possession and saving into personal pensions. Our key outcomes of interest are whether or not employees are currently saving into either an occupational pension (defined-benefit and defined-contribution schemes combined) or a personal pension.[6] We focus in particular on those eligible for an occupational pension with employer contributions but who are not saving. As well as information about socio-economic factors that might affect pension saving, WAS also includes questions about attitudes, motivations and knowledge. These include attitudes to saving and spending, preferences over risk and deferred consumption, perceptions of debt burden, and knowledge and evaluations of alternative retirement saving vehicles.[7]

For the analysis, we selected the sub-sample of employees aged 16-64 years. When analysing changes in aggregate behaviour over time, or when looking at individuals at a given point in time only, we are able to use all available observations in each wave. This gives a sample of nearly 25,000 employees in wave 1 and nearly 15,000 in wave 2. The main reason for the reduction in the sample between the two waves is survey attrition, i.e. households from wave 1 could not be traced or interviewed at wave 2. To account for this non-response, all the descriptive analysis is weighted (using the weights supplied with WAS). When investigating individual transitions in pension saving, we are restricted to those individuals who were employees in both waves. This yields a sample of just over 11,000 employees; it is lower than

[5] The survey attempts interviews with all adults aged 16+ in each household excluding those aged 16-18 in full-time education.

[6] Figures reported by DWP (2011) based on the Family Resource Survey (FRS) indicate that about a third of employer-sponsored pensions are group personal (or stakeholder) pensions (GPP). The pensions questions in WAS are structured such that respondents are first asked about occupational pensions, and only then asked about any other types of pension they may have, including GPPs. Only 0.2% of the sample of employees in WAS reports saving into a GPP. Since the proportion of occupational pensions in WAS (50%) is reasonably close to the proportion of employer-sponsored pensions (occupational and GPP combined) in FRS (46%), it appears that almost all GPP savers in WAS report their pensions as occupational pensions. We classify the remaining small group of 0.2% reporting GPPs as being in occupational pensions.

[7] Some questions were excluded from the analysis because they were only asked to half of the sample in wave 1 (such as levels of financial engagement and receipt of financial advice), which would have led to insufficient observations in our estimated models. Other variables were only collected in one or other of the waves and so must be excluded from some sections of the analysis. These variables are flagged in the report.

the cross-sectional total of 15,000 in wave 2 because some individuals joined WAS households in wave 2 for the first time and because some individuals in wave 2 were not employees at wave 1. Again, the descriptive analysis of transitions is weighted to account for the attrition between the two waves.

The report is structured as follows. The next chapter first describes overall trends in pension participation and eligible non-saving over the period 2006-08. It then documents movements in and out of pensions at the individual level. Chapter 3 focuses in more detail on eligible non-savers, describing their personal and household characteristics and establishing which characteristics best predict eligible non-saving. Chapter 4 then turns to consider the motivations and attitudes of eligible non-savers, how their attitudes differ from savers, and which attitudes have the strongest links to eligible non-saving. Finally Chapter 5 summarises the results and concludes.

2. Changes in Pension Participation: 2006-10

Key findings

- Overall pension participation was stable among employees between 2006-10; but there was a small drop in participation in personal pensions by women, from 6% to 5%.
- Overall 11% of employees are eligible non-savers. Young people are much more likely to be eligible non-savers than older age groups. About 35% of 16-24 year old employees, and 15-20% of 25-34 year old employees, are eligible non-savers, compared with under 10% of older age groups. Eligible non-saving rates may have increased among 16-24 year old men between 2006-08 and 2008-10.
- Despite aggregate stability, there were considerable movements in and out of pensions at the individual level over the period. About 13% of non-savers (and 23% of eligible non-savers) in 2006-08 had joined an occupational pension by 2008-10, and about 3% of non-savers had joined a personal pension.
- About 7% of occupational pension savers stopped saving between 2006-08 and 2008-10. About half of these changes were accompanied by a job change and three quarters by a loss of eligibility. Around 17% of occupational pension leavers became eligible non-savers.
- 1.4% of employees who remained eligible for an occupational pension with employer contributions stopped saving between 2006-08 and 2008-10 (declining to 0.8% for those who also stayed in the same job).
- About 18% of personal pension savers stopped saving between 2006-08 and 2008-10, 11% switched to an occupational pension and 7% began saving to both.
- Perceived levels of pension knowledge increased between 2006-10 and were higher throughout for men than women. 55% of men said they knew enough about pensions to make retirement decisions in 2006-08, increasing to 60% in 2008-10; while 35% of women said they knew enough about pensions in 2006-08, increasing to 40% in 2008-10.

The government's 'automatic enrolment' reforms to workplace pension saving are intended to increase participation in workplace pension saving among UK employees.

In this section, we document 'baseline' levels of participation in the period prior to implementation of the reforms, and look at both aggregate changes over the period 2006-10 and at how much change there was at the individual level.

2.1 Aggregate changes in pension participation, 2006-08 to 2008-10

Underlying the concern about inadequate pension saving, Table 1 shows that during 2006-10 nearly 45% of employees did not save into either an occupational or a personal pension. Of the remainder, 6% saved to a personal pension only, some 48% saved to an occupational pension only, and 2% saved to both. Similar figures were reported in *Who Saves for Retirement?*, but the addition of WAS wave 2 now enables us to see whether pension participation changed between 2006-08 and 2008-10.

Table 1: Types of pension participation (%), 2006-08 to 2008-10

	All		Men		Women	
	2006-08	2008-10	2006-08	2008-10	2006-08	2008-10
No pension saving	44.3	44.6	43.8	43.2	44.9	45.9
Personal pension only	6.0	5.2	7.7	7.4	4.3	2.9
Occupational pension only	47.5	48.0	45.9	46.6	49.1	49.4
Both personal and occup pension	2.2	2.3	2.6	2.8	1.8	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Sample size	*23,765*	*14,788*	*11,823*	*7,135*	*11,942*	*7,653*

Base: Employees aged 16-64 years, WAS

Despite the economic turbulence of 2008-10, there appears to have been stability in pension participation (at least among employees – these figures do not account for the likely sharp drop in participation among those who lost their jobs).[8] The most notable change is a small fall in the proportion of employees saving to a personal pension only, from 6% to 5%. The breakdown of the figures by gender shows that this decline is mainly driven by women: during 2006-08, 4.3% saved to a personal pension (only), failing to 2.9% in 2008-10. Further tests (not reported here) confirm that this fall is statistically significant (indeed it is the only statistically significant change in the table). Thus there appears to have been a fall in female employees saving to a personal pension, but it was from an already low level.

To see whether this picture of overall stability may be hiding variation in particular subgroups, Figures 1 and 2 plot the proportions saving to occupational and personal pensions by age group as well as gender (employees saving to both types of pension are included in both charts).

The horizontal lines at the ends of the bars show 95% confidence intervals (CI). They give an indication of the amount of sampling error ('statistical noise') in the estimates, so we can avoid false conclusions about how the proportions have changed when comparing across 2006-08 and 2008-10. Loosely speaking, if the CIs of two adjacent bars overlap, the difference is likely to be sampling error and not 'real'.

While both figures show large differences in pension participation by age (as reported in *Who Saves for Retirement?*), there is no evidence of systematic change over time in any age group for either men or women.

[8] Since WAS follows the same households over time, it will not fully reflect any changes to pension participation that arise from shifts in population composition (for example due to immigration). Therefore the figures should be taken as reflecting pension changes among the working population as it was in 2006-08. Trends from the Family Resources Survey (which samples a new cross-section of the population every year), reported in DWP (2013), indicate that pension participation fell by about 2 percentage points over 2006-10 (although these figures refer only to employees eligible for auto-enrolment and so are not fully comparable with our results),

Figure 1: Changes in occupational pension saving, 2006-8 to 2008-10

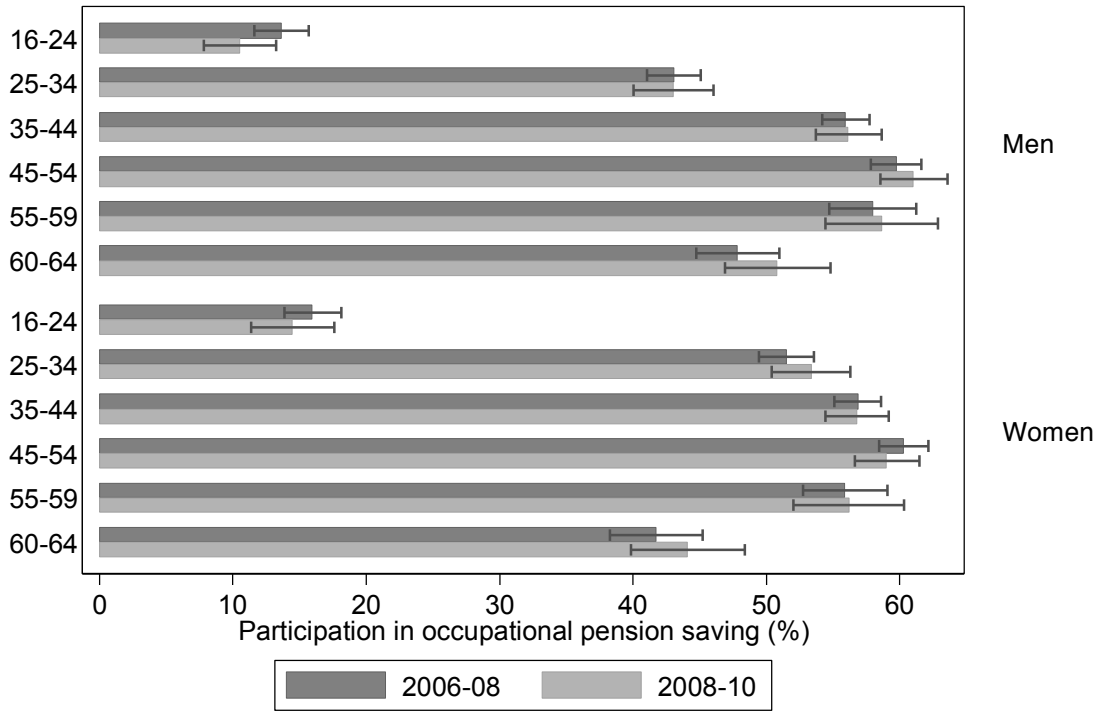
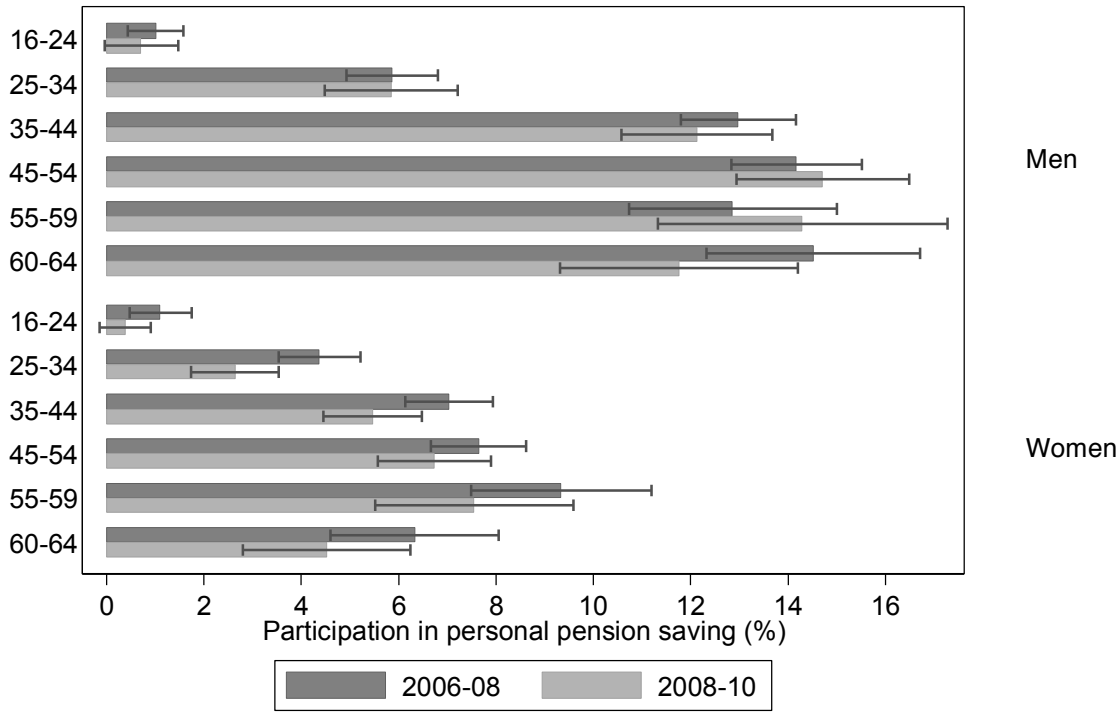


Figure 2: Changes in personal pension saving, 2006-8 to 2008-10



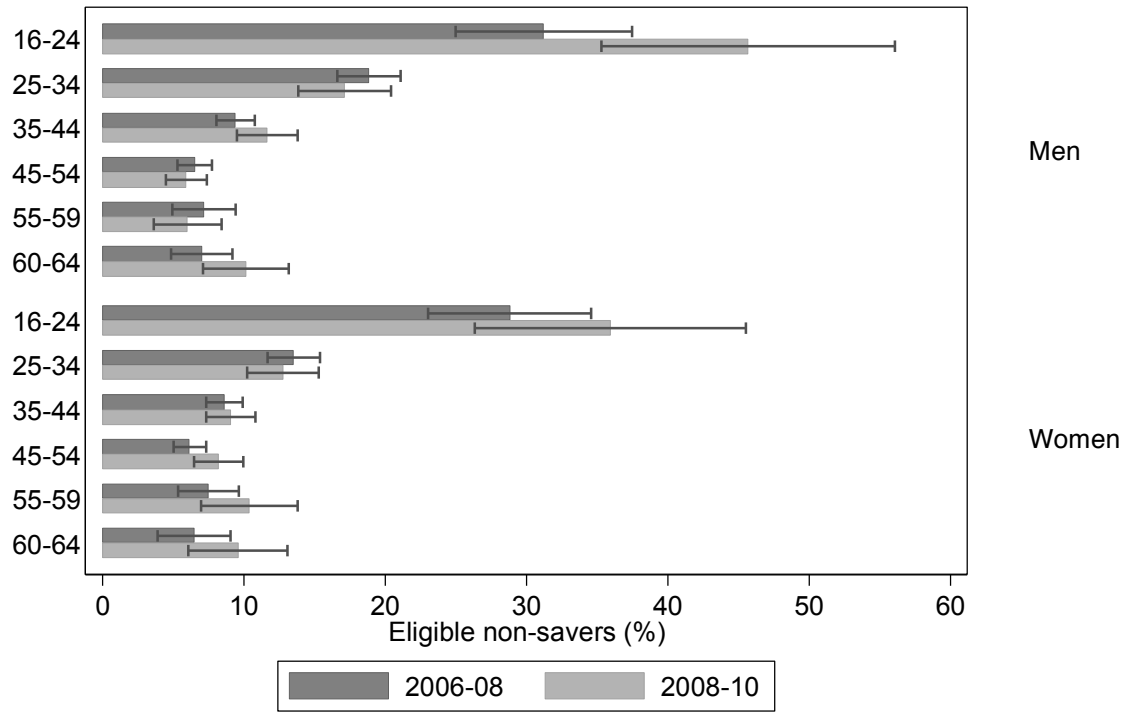
Additional evidence about aggregate changes is provided in the appendix Figures A.1 and A.2, which show that neither pension eligibility nor the proportion of employees receiving employer pension contributions appears to have changed up to 2010. During the next five

years, as automatic enrolment is rolled out, these proportions are expected to increase dramatically to almost 100%.

Eligible non-savers

The final aspect of pension participation that we examine here is 'eligible non-saving'. We define eligible non-savers are employees who are eligible for a pension that includes employer contributions but who choose not to participate. They are considered in more detail in Chapter 2, but here Figure 3 shows the level of eligible non-saving across gender and age groups (as a proportion of all employees eligible for occupational pensions with employer contributions). The proportion of eligible non-savers is highly skewed across age, with young people much more likely not to save than older employees. In particular, some 35% of 16-24 year olds are eligible non-savers (compared to an overall average of only 11%). There is some weak evidence that eligible non-saving may have increased among men, from about 30% in 2006-08 to 45% in 2008-10, although these estimates are imprecise and the CIs from the two periods overlap slightly. Nevertheless this provides some indication that the young may be a group who remain resistant to some of the key post-2012 policy interventions seeking to lift participation rates.

Figure 3: Changes in proportion of eligible non-savers, 2006-8 to 2008-10



2.2 Individual level transitions in pension participation, 2006-08 to 2008-10

We now turn to explore individual level changes in pension saving status during the period 2006-10.

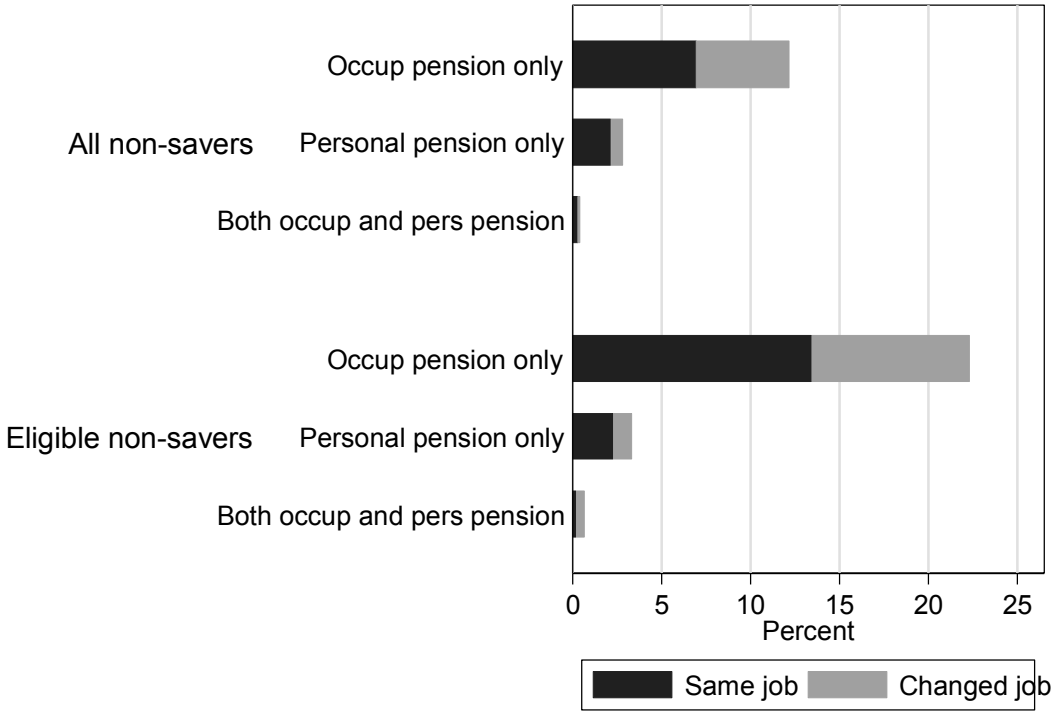
While there appears to have been little change in aggregate levels of pension participation among employees over the two waves of WAS, this does not imply that individual employees have not either started or stopped pension saving: net stability may conceal much gross change. Change at an individual level is particularly relevant to automatic enrolment, because a key policy challenge will be to minimise the prevalence of opt-outs by individual employees (and encourage those who do opt-out to rejoin). By linking the two waves of WAS, we can follow individuals and look at their pension transitions across the two year period between their interviews in 2006-08 and 2008-10.

Pension joiners

We focus firstly on employees who did not save in 2006-8. Figure 4 shows the proportions who had begun saving by 2008-10. Among all non-savers in 2006-8, some 12% had joined an occupational pension by 2008-10 and about 3% had started saving to a personal pension (about 0.4% started saving to both). This represents a significant amount of individual change underlying the picture of overall stability (a 3% starting rate for personal pensions is high given the overall participation rate of about 7%).

These figures are for all employees who were not saving in wave 1, however the majority of these non-savers were not eligible for an occupational pension and so could not have begun saving (to an occupational pension) without changing jobs.

Figure 4: Proportions of non savers who started saving between 2006-8 and 2008-10



The lower part of Figure 4 therefore shows the joining rates for eligible non-savers only. While the starting rate for personal pensions is similar to all non-savers, the joining rate for occupational pensions is much higher, with well over 20% of eligible non-savers taking up the offer of a pension. This may indicate that many eligible non-savers are ‘on the verge’ of

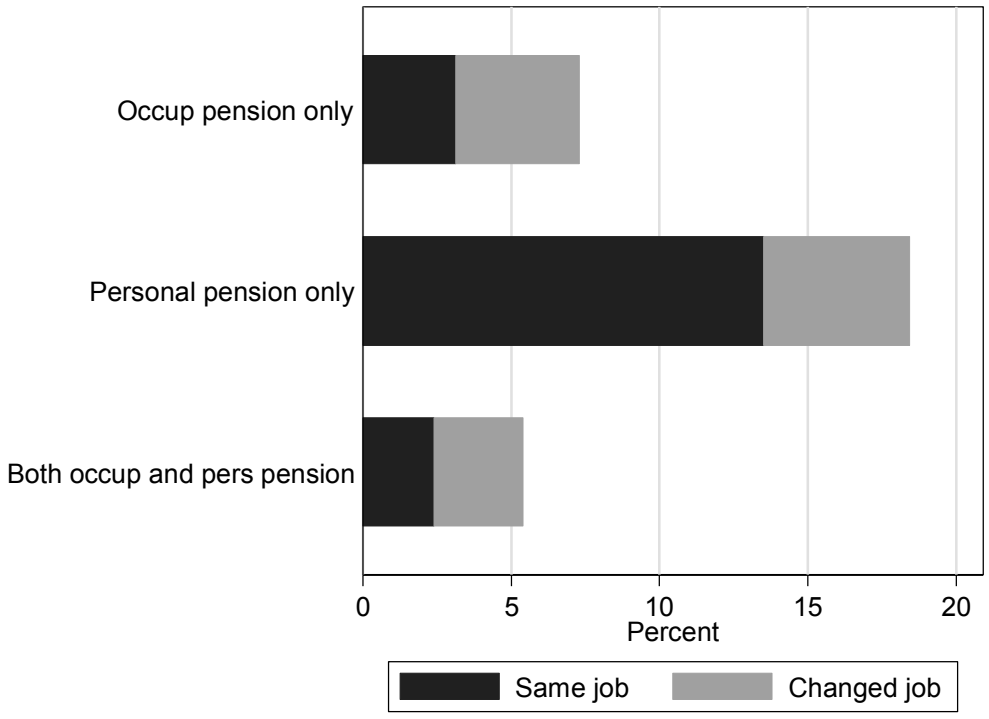
saving and could be incentivised or enabled to join relatively easily. The chart also breaks down pension joiners into those staying in the same job and those starting a new job. A large minority of those joining an occupational pension do so after a job change, highlighting that a job change may be a focal point or trigger for the pension saving decision.

Pension leavers

We now turn to look at individuals who stopped saving into a pension during the period in question.

Figure 5 shows the proportions of employees who stopped pension saving between 2006-08 and 2008-10, broken down by the type of pension. Among employees in an occupational pension (only) in 2006-08, about 7% had stopped saving by 2008-10. The withdrawal rate among those saving to a personal pension was much higher, at 18%. Combined with the high (proportionate) personal pension starting rate shown in Figure 4, this indicates that saving to personal pensions is much more volatile than to occupational pensions, possibly reflecting individual drivers to use a personal pension, such as the receipt of inheritance.

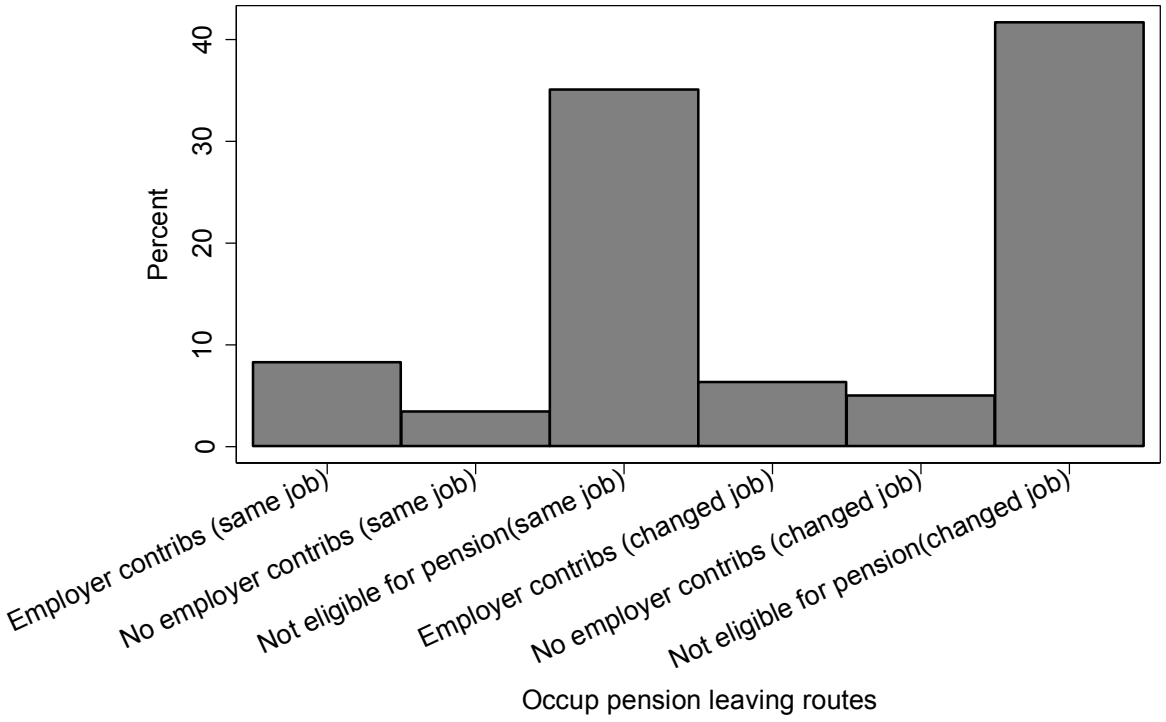
Figure 5: Proportions of pension savers who stopped saving between 2006-8 and 2008-10, by type of pension in 2006-8



As for starting a pension, leaving an occupational pension is strongly related to changing jobs. Indeed over half of exits from occupational pensions are via a job change. Figure 6 presents a more detailed breakdown of the job-related routes out of occupational pensions. About three quarters of those leaving occupational pensions report that in wave 2 they were no longer eligible for a pension (35% were still in the same job and 40% had changed jobs).

These ‘closure’ rates may appear rather high – however, employees may report that the pension closed if, for instance, it changed from defined benefit to defined contribution and they decided to discontinue saving into the ‘new’ pension. Another possibility is that people may have gone part-time (for example, because of the recession) and thereby become ineligible. The data indicate that transitions to part-time work make up about 9% of eligibility losses for employees in the same job, and about 18% for those changing jobs (the average rate of full-time to part-time transitions over the two year period is 5%). So while transitions to part-time work seem to play some role in losses of eligibility, most are driven by other factors. Given that automatic enrolment will extend eligibility to most employees, there should be many fewer dropouts than we find here owing to loss of eligibility. Nevertheless, transitions to part-time work may still be a concern if they take employees below the automatic enrolment salary threshold of £9,440.

Figure 6: Routes out of saving: eligibility and employer contribution status (in 2008-10) of occupational pension savers who stopped saving between 2006-8 and 2008-10



The next most common route out of an occupational pension is that the employee stops saving despite employer contributions still being available. Employees following this route become eligible non-savers (we consider them in detail in Chapter 3) and they make up about 17% of pension leavers (split fairly evenly between those staying in the same job and those changing jobs but deciding not to join the new pension). The remaining category of about 9% of pension leavers are those whose employers stopped making contributions.

What do these figures tell us about the level of opt outs likely to prevail under an auto-enrolment regime? Combining employees saving to an occupational pension only and those saving to both an occupational and personal pension, we find a total leaving rate across the two years of just over 8%. However as already seen, most exits are associated with a loss of pension eligibility. Whilst there will be still be limited eligibility before the reforms are fully

rolled out in February 2018, from that point onwards almost all employees aged over 21 with earnings over £9,440 pa will be eligible. Excluding losses of eligibility (and the offer of employer contributions) from the calculation, we find a leaving rate of 1.4% among employees who remain eligible for an occupational pension with employer contributions (declining to 0.8% for those who also stay in the same job). This is remarkably low, but since the employees in the WAS sample have made an active choice to join a pension (rather than being auto-enrolled) this figure is clearly likely to be a lower bound on the rate to be expected following auto-enrolment.

Early evidence from 50 of the largest firms involved in auto-enrolment, reported in DWP (2013), indicates that 9% of auto-enrolled employees left within the intial opt-out period of a month. Thereafter, the exit rate was about a fifth of this figure (with most exits in the second or third month), corresponding to a rate of about 2%. Although the WAS and DWP figures are not fully comparable, there are two points worth mentioning.[9] First, the total non-participation rate in the DWP sample is almost the same as the eligible non-saving rate of 11% found in WAS. Second, while the total exit rate in the DWP sample is much higher than the WAS figure, the exit rate after the initial month is in the same ballpark as the WAS rate. Taken together, these figures may indicate that the key decision about whether to stay auto-enroled is taken in the first month, with very low exit rates thereafter – however much more evidence will be needed to confirm this as auto-enrolment is implemented.

Pension transitions in full

As well as starting and stopping pension saving, people can switch between different types of pension. Figure 7 shows all the possible transitions: each of the four bars corresponds to a pension status in 2006-08 (no pension saving, personal pension only etc) and within each bar the shaded sections give the breakdown of states two years later in 2008-10. Table 2 gives the same breakdown in figures. Thus, as already seen (Figure 4), the top bar indicates that of those not saving in 2006-08, 13% were saving to an occupational pension (only), 3% were saving to a personal pension (only), and 0.4% were saving to both in 2008-10.

9 WAS captures a long-term equilibrium among all employees eligible for a pension pre-reform, whereas the DWP figures capture short-term behaviour among a sub-sample of newly eligible employees.

Figure 7: Pension participation transitions between 2006-8 and 2008-10

The lower three bars show the amount of movement out of saving but also between different types of pension. So among those saving into a personal pension (only) in 2006-08, while 18% stopped saving, 11% switched into an occupational pension and 7% added an occupational pension (and carried on saving into their personal pension). Among those saving only into an occupational pension in 2006-08, just 1% switched to a personal pension (2% added a personal pension while continuing with their occupational pension).

Table 2: Pension participation transitions (%), 2006-08 to 2008-10

	Pension status 2008-10				
Pension status 2006-08	No pension saving	Personal pension only	Occup pension only	Both pers and occ pension	Total
No pension saving	84.3	2.8	12.5	0.4	100.0
Personal pension only	18.3	63.6	11.0	7.2	100.0
Occupational pension only	7.3	1.0	89.9	1.8	100.0
Both pers and occ pension	5.3	7.2	35.1	52.4	100.0

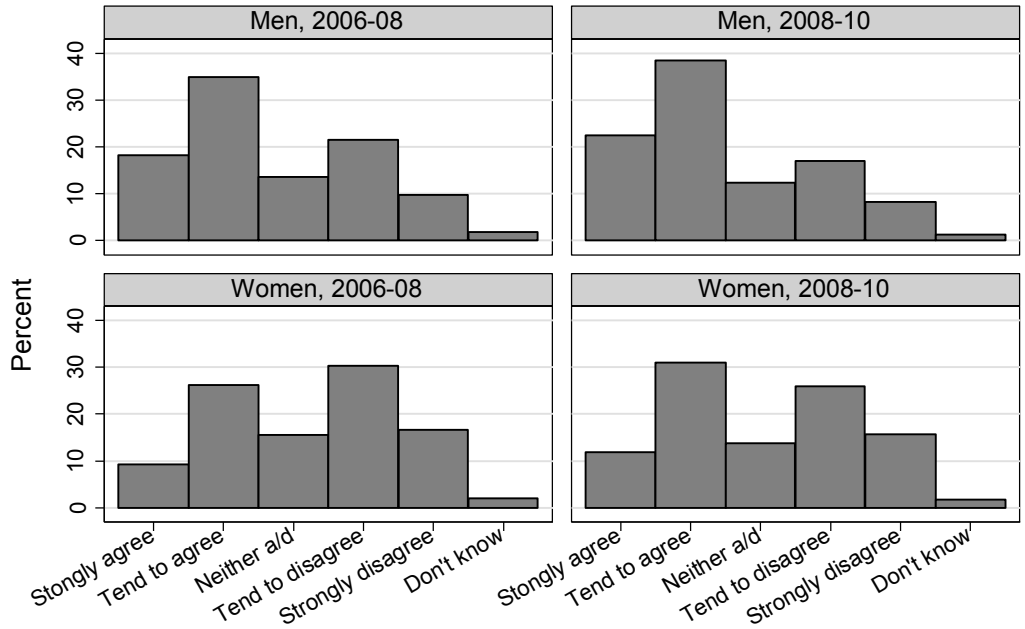
2.3 Knowledge about pensions

In addition to measuring pension saving behaviour, WAS also collects information about respondents' perceived level of knowledge about pensions.[10] They were asked to what extent

[10] WAS also asks respondents to evaluate different ways to save for retirement (pensions, property, savings account etc) but these questions changed between the two waves and so cannot be compared across time. They are included in the analysis in Chapter 4 where possible.

they agreed with the statement, “I feel I understand enough about pensions to make decisions about saving for retirement”. Figure 8 shows that in 2006-08 about 55% of men, but only 35% of women, agreed with this statement (either strongly or tending to agree). This suggests a high degree of uncertainty about pensions, particularly among women. However, over the following two years, perceived levels of knowledge appear to have increased to a significant degree, with about 60% of men, and 40% of women, now feeling that they knew enough.[11]

Figure 8: Levels of knowledge about pensions, 2006-8 to 2008-10



[11] The changes between the two waves are statistically significant.

3. Who are eligible non-savers?

Key findings

- Eligible non-savers are disproportionately male, younger, single, and have fewer children than savers to occupational pensions. They are less qualified than savers, earn less, and are more likely to be tenants than homeowners.
- Eligible non-savers are less likely to save into non-pension products, have lower levels of liquid savings, more liquid debt and are more likely to be in arrears with household bills than occupational pension savers. Eligible non-savers are more likely to have a personal pension but the proportion is small (only 6%).
- Four fifths of eligible non-savers are in the private sector, they work in smaller establishments than occupational pension savers and they are disproportionately in retail and catering (and slightly more likely to be part-time). However, while exit rates from a pension to being an eligible non-saver are higher in the private sector, they do not appear to be higher in smaller establishments or in the retail sector.
- Controlling for other factors, the key predictors of being an eligible non-saver are: age (-), gender (-), number of children (-), qualifications (-), being a tenant rather than a homeowner (+), mortgage loan-to-value (+), earnings (+) and saving to non-pension products (+). Part-time employment and marital status have no association with being an eligible non-saver.
- Controlling for other factors, the key predictors of leaving a pension to become an eligible non-saver are: age (-), liquid savings (-) and changing jobs (+).
- Controlling for other factors, the key predictors of joining a pension after being an eligible non-saver are: number of children (+), being a tenant rather than a homeowner (-) and changing jobs (+).
- Being a tenant is the single largest predictor of being an eligible non-saver (+ 8 percentage points) and the largest 'barrier' to joining a pension (-26 percentage points).
- Changing jobs (where both jobs offer a pension) is the strongest predictor of leaving a pension and the second strongest predictor (after tenancy status) of joining a pension, suggesting it is a focal point for the decision.

This chapter focuses in more detail on the group of eligible non-savers: those employees who are eligible for an occupational pension with employer contributions but who decline to join.

Eligible non-savers are a key group for policy because they appear resistant to the type of incentives offered by automatic enrolment. They currently represent 11% of those eligible for an occupational pension with employer contributions (this figure was stable between 2006-08 and 2008-10, although as indicated in Chapter 2 the number of young eligible non-savers may have increased).

The WAS data allow us to look at eligible non-savers in three ways:

- First, we can look at them at a point in time (2006-08 or 2008-10) and examine their characteristics as a group (comparing them to the group of occupational pension savers);

- Second, we can focus on employees who started out as pension savers in 2006-08 but then stopped saving and had become eligible non-savers by 2008-10;
- Third, we can look at those who were eligible non-savers in 2006-08 but had joined an occupational pension by 2008-10.

Each type of analysis has its particular advantages: the full group of eligible non-savers at a point in time is much larger than the groups who move in or out of eligible non-saving, and so will yield more precise information. On the other hand, eligible non-savers may be different from savers in ways that cannot be directly measured, which could complicate a comparison of the two groups. We may obtain more valid comparisons by focussing on those who started off as savers in 2006-08 but then switched to become eligible non-savers in 2008-10 (or vice versa), comparing them to a baseline group of those who also started off as savers (or non-savers) and remained in this state throughout. An additional difference between the two types of analysis is that cross-sectional comparisons will reflect a combination of the short-term and long-term factors affecting eligible non-saving, while an analysis of transitions focuses on the drivers of change in the short-term only (the period covered by the transition).

3.1 Characteristics of eligible non-savers

Table 3 summarises the basic personal and household characteristics of eligible non-savers, comparing them with the group of employees who chose to join their occupational pension. This analysis combines the two waves of WAS (covering the entire period 2006-10) in order to maximise the available sample size. The exceptions (indicated in the table) are for questions that differ across the waves, in which case a single wave is used.

Compared to savers, those employees who chose not to take up an occupational pension are disproportionately male, younger (by about 5 years on average), single, and with fewer children. They are much less qualified than savers (only 26% have a degree compared to 41% of savers) and they earn correspondingly less (their median earnings are £19k compared with £26k for savers).

Nearly a third of eligible non-savers are tenants, compared with only 12% of occupational pension savers. If they do have a mortgage, eligible non-savers are more highly geared than savers (the respective loan-to-value ratios are 53% and 44%). They are also less likely to save into non-pension products, have lower levels of liquid savings, more liquid debt and are more likely to be in arrears with household bills. Thus overall it appears that eligible non-savers are in a financially more fragile position than occupational pension savers. The one exception, which we may expect given that occupational and personal pensions are potential alternatives, is that eligible non-savers are more likely to have a personal pension. However, the proportions with a personal pension are small in both groups: 5.9% of eligible non-savers and 4.5% of savers are actively saving to a personal pension. Thus it is not the case that employees turn down the offer of an occupational pension because they have a personal pension.

Table 3: Personal and household characteristics of eligible non-savers

	Savers to occupational pensions	Eligible non-savers
Demographics		
Female	50.4%	47.2%
Age (yrs)	42.6	37.6
Married	77.9%	65.9%
Number of children under 18	0.75	0.70
Education		
Degree	40.5%	25.7%
Other qualification	54.5%	67.2%
No qualification	5.0%	7.1%
Housing, savings and earnings		
Owns home outright	17.2%	12.0%
Mortgage holder	69.7%	55.8%
Tenant[d]	12.2%	31.0%
Gross annual earnings (£)[b]	26,244	18,995
Saved money in last year[a]	70.3%	53.5%
Liquid savings(£)[b]	2,058	224
Liquid debt (£)[b]	0	600
Owns 2nd property[a]	6.7%	5.4%
Mortgage loan to value[c]	44.4%	52.9%
Saves to personal pension	4.5%	5.9%
In mortgage arrears	0.0%	0.0%
In bill arrears	1.1%	4.1%
Base sample size	*19,396*	*2,175*

[a] Measured at wave 1 only (other characteristics measured at both waves); [b] Median values in 2010 prices; [c] Mortgage LTV for employees with mortgages; all differences are statistically significant (at 5%) except for 2nd property. [d] Among savers, 5.1% are social tenants and 7.2% are private tenants. Among ENS, 13.8% are social tenants and 17.2% are private tenants.

We now turn to look at the job characteristics and occupations of eligible non-savers.

Table 4 shows that eligible non-savers are more likely to be part-time, but the difference is not large: 21% versus 18% for savers. They tend to be concentrated in particular types of workplaces. Only 21% are in the public sector, thus nearly 80% are in the private sector, while occupational pension savers are split almost equally between the two sectors They also disproportionately work in small establishments rather than large ones. Over 25% of eligible non-savers are in workplaces with under 25 employees, compared with 17% of savers, while just 17% of eligible non-savers are in workplaces with 500 or more employees, compared with 29% of savers.

There are also differences in the distribution of eligible non-savers and savers across industries. Most notably, 23% of eligible non-savers are in retail and catering, compared with just 8% of occupational pension savers. By contrast eligible non-savers are under-

represented in public administration (5% versus 16% of savers) and education jobs (9% versus 17% of savers), which is consistent with their under-representation in the public sector more generally, as seen above. These workplace characteristics associated with being an eligible non-saver are also those, identified in *Who Saves for Retirement?*, that are linked to low levels of pension eligibility – this suggests that automatic enrolment will have quite large effects not just on the saving behaviour of employees in these sectors, but also on their employers.

Table 4: Job characteristics and occupation of eligible non-savers

	Savers to occupational pensions	Eligible non-savers
Part-time	17.6%	20.6%
Public sector[a]	49.3%	19.7%
Workplace size		
1-24 employees	16.6%	25.6%
25-499 employees	54.6%	57.6%
500+ employees	28.8%	16.8%
Socio-economic classification		
Higher managerial & admin	9.7%	5.7%
Higher professional	13.0%	7.1%
Lower managerial, admin & professional	38.9%	29.5%
Intermediate occupations	15.5%	15.1%
Lower supervisory and technical	7.8%	12.6%
Semi-routine occupations	10.6%	20.0%
Routine occupations	4.5%	10.0%
Industry		
Manufacturing	11.5%	13.9%
Construction	4.2%	4.5%
Retail, accommodation & food	7.8%	22.7%
Transport	5.0%	6.8%
Information and communications	4.1%	4.5%
Finance and insurance	6.9%	4.6%
Property	0.7%	1.3%
Professional and technical activities	4.1%	5.2%
Administrative and support services	1.8%	4.4%
Public administration and defence	15.5%	4.7%
Education	17.3%	9.1%
Health and social work	15.8%	13.4%
Other industries	5.1%	4.8%

[a] Measured at wave 2 only (other characteristics measured at both waves); all differences significant at 5% (joint tests of socio-economic class and of industry). Other industries comprise: agriculture, forestry and fishing; mining; electricity, gas and water; arts and entertainment; other services; private households; and extraterritorial organisations.

Finally Table 4 looks at occupational characteristics (as measured by the categories of the National Statistic Socio-economic Classification). Mirroring the evidence in Table 3 about education and earnings, we see that eligible non-savers are on average in lower occupations. They are about twice as likely to be in the lower two socio-economic classes (routine and semi-routine occupations) as savers, and about half as likely to be in the top two classes (higher managerial, administrative and professional jobs).

3.2 The predictors of eligible non-saving

So far we have looked at the two groups of eligible non-savers and savers by analysing their characteristics separately. While this provides a clear breakdown of who is in the two groups, it does not tell us which are the key predictors of being an eligible non-saver because many of the characteristics 'overlap' (i.e. they are correlated). For example, eligible non-savers tend to be less qualified and also earn less than savers – but because earnings and education are so closely linked, it is not possible to say which is the main driving factor when considering them separately. We therefore turn to multivariate techniques that allow us to establish the association of a characteristic with eligible non-saving once the influence of other relevant factors is taken into account. We estimate a model to explain the probability of being an eligible non-saver in terms of the demographic and economic factors that might affect the individual decision to stay out of a workplace pension with employer contributions.[12]

The model includes demographic characteristics such as age, gender, and number of children. A person's economic position is captured by their education level, gross annual earnings and whether their job is part time or not. Since housing tenure may influence the decision to join an occupational pension (for example tenants may prioritise saving for a house deposit over a pension) we include indicators for being a tenant or outright owner relative to having a mortgage. For mortgagees we also include their loan-to-value ratio (LTV), level of mortgage repayments and whether repayments are experienced as a burden. General financial stress is captured by an indicator for being in arrears with household bills (as seen above eligible non-savers are more likely to be in arrears than savers).

The model also includes some measures of savings behaviour: whether an employee saved any money in the last year, as well as their levels of liquid savings and liquid debt (we also include an indicator of owning a second property). Particularly for these savings measures, it is important to bear in mind that decisions about liquid savings and pensions are interdependent: a person may be reluctant to save into a pension if they do not have a minimum buffer of liquid savings, but equally the decision to contribute to a workplace pension restricts the amount of money available for other savings. The model estimates of the associations of savings behaviour with being an eligible non-saver therefore reflect the total effect (going in both directions) – they cannot be taken as the 'causal' effect of savings on the pension decision.

Table 5 reports the model estimates, showing the difference in the probability of being an eligible non-saver associated with changing each characteristic, holding the others constant. The probability changes are reported in percentage points (pp). To get an idea of how large

[12] We do not include establishment and job characteristics, except for part-time work, as we do not expect them to have a direct impact on the individual decision. However, the pattern of results is very similar if we include controls for industry sector, establishment size and occupation.

they are the figures can be compared to the overall proportion of eligible non-savers, which is 11%. For example, the model shows that women are 4pp less likely to be eligible non-savers than men, all else equal, which represents about a 40% reduction compared to the overall average. Most of the factors in the model show an association with eligible non-saving, although there are some exceptions. We discuss the main groups of characteristics in turn.

Table 5: Predictors of eligible non-saving

Characteristic	Percentage points (pp)	
Female	-3.9	**
Age +5 yrs (at 30 years old)	-4.1	**
Age +5 yrs (at 50 years old)	-0.6	**
Married	-1.0	
Number of children under 18	-0.9	**
Degree	-5.2	**
Other qualification	-2.2	*
Owns home outright	2.4	
Tenant	8.3	**
Part time	-0.1	
Gross annual earnings +10%	-0.5	**
Saved money in last year	-3.1	**
Liquid savings +10%	-0.02	*
Liquid debt +10%	0.02	**
Mortgage loan to value +10pp	0.3	**
Mortgage payments +10%	0.0	
Mortgages repayments are burden	0.8	
Second property	1.4	
In bill arrears	3.4	

Average marginal effects from probit model. *N* = 10,562, wave 1. Age is entered as quadratic function. Omitted (reference) categories are: for education, no qualification; for housing tenure, buying with a mortgage (inc part rent). * Significant at 10%; ** significant at 5%.

Demographic characteristics: As noted women are substantially less likely to be eligible non-savers than men and this gender effect of 4pp is one of the largest in the model. The probability of eligible non-saving falls with age, with stronger effects at younger ages. An increase in age from 30 to 35 years old would be associated with a 4pp fall in the probability of being an eligible non-saver, while an increase in age from 50 to 55 years would only be associated with a 0.6pp fall (the detailed estimates, not shown, indicates that the negative effect disappears by age 56 and in fact turns slightly positive thereafter). Although the descriptive statistics showed that eligible non-savers were more likely to be single than occupational pension savers, we see that marital status has no (significant) effect on eligible non-saving once other factors are controlled for. By contrast, having more children is associated with a lower probability of being an eligible non-saver (by nearly 1pp for each extra child). This may reflect that parents have a greater interest or concern for future finances, despite the extra costs of raising children.

Qualifications and earnings: those with higher qualifications are substantially less likely to be eligible non-savers, for example by 5pp for a degree compared to no qualifications. As the

model holds earnings constant, this may indicate that higher qualified people have a greater interest in the future finances or it could be picking up higher financial literacy. Annual earnings also have an independent effect: a 10% increase in annual earnings is associated with a 0.5pp reduction in the probability of being an eligible non-saver. Controlling for annual earnings, part-time status per se has no effect on being an eligible non-saver.

Housing tenure: The single largest effect in the model is associated with being a tenant. Compared to the reference category of having a mortgage, tenants are over 8pp more likely to be eligible non-savers. Among mortgagees themselves, the level of repayments seems to make no difference and nor does feeling that repayments are a burden (being in arrears with bills also does not predict eligible non-saver status after controlling for other financial factors). However, mortgagees with a higher LTV are more likely to be eligible non-savers (by 0.3pp for a 10pp increase in LTV). To the extent that people with higher LTVs are more likely to have recently bought their property, the results for tenancy and LTV support the idea that individuals may feel they need to have established themselves as homeowners before starting a pension.

Savings and debt: employees who have saved in the last year are 3pp more likely to be eligible non-savers. The level of savings increase the probability of being an eligible non-saver and debt decreases it. However, these effects are small: a 10% change in savings or debt levels is only associated with a change of 0.02pp in the probability of being an eligible non-saver. Thus it seems that the fact of saving is perhaps more important than the amount saved. Part of the liquid debt measure consists of student loans – if student loans are removed from total debt and included separately, they have a coefficient that is almost the same size as the general debt coefficient but is not significant (possibly because the number of student loans in the data is quite small). Thus it seems that student loans also increase the probability of eligible non-saver status, but it is difficult to measure this effect precisely. As noted above, all the savings estimates should be considered as 'predictors' of eligible non-saver status rather than underlying causes.

3.3 Characteristics of employees who become eligible non-savers

While the above analysis reveals many differences between the group of eligible non-savers and their counterparts in occupational pensions, it does not tell us directly about the factors that may be associated with the decision to join an occupational pension or alternatively the decision to leave. It is these decisions that will be crucial to retaining people in pensions following automatic enrolment and to encouraging them back in if they drop out.

To look at these transitions, we link the two waves of WAS and track individuals between 2006-08 and 2008-10. First we look at those who left an occupational pension between the two waves and became eligible non-savers. As seen in Section 2.2, most exits from occupational pensions are associated with a loss of eligibility (and some with a loss of employer contributions) – here we focus only on the subgroup of employees who left an occupational pension but remained eligible for a pension with employer contributions. We define two groups: (i) those who became eligible non-savers and either stayed in the same job or left for another job (with the new employer still offering contributions); and (ii) a narrower group of those who became eligible non-savers while staying in the same job.

Because of these very specific definitions (coupled with low drop out rates) both groups are small (group (i) contains 76 people and group (ii) contains 43 people) and thus the estimates of their characteristics are liable to be quite imprecise. However, we can identify the key characteristics that describe these groups by testing whether they are significantly different from a comparison group of people who stay in an occupational pension in both waves (5846 people). Table 6 reports the personal and household characteristics of the three groups, showing for each characteristic whether the groups of pension leavers differs statistically from the comparison group who stayed in their occupational pension. Asterisks indicate whether the differences are significant at the 10% level (*) or the 5% level (**), with significance the 5% level giving higher statistical confidence that the reported differences are genuine. All characteristics are measured at wave 1, i.e. before the transition.

Table 6: Personal and household characteristics of pension leavers

	Stayed in occup pension	Became eligible non-saver in any job		Became eligible non-saver in same job	
Demographics					
Female	50.4%	39.4%	*	40.5%	
Age (yrs)	42.2	37.1	**	39.4	*
Married	79.6%	70.6%		68.3%	
Number of children under 18	0.78	0.79		0.95	
Education					
Degree	41.4%	34.3%		24.7%	**
Other qualification	54.5%	64.5%	*	73.1%	**
No qualification	4.2%	1.2%	**	2.3%	
Housing, savings and earnings					
Owns home outright	15.2%	10.2%		13.8%	
Mortgage holder	73.1%	63.1%		61.2%	
Tenant	10.8%	24.6%	**	21.1%	
Gross annual earnings (£)[b]	26481	25142		20929	**
Saved money in last year[a]	71.7%	63.8%		48.4%	**
Liquid savings(£)[b]	2111	132	**	6	**
Liquid debt (£)[b]	62	1089	**	0	
Owns 2nd property[a]	7.1%	8.8%		12.5%	
Mortgage loan to value[c]	42.1%	51.6%	**	52.0%	
Saves to personal pension	4.2%	3.9%		3.2%	
In mortgage arrears	0.0%	0.0%		0.0%	
In bill arrears	1.2%	0.0%	**	0.0%	**
Base sample size	*5,846*	*76*		*43*	

Characteristics measured wave 1. * Difference compared to stayers significant at 10%; ** difference compared to stayers significant at 5%.

Focussing on the statistically significant differences, the results suggest that employees who become eligible non-savers are disproportionately male, slightly younger than those who stay in their occupational scheme, and substantially less qualified. They are more likely to be tenants, earn and save less, and have more debt. They are also more likely to be in arrears

with household bills. While most of these differences are only significant for one or other of the two groups of pension leavers, the size of the estimates is broadly consistent for both (an exception is debt: median debt among the group who become eligible non-savers in the same job is zero, compared with £62 among pension stayers, whilst it is over £1k when including those who become eligible non-savers and change jobs – but only the second comparison is statistically significant). Overall the patterns from these comparisons of transitions are similar to those that emerged from the static comparisons in Table 3.

Table 7: Job characteristics and occupation of pension leavers

	Stayed in occup pension	Became eligible non-saver in any job		Became eligible non-saver in same job	
Part-time	16.8%	17.6%		26.8%	
Public sector[a]	51.3%	29.0%	**	29.4%	**
Workplace size					
1-24 employees	15.8%	12.1%		10.5%	
25-499 employees	53.9%	60.9%		64.7%	
500+ employees	30.3%	27.1%		24.8%	
Socio-economic classification					
Higher managerial & admin	10.0%	14.3%		8.7%	
Higher professional	13.6%	2.3%	**	0.0%	**
Lwr managerial, admin & prof	39.9%	35.5%		33.3%	
Intermediate occupations	15.6%	14.9%		14.5%	
Lower supervisory & technical	7.7%	8.9%		7.6%	
Semi-routine occupations	9.6%	13.2%		21.1%	
Routine occupations	3.7%	11.0%	*	14.8%	*
Industry					
Manufacturing	11.3%	23.6%	**	17.2%	
Construction	4.3%	5.2%		3.7%	
Retail, accommodation & food	6.8%	6.0%		7.1%	
Transport	4.7%	11.1%		20.3%	**
Information and comms	4.5%	6.2%		4.0%	
Finance and insurance	7.1%	3.9%		0.0%	**
Property	0.6%	2.0%		0.0%	**
Professional and technical	3.3%	2.1%		1.9%	
Admin and support services	1.3%	1.6%		3.0%	
Public admin and defence	17.9%	13.1%		13.6%	
Education	18.3%	13.6%		19.6%	
Health and social work	15.4%	7.4%	**	5.6%	**
Other industries	4.7%	4.1%		3.9%	

[a] Measured at wave 2 (other characteristics measured wave 1). * Difference compared to stayers significant at 10%; ** difference compared to stayers significant at 5%.

Table 7 reports the job and occupational characteristics of pension leavers versus pension stayers. There are relatively few statistically significant differences, suggesting that job type is not the major factor in driving exits from pensions. Employees who become eligible non-

savers are disproportionately in the private sector (as found in the cross-sectional comparisons of Table 4) and there is also some evidence that they are more likely to be in less skilled occupations.[13] However, to the extent that pension leavers are concentrated in particular industries, the pattern appears different to the cross-sectional distribution. The most striking difference is that Table 4 showed that eligible non-savers were disproportionately concentrated in retail and catering, but here we see that this is not true of those who start out in a pension but then leave. This again suggests that industry factors are not the driving force of dropout behaviour.

3.4 Characteristics of employees who join an occupational pension (with employer contributions)

Next we look at the characteristics of employees who go from being eligible non-savers to members of their occupational pension scheme. These transitions are relevant for thinking about who might rejoin a pension after opting out following auto-enrolment, and which opt-outs might be most persistent in non-saving.

As in the previous section, we define (i) a broad group of pension joiners who joined whether in the same job or on changing jobs and (ii) a narrower group of only those who join in their current job. Once again, partly because the pool of eligible non-savers is relatively small, the sizes of these groups are also small (129 employees in group (i) and 83 employees in group (ii)). Thus in order to identify their key characteristics, we again test for statistical significance against the comparison of employees who stayed as eligible non-savers in both waves.

Table 8 indicates that the main characteristics associated with the decision to join an occupational pension among eligible non-savers are whether they are tenants or not and their financial position (earnings, savings and debt position). A third of those who stay as eligible non-savers are tenants, compared with only 16–20% of those who join their workplace pension. Joiners earn about £4k pa more, are more likely to have saved in the last year, have higher levels of liquid savings, and are less likely to be in arrears with bills. Interestingly, the positive correlation of savings with joining extends to personal pension savings: about 8–11% of joiners also save to a personal pension, compared with under 4% among persistent eligible non-savers. This suggests that having alternative personal pension is not a barrier to joining a workplace pension, although this association may reflect that joiners are anyway in a better financial position than those who do not save to a pension.

[13] Public sector affiliation is only measured in WAS at wave 2, so for those changing job it may not reflect their sector of origin.

Table 8: Personal and household characteristics of pension joiners

	Stayed as eligible non-saver	Joined occup pension in any job		Joined occup pension in same job	
Demographics					
Female	40.1%	37.1%		31.8%	
Age (yrs)	37.1	35.4		37.4	
Married	70.4%	69.3%		71.3%	
Number of children under 18	0.68	0.71		0.85	
Education					
Degree	27.9%	39.7%	*	36.0%	
Other qualification	64.4%	53.8%	*	58.2%	
No qualification	7.7%	6.6%		5.8%	
Housing, savings and earnings					
Owns home outright	8.3%	12.4%		15.4%	
Mortgage holder	57.8%	65.5%		67.9%	
Tenant	33.2%	20.3%	**	16.4%	**
Gross annual earnings (£)[b]	19342	23637	**	23648	**
Saved money in last year[a]	49.0%	72.3%	**	69.2%	**
Liquid savings(£)[b]	158	547		950	**
Liquid debt (£)[b]	560	749		433	
Owns 2nd property[a]	7.3%	5.4%		8.1%	
Mortgage loan to value[c]	52.6%	51.8%		45.0%	*
Saves to personal pension	3.7%	8.6%	*	11.5%	**
In mortgage arrears	0.0%	0.0%		0.0%	
In bill arrears	4.1%	0.0%	**	0.0%	**
Base sample size	*193*	*129*		*83*	

Table 9 documents the job characteristics of joiners as compared with eligible non-savers. Joiners are significantly less likely to be part-timers, in technical or semi-routine jobs, or in manufacturing, and appear more likely to be in private administrative/support industries. Overall though, and mirroring what was seen among pension leavers, job characteristics appear have little association with the decision to join a workplace pension once it is available.

Table 9: Job characteristics and occupation of pension joiners

	Stayed ENS	Joined occ pen in any job		Joined occ pen in same job	
Part-time	19.9%	12.6%	*	9.6%	**
Public sector[a]	18.9%	25.5%		21.7%	
Workplace size					
1-24 employees	21.4%	21.2%		22.3%	
25-499 employees	62.9%	55.0%		53.3%	
500+ employees	15.7%	23.8%		24.4%	
Socio-economic classification					
Higher managerial & admin	6.4%	9.6%		10.6%	
Higher professional	6.4%	9.9%		11.8%	
Lwr managerial, admin & prof	30.3%	35.8%		27.3%	
Intermediate occupations	17.1%	21.1%		23.8%	
Lower supervisory & technical	15.9%	6.5%	**	9.7%	
Semi-routine occupations	15.5%	7.5%	**	4.4%	**
Routine occupations	8.4%	9.6%		12.4%	
Industry					
Manufacturing	18.6%	8.1%	**	6.6%	**
Construction	5.6%	7.8%		6.7%	
Retail, accommodation & food	17.0%	11.0%		11.2%	
Transport	8.7%	10.1%		11.4%	
Information and comms	4.9%	5.1%		7.3%	
Finance and insurance	6.0%	6.4%		7.4%	
Property	0.7%	0.7%		0.0%	
Professional and technical	4.3%	7.7%		5.4%	
Admin and support services	2.3%	9.0%	**	5.4%	
Public admin and defence	5.8%	6.3%		10.1%	
Education	7.4%	13.1%		12.3%	
Health and social work	12.0%	8.0%		8.6%	
Other industries	6.6%	6.7%		7.4%	

3.5 Predictors of pension transitions

After looking at the characteristics of occupational pension leavers and joiners, we now estimate multivariate models of these transitions in order to establish the key independent factors that predict leaving and joining decisions. The models are similar to the model of eligible non-saver status in Section 3.2, but given the relatively small number of transitions in the data, in order to increase precision we limit the number of included variables. Specifically this means we omit a subset of variables (e.g. mortgage repayments) that appeared to have no effect on eligible non-saver status in the previous analysis. However, we also add three variables capturing lifetime events that occurred between waves 1 and 2 and which may affect pension saving. The first is whether a person bought their house after being a tenant

previously, and the second is whether a new child was born in the household.[14] The third event variable is whether the employee changed jobs between the waves. As seen in Section 2.2 many pension exits appear linked to job changes, so it is important to allow for this in the models (the samples of pension joiners and leavers include both those staying in the same job and changing jobs).

The estimates are shown in Table 10. As well as showing whether coefficients are significant at the 10% and 5% levels, we also flag up significance at 20% – while significance at 20% only represents very weak evidence of an effect, it may still be worth noting given the lower precision of the estimates compared to the cross-sectional model (owing to the small number of transitions).

Table 10: Predictors of transitions in occupational pension saving

Characteristic	Leaving (becoming ENS) Percentage points (pp)		Joining (no longer ENS) Percentage points (pp)	
Female	-0.3		-0.4	
Age +5 yrs (at 30 years old)	-0.7	**	-2.5	
Age +5 yrs (at 50 years old)	0.2	#	-2.4	
Married	-0.5		-2.5	
Number of children under 18	0.2	#	7.3	**
Has new child			-1.5	
Degree	1.3		7.1	
Other qualification	1.5		1.5	
Owns home outright	0.0		6.7	
Tenant	0.8		-26.5	**
Buys house	-0.6		23.4	#
Gross annual earnings +10%	-0.1		1.1	**
Liquid savings +10%	-0.01	**	0.09	
Liquid debt +10%	0.0		0.02	
Mortgage loan to value +10pp	0.1		-1.4	
Second property	0.4		-6.5	
Changes jobs	3.0	**	14.8	**
Sample size	*5,780*		*319*	

Average marginal effects from probit model. Age is entered as quadratic function. Omitted (reference) categories are: for education, no qualification; for housing tenure, buying with a mortgage (inc part rent). # Significant at 20%; * significant at 10%; ** significant at 5%.

The first model looks at transitions out of an occupational pension with employer contributions to become an eligible non-saver. All variables (except for having a child and buying a house) are measured at wave 1 and thus predict pension exits over the following two years. Because we measure the explanatory variables before the transitions there is less concern here than in the cross sectional model about reverse causality, i.e. that the explanatory variables may themselves be influenced by eligible non-saver status.

[14] We can also see whether people changed their marital status, but there are not enough marriages and divorces in the sample to use this information.

Few factors systematically predict pension exits. The exceptions are age, savings and job changes (there is also very weak evidence that having more children may lead to a higher quit rate).

Age: the young are more likely to become eligible non-savers (with stronger effects at younger ages). For instance, a 25 year-old is 0.7pp more likely to leave an occupational pension than a 30 year-old.

Savings: a 10% increase in savings leads to a 0.01pp decrease in the probability of leaving an occupational pension – this is a tiny effect even given the fact that exit rates are also low (1.3% in the sample).

Changing jobs: both these effects are dwarfed by that of changing jobs, which raises the probability of a pension exit by 3pp. This is very large given the average quit rate of 1.4%. This large effect does not arise from moves into jobs with no pension – we only consider transitions where a pension is available in wave 2 and includes employer contributions. Thus this is not an effect which will necessarily disappear with the expansion of pension eligibility following automatic enrolment. Instead it seems that a job change may act as a focal point for the pension decision. Indeed a job change dominates all the other economic predictors of exiting pension

The second model in Table 10 explains the probability of joining an occupational pension with employer contributions after being an eligible non-saver. Demographic and economic factors appear to be stronger predictors than for pension exits.

Number of children: Each extra child is associated with a 7pp higher chance of joining a pension. As in the cross-sectional model this may reflect that those with children are more concerned for the future. We do not see evidence of an increase in the joining probability if a new child is born.

Earnings: additional earnings also increases the joining probability, by 1pp for a 10% increase in earnings, suggesting that affordability may play a role in joining decisions.

Changing jobs: as for exits, job changes are also associated with a higher chance of joining a pension, by 15pp. This effect is larger than the effect on leaving a pension (however so is the overall joining rate; 40% of the sample had joined a pension by wave 2). Again though, we see evidence that a job change is a focal point for a pension decision.

Housing tenure: the largest effect in the model is from being a tenant. An employee who is a tenant has a 27pp lower probability of joining their employer's occupational pension than a mortgage holder. This again accords with the idea that people prioritise buying a home over starting a pension. The model also includes an indicator for buying a house (between waves 1 and 2) after being a tenant. The effect is very imprecisely estimated and is only significant at the 20% level. Nevertheless, it is positive and of very similar size to the tenancy effect (23pp), consistent with the idea that when a person stops being a tenant their chance of joining an occupational pension jumps to the level of mortgage holders.

4. Motivation, attitudes and knowledge of eligible non-savers

Key findings

- Eligible non-savers are more likely than occupational pension savers to hold attitudes that favour current spending and receipt of income over saving for the future.
- Eligible non-savers report more difficulties with financial management, including running out of money and buying things they cannot afford. However, they report more optimism and less pessimism about their medium-term financial prospects than savers, and are more risk tolerant.
- Eligible non-savers have less favourable views than occupational pension savers of (employer) pensions as savings products, and more favourable views about property and personal pensions. Eligible non-savers are less likely to report they understand enough about pensions.
- These relationships broadly remain after controlling for 'objective' factors. The key predictors of being an eligible non-saver are: preferences for present versus future spending (+), financial management success/difficulties (-/+), favourable views about pensions vs. property (-), self-assessed pension knowledge (-), and risk tolerance (+).
- Controlling for other 'objective' factors, the key attitudinal and behavioural predictors of leaving an occupational pension are: rating property as the best way to save (+), preferring a good standard of living today (+) and being willing to delay the receipt of money (-).
- Controlling for other 'objective' factors, the key attitudinal and behavioural predictors of joining an occupational pension are: having money left over at the end of the week/month (+), preferring a good standard of living today (-), and being willing to delay the receipt of money (+).
- Evaluations of the quality of (employer) pensions versus property and personal pensions emerge as major predictors of being an eligible non-saver and of leaving an occupational pension.
- A quarter of eligible non-savers say they are not in an occupational pension because they cannot afford it. They earn somewhat less than eligible non-savers who give other reasons for non-participation, but they also tend to prioritise consumption over saving and report more money management problems. The two groups do not differ in their evaluations of pensions versus property.

After examining the demographic characteristics and economic status of eligible non-savers, we now turn to look at more subjective indicators of their financial behaviour and attitudes. WAS includes a battery of questions about respondents' attitudes to saving and credit, how willing they are to postpone consumption, their self-assessed financial management, and their evaluations of alternative methods of retirement saving. Thus we can see the extent to which attitudes are correlated with employees' pensions decisions and, importantly, whether attitudes have an independent effect once we allow for objective economic circumstances.

4.1 Attitudes of eligible non-savers

The attitude measures are summarised in Table 11, broken down into eligible non-savers and occupational pension savers. Several of the measures were based on questions asking respondents to what extent they agreed with the statements summarised in the first column of the table – in these cases we define the respondent as holding a given attitude if they strongly agree or tend to agree with the statement (as opposed to expressing no opinion, tending to disagree or strongly disagreeing).

Table 11: Spending/saving behaviour and attitudes of eligible non-savers

	Savers to occupational pensions	Eligible non-savers
Measured at wave 1		
Tend to buy things when can't afford[a]	14.5%	18.9%
More a saver than a spender[a]	42.3%	32.0%
Tend to buy things on credit and pay later[a]	26.3%	21.8%
Prefer good standard living today to saving for retirement[a]	30.7%	45.1%
Money left at least sometimes end of week/month	70.7%	61.6%
Run out of money at least sometimes end of week/month	26.4%	39.3%
Pension best way to save for retirement[a]	61.2%	43.4%
Property best way to save for retirement[a]	54.1%	61.6%
Understand enough about pensions to make decisions about retirement saving[a]	50.1%	36.7%
Risk tolerant[b]	23.5%	28.1%
Patient[c]	25.5%	19.7%
Measured at wave 2		
Prefer credit to saving and waiting[a]	15.2%	15.7%
Very organised in day to day money management[a]	82.3%	77.6%
Lives for today[a]	32.3%	47.1%
Has money for rainy day[a]	73.4%	56.7%
Prefer to spend than save for long term[a]	41.7%	49.7%
Employer pension safest way to save	64.9%	30.5%
Personal pension safest way to save	6.5%	11.2%
Property safest way to save	13.9%	27.2%
Employer pension makes most of money	45.2%	23.4%
Personal pension makes most of money	4.1%	6.1%
Property makes most of money	27.4%	41.2%
Expect financial situation to be better in 2 yrs	35.9%	47.2%
Expect financial situation to be worse in 2 yrs	15.3%	11.8%

All differences significant at 5% except for "Prefer credit to saving and waiting". [a] Proportions refer to respondents who "strongly" or "tend to" agree with these statements (as opposed to expressing no opinion,

tending to disagree or strongly disagreeing). [b] Prefers a 1-in-5 chance of £10k to a guaranteed payment of £1k. [c] Prefers £1.1k next year to £1k today.

In separate questions WAS measured respondents' attitudes to risk and their time preferences. Risk attitudes are measured using a question about whether the respondent would prefer a guaranteed payment of £1,000 or a one-in-five chance of receiving £10,000. Individuals are defined as risk tolerant if they prefer the one-in-five gamble. Time preferences are derived from a question asking whether the respondent would prefer £1,000 today or £1,100 next year. We define them as patient if they are prepared to wait for £1,100.

As there were many changes to the attitudinal questions (wording and response categories) between waves 1 and 2 of WAS, in general they are not comparable across waves. Therefore Table 11 reports the measures recorded at each wave separately.[15]

Attitudes to saving and spending: Compared to occupational pension savers, eligible non-savers are more likely to hold attitudes that favour current spending over saving for the future. Some 50% of eligible non-savers say they prefer to spend than save for the long term, compared with 42% of savers. And 45% of eligible non-savers prefer a good standard of living today to saving for retirement (versus 31% of savers). Eligible non-savers are also less likely to characterise themselves as "savers not spenders" than are those in occupational pensions. Based on the time preference measure, eligible non-savers are also less patient: 20% would prefer £1.1k next year to £1k now compared with 25% of savers.

Financial management: eligible non-savers report more difficulties with financial management than savers. For instance, 19% say they tend to buy things they can't afford, compared with 15% for savers, and 39% sometimes run out of money at the end of the week or month, versus only 26% among savers. Only 57% of eligible non-savers have money for a rainy day, compared with 73 % of savers. One perhaps unexpected difference between the two groups is that eligible non-savers do not appear to resort more to credit. There is little difference in the preference for credit over saving and waiting, and eligible non-savers are less likely to buy things on credit and pay later. This may be related to eligible non-savers' lower income (thus access to credit) – we check for this below in the multivariate analysis that controls for earnings.

Financial knowledge and judgements: we would expect those with favourable views of occupational pensions to be most likely to save and this is confirmed in the responses. Only 43% of eligible non-savers believe that a pension is the best way to save for retirement (versus 61% of occupational pension savers), 31% believe that an employer pension is the safest way to save (65% of savers), and 23% think that an employer pension makes the most of their money (45% of savers). This pattern is reversed for judgements about the savings value of property and personal pensions (although, as seen above, there is no significant

[15] The following measures were collected at both waves: risk preference, time preference, whether understands enough about pensions to make retirement saving decisions, and whether have money left / run out of money at end of the week/month. We report the wave 1 proportions since the sample size is larger than at wave 2. Expectations of financial situation in 2 years were collected in both waves but only asked to 50% of respondents in wave 1, thus we report the wave 2 proportions. The question about preferring a good standard of living today to saving for retirement was asked in both waves but the response categories changed in wave 2.

difference in the proportions owning a second property).[16] Thus overall eligible non-savers have substantially less confidence in occupational pensions than savers. This also appears to be accompanied by a perceived lack of knowledge of pensions: just over half of occupational pension savers judge that they understand enough about pensions to make retirement decisions, compared with 37% of eligible non-savers.

Financial expectations and risk preferences: eligible non-savers are substantially more optimistic about their financial future (over the next 2 years) than savers. Some 47% expect their situation to be better and 12% expect it to be worse (compared with 36% and 15% of savers). Eligible non-savers are also more ready to take financial risks: 28% are risk tolerant versus 24% of savers. It may thus be that eligible non-savers wish to save but are waiting for better financial times in order to do so even if it means risking inadequate pension provision.

4.2 The predictors of eligible non-saving – attitudes and motivations

It is clear that there are substantial differences in the attitudes of eligible non-savers and savers. However, we also saw in Chapter 3 that the two groups differ in their economic circumstances. Since attitudes and motivations undoubtedly differ across socio-economic position, we next report the results of multivariate models that estimate the independent effect of attitudes after having controlled for 'objective' demographic and economic factors.[17] We present two models, estimated respectively from waves 1 and 2 of the data to allow for the different attitude measures available at each wave. The results are shown in Table 12 (for simplicity we only report the effects of attitudes and not the controls).

Characteristics from all of the broad groups of attitudes discussed above are statistically significant, although not every single characteristic is itself significant (this may partly because some of the attitude measures are related and so it is difficult to separate out distinct effects - for instance being very organised in money management has no effect on eligible non-saver status but having money for a rainy day does).

Attitudes to saving and spending: the strongest predictor in this group is a preference for a good standard of living today rather than saving for retirement, which is associated with a 3pp higher probability of being an eligible non-saver. "Living for today" is similarly associated with a 2.5pp higher probability. A preference for spending rather than saving (wave 2) has no independent effect but respondents in wave 1 who report themselves to be savers not spenders are 2pp less likely to be eligible non-savers. Being financially patient has no association with the decision to join an occupational pension (although an effect related to patience may be picked up by some of the other attitudes such as being a saver not a spender).

Financial management: even after controlling for earnings, education and family structure etc., financial management skills appear correlated with eligible non-saver status. Those who tend

[16] The proportions in wave 1 reporting that a "pension is the best way to save…" and that "property is the best way to save…" are not mutually exclusive because they measure a tendency to agree with each statement as well as strong agreement. Thus they sum to more than 100%.

[17] The controls included are those of the model in Section 3.2, except we omit measures of savings, debt, mortgages and second properties, since these characteristics are themselves partly determined by people's financial attitudes - so it is inappropriate to hold them constant when comparing people with different attitudes.

to run out of money are 2pp more likely, while those who keep money for a rainy day are 2pp less likely, to be eligible non-savers. Interestingly, the negative relationship between the use of credit and eligible non-saver status that we saw in the simple comparisons (Table 11) remains after controlling for earnings. Those who tend to buy on credit are 2pp less likely to be eligible non-savers. The reason is not fully clear - there may be long-term financial factors not controlled for in the model that affect both pension saving and credit use, and it could even be that pension membership provides confidence about the future that favours the judicious use of credit.

Table 12: Attitudinal predictors of eligible non-saving

Characteristic	Percentage points (pp)	
Wave 1		
Tend to buy things when can't afford	0.3	
More a saver than a spender	-1.7	**
Tend to buy things on credit and pay later	-2.0	**
Money left at least sometimes end of week/month	-0.3	
Run out of money at least sometimes end of week/month	2.1	**
Prefer good standard living today to saving for retirement	3.1	**
Pension best way to save for retirement	-6.2	**
Property best way to save for retirement	1.3	**
Understand enough about pensions to make decisions about retirement saving	-1.4	**
Risk tolerant	2.0	**
Patient	-0.7	
Sample size	*10,255*	
Wave 2		
Prefer credit to saving and waiting	-0.9	
Very organised in day to day money management	0.3	
Lives for today	2.6	**
Has money for rainy day	-2.1	**
Prefer to spend than save for long term	0.1	
Personal pension safest way to save	6.8	**
Property safest way to save	7.5	**
Personal pension makes most of money	1.4	
Property makes most of money	2.8	**
Expect financial situation to be better in 2 yrs	1.6	*
Expect financial situation to be worse in 2 yrs	-1.5	
Sample size	*6,753*	

Average marginal effects from probit models, estimated separately at waves 1 and 2. Omitted categories for wave 2 pension variables are "employer pension is safest way to save" and "employer pension make most of money". Both models include controls for: gender, age (quadratic), marital status, number of children, qualifications, housing tenure, part-time work, earnings. * Significant at 10%; ** significant at 5%.

Financial knowledge and evaluations: the strongest attitudinal predictors in the models are employees' evaluations of different pension saving methods. Those who believe that pensions are the best way to save for retirement are 6pp less likely to be eligible non-savers, while those who believe that either personal pensions or property are the safest ways to save

(relative to employer pensions) are about 7pp more likely to be eligible non-savers. The perceived safety of a pension seems more important than whether it has the highest returns. Those who believe a personal pension makes the "best use of the money" are no more likely to be eligible non-savers than those who think an employer pension makes the best use of the money, while those who think property has the highest returns are 3pp more likely to be eligible non-savers - just half the effect of the perceived safety of property.

Perceived knowledge about pensions reduces the likelihood of being an eligible non-saver, but it is important to bear in mind that knowledge about pensions (and to some degree evaluations about their advantages), may come largely after a person has joined a pension. Thus these effects may not be solely causal. We can disentangle the effects to some extent below when we look at the power of attitudes to predict future pension transitions.

Financial expectations and risk preferences: consistent with the patterns seen in the raw data, employees who are risk tolerant are 2pp more likely to be eligible non-savers. Those who are optimistic about future finances are more likely to be eligible non-savers (by 2pp) but the effect is only significant at 10%, while financial pessimism has no effect. Therefore the strong associations between expectations and being an eligible non-saver seen in the raw comparisons appear mainly to reflect pre-existing financial circumstances (as captured by the controls in the model).

4.3 Attitudes of employees who become eligible non-savers

After looking at the factors that predict being an eligible non-saver at a point in time, we now turn to those who make transitions, either into or out of being an eligible non-saver, using the same groups as defined in Sections 3.3 and 3.4. We first document the attitudes of employees who become eligible non-savers (in any job or in the same job) between waves 1 and 2, comparing them with the group that remained in an occupational pension throughout. Table 13 reports the attitudes of these three groups. As previously, we split the variables into those measured at wave 1 and wave 2. It should be noted that the wave 2 attitudes are measured after any transition has taken place, thus it is possible that they are a result of the transition rather than a cause of it (a causal interpretation would assume these attitudes are stable and not influenced by dropping out of a pension). As in the previous analysis of transitions, we focus on attitudes that differ significantly between the comparison group and those becoming eligible non-savers.

Looking first at attitudes before the transition, we see that around half of those exiting a pension said they prioritised a good standard of living today rather than retirement saving, compared with 30% of employees remaining in their occupational pension. Evaluations of the best ways to save for retirement were also strongly associated with subsequent transitions. Some 63% of those staying in their occupational pension said that a pension was the best way to save, while about 40-50% of those leaving thought a pension was best (nevertheless it is interesting that almost half of leavers still appear to retain confidence in pensions).

Conversely, pension leavers were much more likely to say that property was the best way to save (70-74% versus 52% among stayers).

The other pre-transition attitude strongly associated with becoming an eligible non-saver is whether an employee was financially patient. Some 27% of those staying in their pension were patient compared with only 12% of those who became eligible non-savers. Restricting transitions to only those who became eligible non-savers in the same job, only 6% were patient.

There are also some strong associations between leaving an occupational pension and attitudes measured in wave 2 (after the transition). Those who leave their occupational pension see themselves as less financially organised (about 70% versus 83% for stayers) and less likely to have money for a rainy day (about 61% versus 75%). They are more likely to say they live for today (47% versus 32%) and prefer to spend than save for the long term (53% versus 41%).

Table 13: Spending/saving behaviour and attitudes of pension leavers

	Stayed in occup pension	Became eligible non-saver in any job		Became eligible non-saver in same job	
Measured at wave 1					
Tend to buy things when can't afford	14.1%	17.8%		13.5%	
More a saver than a spender	41.4%	28.6%	**	30.7%	
Tend to buy things on credit and pay later	27.0%	20.4%		13.4%	**
Money left at least sometimes end of week/month	70.4%	73.8%		66.2%	
Run out of money at least sometimes end of week/month	26.9%	32.6%		38.3%	
Prefer good standard living today to saving for retirement	29.9%	46.6%	**	52.3%	**
Pension best way to save for retirement	62.8%	50.3%	*	41.1%	**
Property best way to save for retirement	51.5%	70.3%	**	74.3%	**
Understand enough about pensions to make decisions about retirement saving	49.5%	37.2%	*	35.7%	
Risk tolerant	22.9%	21.2%		22.6%	
Patient	26.6%	12.3%	**	5.6%	**
Measured at wave 2					
Prefer credit to saving and waiting	15.3%	15.9%		13.7%	
Very organised in day to day money management	83.0%	69.4%	**	71.9%	
Lives for today	31.7%	46.7%	**	43.3%	
Has money for rainy day	75.1%	61.4%	**	63.8%	
Prefer to spend than save for lt	40.9%	52.7%	*	47.4%	
Employer pen safest way to save	66.7%	36.1%	**	32.1%	**
Personal pen safest way to save	5.9%	10.2%		7.1%	
Property safest way to save	13.1%	27.2%	**	31.0%	**
Emp pen makes most of money	46.3%	21.6%	**	19.4%	**

Pers pen makes most of money	3.8%	6.5%		3.8%	
Property makes most of money	26.9%	45.1%	**	47.0%	**
Expect financial situation to be better in 2 yrs	33.4%	40.4%		34.9%	
Expect financial situation to be worse in 2 yrs	15.9%	14.4%		14.2%	

The variables capturing attitudes to different saving methods at wave 2 are (as for the wave 1 measures) correlated with the decision to leave an occupational pension. Employees who left are much less likely to judge an employer pension as the safest way to save (32-36% versus 67% among stayers) and also less likely to say that an employer pension makes the most of the money (19-22% versus 46% among stayers). By contrast leavers are more likely to judge property as the safest way to save (27-31% versus 13% among stayers) and as having the highest returns (45-47% versus 27% among stayers). Interestingly, employees' evaluations of personal pensions are not related to the decision to leave an occupational pension.

Financial expectations do not seem to be associated with leaving an occupational pension, despite the cross-sectional evidence that eligible non-savers are more optimistic (and less pessimistic).

4.4 Attitudes of employees who join an occupational pension (with employer contributions)

Next we focus on the transitions of eligible non-savers into an occupational pension, comparing them with employees who remained as eligible non-savers between the two waves (Table 14). Focussing on statistically significant differences we see some evidence that those who join a pension are more successful at financial management. About 70-80% have money left at the end of the week or month, compared with only 59% of those who stay as eligible non-savers.

Those who think pensions are the best way to save for retirement were more likely to join but this relationship is not statistically significant. However, there is a significant relationship (at the 10% level) between views about property investment and joining a pension. About half of joiners judged that property was the best way to save, compared with 64% of those who remained eligible non-savers.

As for pension leavers, there is a strong relationship between joining a pension and financial patience: 34% of joiners are financially patient compared with just 17% of those who choose to stay out. Interestingly, being risk tolerant also seems to be associated with joining rather than leaving, although the result is only significant for those staying in the same job (the cross-sectional comparisons of Table 11 found eligible non-savers were more, not less, risk tolerant).

The comparisons using attitudes after the transition indicate that joiners were less likely to say they lived for today than were those staying out. Similarly to pension leavers, the joining decision is also associated with evaluations of the safety and returns to pension and property investment. Just over 60% of joiners said that an employer pension was the best way to save,

compared with 25% of those who remained as eligible non-savers; and 40-48% of joiners said that an employer pension made the most of their money, compared with 25% of eligible non-savers. Conversely, property was much less favoured, in terms of both safety and returns, by joiners compared with eligible non-savers, for instance about 15% of joiners said property was the safest way to save compared with 34% of those who stayed out. Evaluations about personal pensions were not related to the joining decision (as for leavers). As noted above, a caveat to these numbers is that a person's opinion of the relative merits of the different saving methods may reflect the decision just taken (e.g. they may feel a need to justify their choice). As for pension leavers, we do not see a relationship between financial expectations and joining an occupational pension.

Table 14: Spending/saving behaviour and attitudes of pension joiners

	Stayed ENS	Joined occ pen in any job		Joined occ pen in same job	
Measured at wave 1					
Tend to buy things when can't afford	14.2%	13.6%		16.9%	
More a saver than a spender	33.6%	40.7%		42.3%	
Tend to buy things on credit and pay later	22.5%	24.7%		26.0%	
Money left at least sometimes end of week/month	58.9%	71.8%	**	78.9%	**
Run out of money at least sometimes end of week/month	37.7%	28.9%		28.5%	
Prefer good standard living today to saving for retirement	40.7%	32.4%		33.8%	
Pension best way to save for retirement	38.7%	48.3%		45.1%	
Property best way to save for retirement	64.2%	52.0%	*	51.1%	*
Understand enough about pensions to make decisions about retirement saving	39.3%	31.0%		34.0%	
Risk tolerant	26.0%	32.4%		41.4%	**
Patient	17.1%	34.3%	**	34.1%	**
Measured at wave 2					
Prefer credit to saving and waiting	15.0%	16.9%		18.1%	
Very organised in day to day money management	77.5%	77.2%		78.9%	
Lives for today	49.6%	31.0%	**	35.4%	*
Has money for rainy day	62.1%	65.2%		68.0%	
Prefer to spend than save for It	51.6%	41.4%		39.9%	
Employer pen safest way to save	24.7%	60.1%	**	62.9%	**
Personal pen safest way to save	12.6%	13.8%		13.4%	
Property safest way to save	33.6%	16.5%	**	15.3%	**
Emp pen makes most of money	24.7%	40.2%	**	47.7%	**
Pers pen makes most of money	6.2%	7.2%		9.3%	
Property makes most of money	50.0%	29.2%	**	25.7%	**
Expect financial situation to be better in 2 yrs	46.8%	48.5%		40.1%	
Expect financial situation to be worse in 2 yrs	7.4%	9.1%		13.3%	

4.5 The predictors of pension transitions – attitudes and motivations

We now present multivariate models of pension transitions that allow us to see the independent effects of attitudes on pension leaving and joining decisions after removing the effect of demographic and economic factors. Since the aim of the models is to predict

subsequent pension transitions, all explanatory variables are measured at wave 1 and so cannot include attitudes collected in wave 2.

Table 15 shows the model estimates, indicating their level of statistical significance (including significance at the 20% level, which represents only weak evidence of an effect). The left hand column shows that both saving vs. spending attitudes and evaluations of the best way to save for retirement predict the decision to leave an occupational pension and become an eligible non-saver. Those who prefer a good standard of living today are 0.7pp more likely to become eligible non-savers, while those who see themselves more as savers than spenders are 0.4pp likely to leave their pension (this latter effect is only significant at 20%).[18] Employees who are financially patient are 0.9pp less likely to leave their pension, the strongest effect in the model.

Looking at retirement savings methods, employees who believe that property is the best way to save are 0.8pp more likely to leave their occupational pension, and there is some weak evidence that those who think a pension is the best way to save are less likely to leave (by 0.5pp, only significant at 20%).

Table 15: Attitudinal predictors of pension transitions

Characteristic	Leaving (becoming ENS) Percentage points (pp)		Joining (no longer ENS) Percentage points (pp)	
Tend to buy things when can't afford	-0.2		8.3	
More a saver than a spender	-0.4	#	-2.6	
Tend to buy things on credit and pay later	-0.5	#	7.9	
Money left at least sometimes end of week/month	0.4		13.7	**
Run out of money at least sometimes end of week/month	0.2		3.1	
Prefer good standard living today to saving for retirement	0.7	*	-9.9	*
Pension best way to save for retirement	-0.5	#	5.0	
Property best way to save for retirement	0.8	**	-3.8	
Understand enough about pensions to make decisions about retirement saving	-0.4		-11.9	**
Risk tolerant	-0.2		9.5	#
Patient	-0.9	**	15.8	**
Sample size	*4985*		*292*	

Average marginal effects from probit models. Models also include controls for: gender, age (quadratic), marital status, number of children, new child in household, qualifications, housing tenure, whether buys house, earnings.
* Significant at 10%; ** significant at 5%.

[18] Curiously those who tend to buy on credit are less likely to become eligible non-savers, however this effect is only significant at 20%.

The model for joining an occupational pension in the right hand column also indicates that attitudes towards the present versus the future affect the joining decision. Employees who prefer a good standard of living today are 10pp less likely to join while those who are financially patient are 16pp more likely to join (the largest effect in the model). In addition financial organisation plays a role. Those who tend to have money left at the end of the week/month are 14pp more likely to join.

By contrast with the predictive power of attitudes, judgements about the best way to save are not significant predictors of pensions joining (although they have the expected signs). However, those eligible non-savers who feel they understand enough about pensions are less likely to join an occupational pension (by 12pp). We know from the cross-sectional analysis that eligible non-savers feel they understand less about pensions than savers, so this result is unexpected. A possible (although speculative) explanation is that within the eligible non-saver group, those who are most financially confident (and thus report they understand enough about pensions) are the least likely to change their previous decision not to join an occupational pension, while the least financially confident are susceptible to changing their opinion. A further consideration is that this variable is not an objective measure of pension knowledge, rather it is self-assessed (so a respondent may report they know enough about pensions even though they know very little). In view of these issues, as a sensitivity check we re-estimated the model omitting the 'understand enough' variable – the results for the other characteristics were virtually identical.

4.6 Reasons for being an eligible non-saver

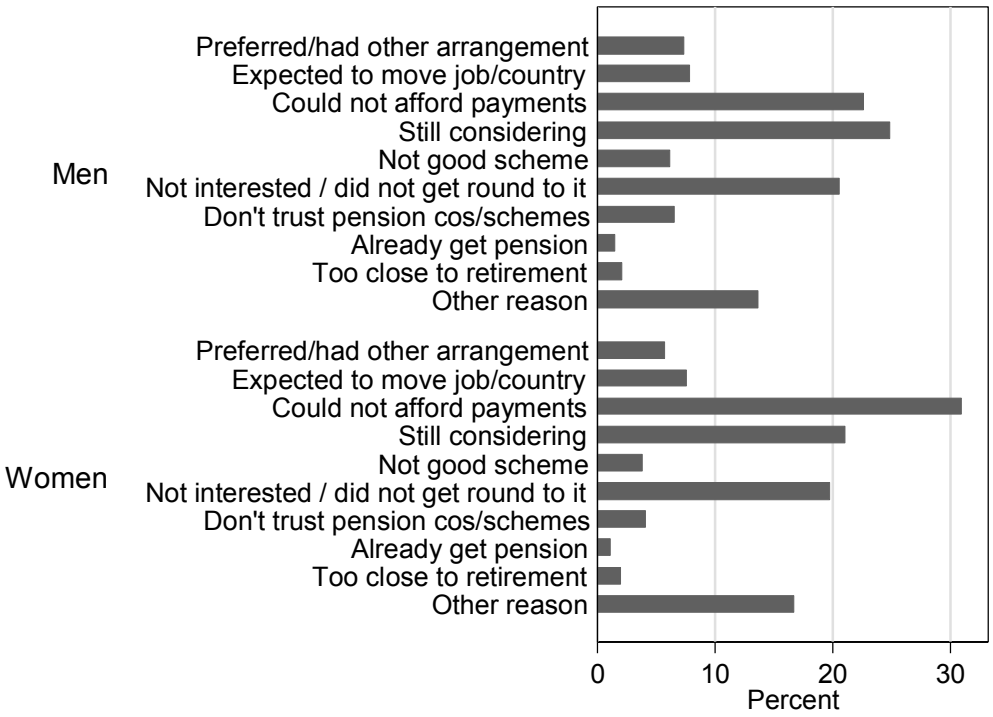
So far the analysis has identified a range of factors, both objective and subjective, that predict being an eligible non-saver. However, WAS also explicitly questioned respondents who were not members of their employer's occupational scheme about why they had chosen not to join. Figure 9 shows the reasons given by the sample of eligible non-savers.[19]

The major reasons given are that respondents cannot afford to join, they are still considering the decision, or that they are not interested. Among men the top reason is that they are still considering (almost 25% of eligible non-savers), followed by lack of affordability (22%) and lack of interest (20%), while for women the most common reason is lack of affordability (31%) followed by still considering (21%) and lack of interest (20%). The dominance of lack of affordability and lack of interest are consistent with the previous findings that both objective economic circumstances and attitudes play a role in the decision not to join.

We found previously that those who rated pensions as being risky or with poor returns were substantially more likely to be eligible non-savers. Some employees do cite pension quality, or preferred alternatives, as reasons for not joining, however the proportions are relatively small: around 6-8% say they prefer or have other arrangements, 3-6% say that the scheme offered is not good, and 4-7% say they don't trust pensions. Finally, about 7% say they did not join because they expected to change jobs or countries, consistent with our finding that a job change appears to be a focal point for a pension transition.

[19] As respondents could give more than one reason, the categories sum to more than 100%.

Figure 9: Reasons for not saving to occupational pension among eligible non-savers



Given the importance of affordability as a reason for not saving, we examine the characteristics of those who say they cannot afford a pension and compare them to employees giving other reasons. Table 16 summarises individual demographics and economic variables. Eligible non-savers saying they cannot afford a pension are more likely to be women (55% versus 44%) and to have more children (0.83 versus 0.65), however on average the two groups are about the same age and as likely to be married.

Those who say they cannot afford to save are, as expected, less qualified; nevertheless over a fifth have a degree (compared with 28% of those who give other reasons). They are much less likely to be outright homeowners (only 5% compared with 15% of those giving other reasons), about as likely to be homeowners, and somewhat more likely to be tenants (37% versus 29%).

Turning to financial characteristics, eligible non-savers who report they cannot afford to save are, as we would expect, somewhat less affluent than those who give other reasons. Their median annual earnings are £18k compared with £19.4k for those giving other reasons. They are less likely to have saved in the last year (36% compared with 60% of those giving other reasons) and they have lower savings (£7 at the median compared with £547) and much more debt (£2k versus £328). They are less likely to own a second property, have higher mortgage loan-to-value ratios and are more likely to be behind with household bills.

Table 16: Personal and household characteristics of eligible non-savers, by reason for not saving

	Other reasons	Can't afford	
Demographics			
Female	44.4%	55.0%	**
Age (yrs)	37.7	37.3	
Married	65.7%	66.6%	
Number of children under 18	0.65	0.83	**
Education			
Degree	27.6%	20.7%	**
Other qualification	65.5%	72.2%	**
No qualification	6.9%	7.1%	
Housing, savings and earnings			
Owns home outright	14.7%	4.6%	**
Mortgage holder	55.4%	57.0%	
Tenant	28.7%	37.4%	**
Gross annual earnings (£)[b]	19408	17994	**
Saved money in last year[a]	59.7%	36.3%	**
Liquid savings(£)[b]	547	7	**
Liquid debt (£)[b]	328	2033	**
Owns 2nd property[a]	6.0%	3.7%	*
Mortgage loan to value[c]	52.6%	65.0%	**
Saves to personal pension	7.4%	1.6%	**
In mortgage arrears	0.0%	0.0%	
In bill arrears	2.7%	7.6%	**
Base sample size	*1,626*	*543*	

[a] Measured at wave 1 only (other characteristics measured at both waves); [b] Median values in 2010 prices; [c] Mortgage LTV for employees with mortgages * Significant at 10%; ** significant at 5%.

However, despite the financial differences between the "can't afford" and "other reasons" groups, the gap is less pronounced than between eligible non-savers as a whole and employees in occupational pensions (see Table 3). For instance, the median earnings of occupational pension savers is £26k, while as seen it is only £19.4k among the "other reasons" group of eligible non-savers (and £18k among the "can't afford" group). Thus it is not the case that eligible non-savers are divided neatly into a group who cannot afford and a second group giving other reasons who are much closer financially to pension savers. A possible exception is the propensity to save (in the last year): it is 60% among eligible non-savers giving other reasons, which is reasonably close to the 70% rate among pension savers, see Table 3).

To look in more detail at the earnings differences between the two groups of eligible non-savers, Table 17 reports annual earnings broken down into bands. The two distributions are significantly different statistically, nevertheless there is clearly a lot of overlap. Similar proportions in each group have earnings in the range of £10k-30k, but there are more low earners and fewer higher earners among those reporting they cannot afford a pension. Some 18% of them earn less than £10k (versus 14% in the "other reasons" group), while less than

12% earn more £30k (versus 21% in the “other reasons” group). However, even among the “can't afford” group some 23% earn more than £25k.

Table 17: Earnings of eligible non-savers, by reason for not saving

Gross annual earnings	Other reasons	Can’t afford
£1 to <£5k	3.8%	5.2%
£5k to <£10k	10.0%	12.5%
£10k to <£15k	16.1%	18.2%
£15k to <20k	22.8%	24.3%
£20k to <£25k	15.2%	17.3%
£25k to <£30k	10.7%	11.1%
£30k to <£40k	11.0%	7.8%
£40k+	10.3%	3.7%
Total	100%	100%

Table 18 presents the attitudinal characteristics of the two groups of eligible non-savers.[20] In general their attitudes are consistent with the reasons given for not saving, in particular the "can't afford" group are indeed more likely to buy things they can't afford (27% vs. 16%), less likely to be savers rather than spenders (24% vs. 35%), more likely to buy things on credit (27% vs. 20%) and more likely to live for today (56% vs. 43%).

Eligible non-savers who report they cannot afford a pension are much less likely to have money left at the end of the week/month (35% vs. 71%), much more likely to run out (60% vs. 32%) and less likely to have money for a rainy day (57% vs. 73%). As measured by these financial management characteristics, the “other reasons” group does not appear hugely different to the group of occupational pension savers (Table 3): for instance, the proportion (71%) with money left at the end of the week is the same for both; and while 32% of the “other reasons” group run out of money, this is not very much greater than the 26% of pension savers. Thus what distinguishes the “can't afford” and “other reasons” groups may not be so much their income as their financial management.

There are almost no differences between the two groups in their evaluation of pension savings methods. The only exception is that the “can't afford” group is slightly less likely to say that personal pensions are the safest way to save.

We saw in Chapter 3 that eligible non-savers are on average considerably less affluent than those who choose to save to an occupational pension and that financial factors help predict their decision. Nevertheless it seems that affordability constraints are not the only reason for non-participation. Three quarters of eligible non-savers cite reasons other than affordability, while those who say they cannot afford to save often look more similar than expected in terms of earnings to those citing other reasons. They do however seem to differ in their financial preferences and success in managing money (although they report being equally organised).

[20] Appendix Table A.1 reports the job characteristics of two groups; there are few notable differences between them.

Table 18: Spending/saving behaviour and attitudes of eligible non-savers, by reason for not saving

	Other reasons	Can't afford	
Measured at wave 1			
Tend to buy things when can't afford[a]	16.2%	26.5%	**
More a saver than a spender[a]	35.0%	23.7%	**
Tend to buy things on credit and pay later[a]	20.0%	27.0%	**
Money left at least sometimes end of week/month	71.0%	35.0%	**
Run out of money at least sometimes end of week/month	32.0%	59.9%	**
Prefer good standard living today to saving for retirement[a]	42.0%	53.5%	**
Pension best way to save for retirement[a]	42.3%	46.3%	
Property best way to save for retirement[a]	62.7%	58.6%	
Understand enough about pensions to make decisions about retirement saving[a]	38.5%	31.6%	**
Risk tolerant[b]	29.4%	24.3%	*
Patient[c]	22.2%	12.8%	**
Measured at wave 2			
Prefer credit to saving and waiting[a]	13.6%	20.9%	**
Very organised in day to day money management[a]	77.9%	76.6%	
Lives for today[a]	43.4%	55.9%	**
Has money for rainy day[a]	63.7%	40.1%	**
Prefer to spend than save for long term[a]	48.3%	53.4%	
Employer pension safest way to save	29.2%	33.3%	
Personal pension safest way to save	12.2%	8.8%	**
Property safest way to save	25.8%	30.8%	
Employer pension makes most of money	22.2%	26.6%	
Personal pension makes most of money	7.0%	3.3%	
Property makes most of money	39.5%	45.3%	
Expect financial situation to be better in 2 yrs	47.4%	46.7%	
Expect financial situation to be worse in 2 yrs	11.6%	12.4%	
Fin situation got worse over last 2 yrs	20.6%	29.1%	**
Could make ends meet <3m if income dropped a quarter	32.4%	68.1%	**

[a] Proportions refer to respondents who "strongly" or "tend to" agree with these statements (as opposed to expressing no opinion, tending to disagree or strongly disagreeing). [b] Prefers a 1-in-5 chance of £10k to a guaranteed payment of £1k. [c] Prefers £1.1k next year to £1k today. * Significant at 10%; ** significant at 5%.

5. Discussion and conclusions

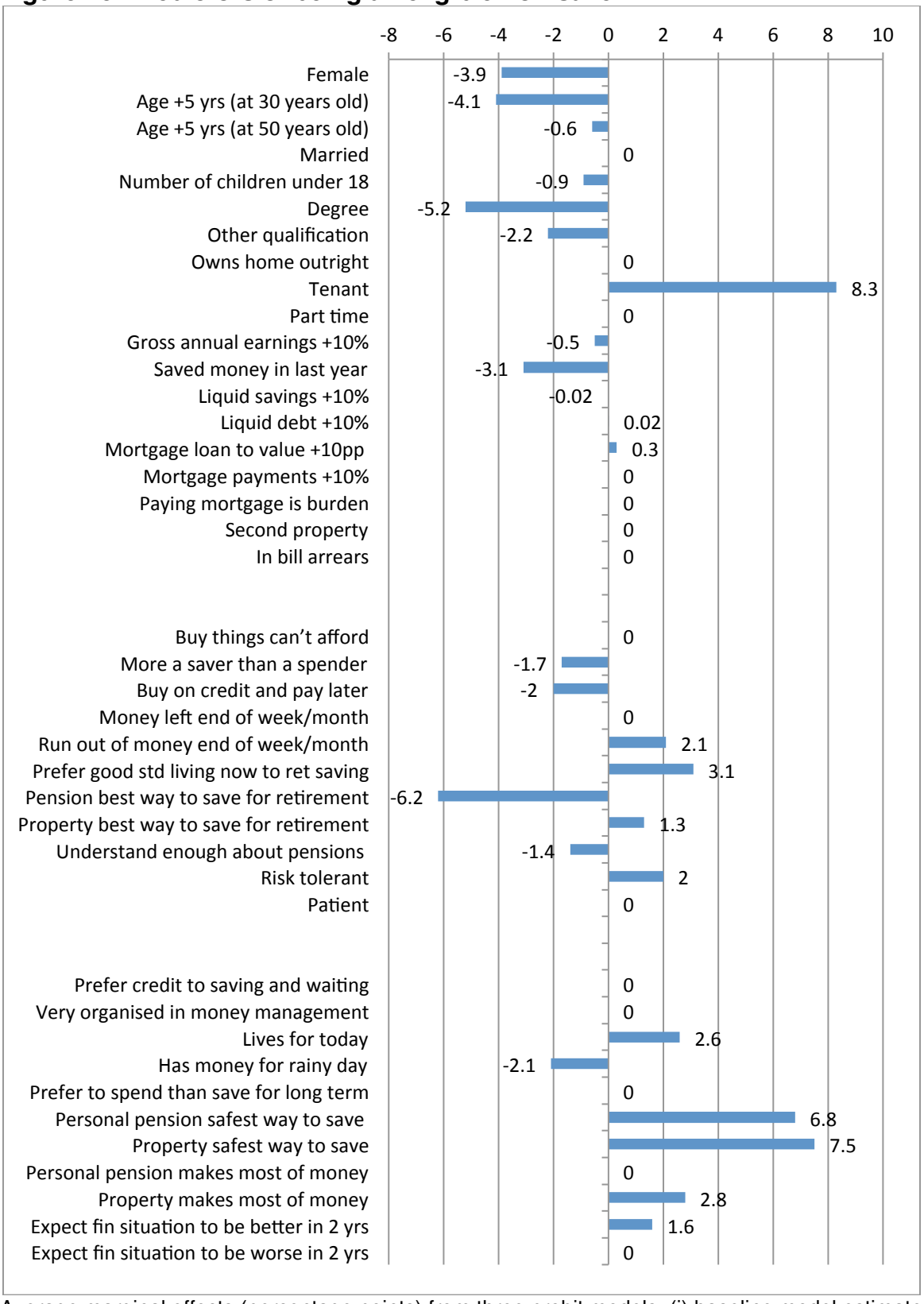
In this chapter we present an overview of the main factors associated with being an eligible non-saver and with making transitions into and out of occupational pensions. Figures 10-12 bring together the effects from the various models estimated to enable us to compare them and identify the key factors explaining pension status.

The first general point to note is that both objective factors (demographics and financial circumstances) and subjective attitudes help to explain being an eligible non-saver, and their effects are typically of comparable size. In *Who Saves for Retirement?* (2011), we identified a single factor, the availability of employer contributions, as key to expanding pension participation. This new analysis suggests that once employer contributions are in place, there are multiple factors underlying the remaining level of non-participation. Some, such as housing tenure or personal finance skills, may be more directly amenable to policy intervention but some, such as ingrained preferences for a good life today at the expense of the future may be less so.

The analysis in Chapter 2 as well as the model effects summarised in Figure 10 show that young people are much more likely to be eligible non-savers than older employees. Taking account of other factors, a five-year difference in age at around age 30 leads to a 4pp difference in the probability of being an eligible non-saver (this compares to an 11% average chance of being an eligible non-saver), one of the larger effects in the model. While young people do not appear less likely to join an occupational pension if they have previously been eligible non-savers (Figure 12), age is one of the few demographic characteristics that predicts leaving a pension (Figure 11). This suggests that young people should be one target of policy aimed at reducing opt-outs following automatic enrolment.

Educational qualifications are strong predictors of eligible non-saver status: employees with a degree are 5pp less likely to be eligible non-savers than those with no qualifications. However qualifications do not predict the transition either in or out of an occupational pension. This suggests that qualifications may be an indicator of longer-term factors that determine the propensity to be an eligible non-saver, rather than affecting the short-term dynamics.

Figure 10: Predictors of being an eligible non-saver



Average marginal effects (percentage points) from three probit models: (i) baseline model estimated using wave 1 data (Table 3); (ii) effects of attitudes measured in wave 1 (Table 12, top panel); (iii) effects of attitudes measured in wave 2 (Table 12, bottom panel). Both (ii) and (iii) control for personal and household characteristics. Overall proportion of eligible non-savers is 11%.

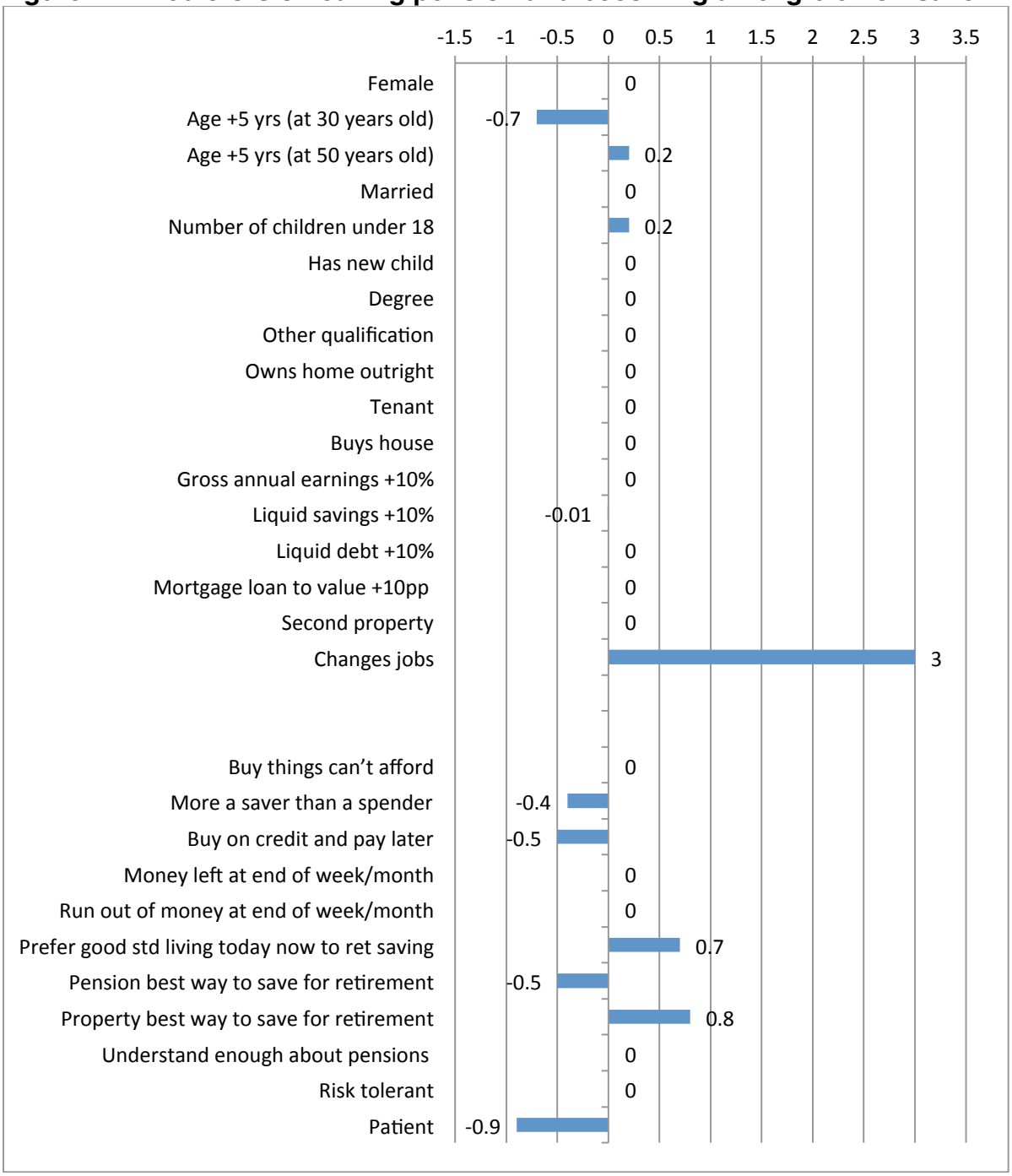
In term of financial characteristics, the key factor appears to be earnings. Higher earners are less likely to be eligible non-savers (by 0.5pp for each 10% increase in earnings), and if they are eligible non-savers they are more likely to join an occupational pension (by 1pp for each 10% increase in earnings). In contrast, the effect of savings and debt are tiny: a 10% increase in savings only increases the probability of being an eligible non-saver by 0.02pp (with an equal and opposite effect for debt). Nevertheless employees who saved in the last year are 3pp less likely to be eligible non-savers – thus it appears that the fact of saving (or not) is more important that the amount saved (or borrowed). This may be linked to savings attitudes, which we consider below.

The single largest factor associated with being an eligible non-saver is housing tenure. Tenants are 8pp more likely to be eligible non-savers than home owners (with or without mortgages), and they are 27pp less likely than home owners to move from being an eligible non-saver to joining a pension. This suggests that employees may wait until they buy a property to begin a pension (and we also find some weak evidence that the purchase of a house tends to be accompanied by a transition into a pension). Among mortgage holders, the level of repayments does not affect the chances of being an eligible non-saver, but those with higher loan-to-value ratios are more likely to be eligible non-savers – this may reflect people who have recently made the transition from renting to home ownership and not yet joined a pension.

Financial attitudes and judgements are associated with eligible non-saver status both at a point in time and looking at transitions over time, even after controlling for family structure, qualifications and financial circumstances. Unsurprisingly, those who prioritise the present over the future are more likely to be eligible non-savers. The most consistent association is for those who say they prefer a “good standard of living now to saving for retirement”: they are more likely to be eligible non-savers, less likely to join a pension, and more likely to leave. This attitude measure explicitly refers to pension saving, but we also find that the more neutral measure of financial patience (a willingness to delay receipt of money) is also associated with transitions (though not eligible non-saver status at a point in time). ‘Patient’ employees are less likely to leave an occupational pension (by 0.9pp) and more likely to join one (by 16pp). These are among the largest attitudinal effects we find and, to the extent that they are reflective of personality traits, may be more difficult to influence through public policy intervention.

However, we also find that measures of financial management are associated with being an eligible non-saver. Employees who tend to run out of money at the end of the week or month are more likely to be eligible non-savers while those with money left are more likely to join a pension. Thus there could be a payoff to improving people’s financial management skills.

Figure 11: Predictors of leaving pension and becoming an eligible non-saver

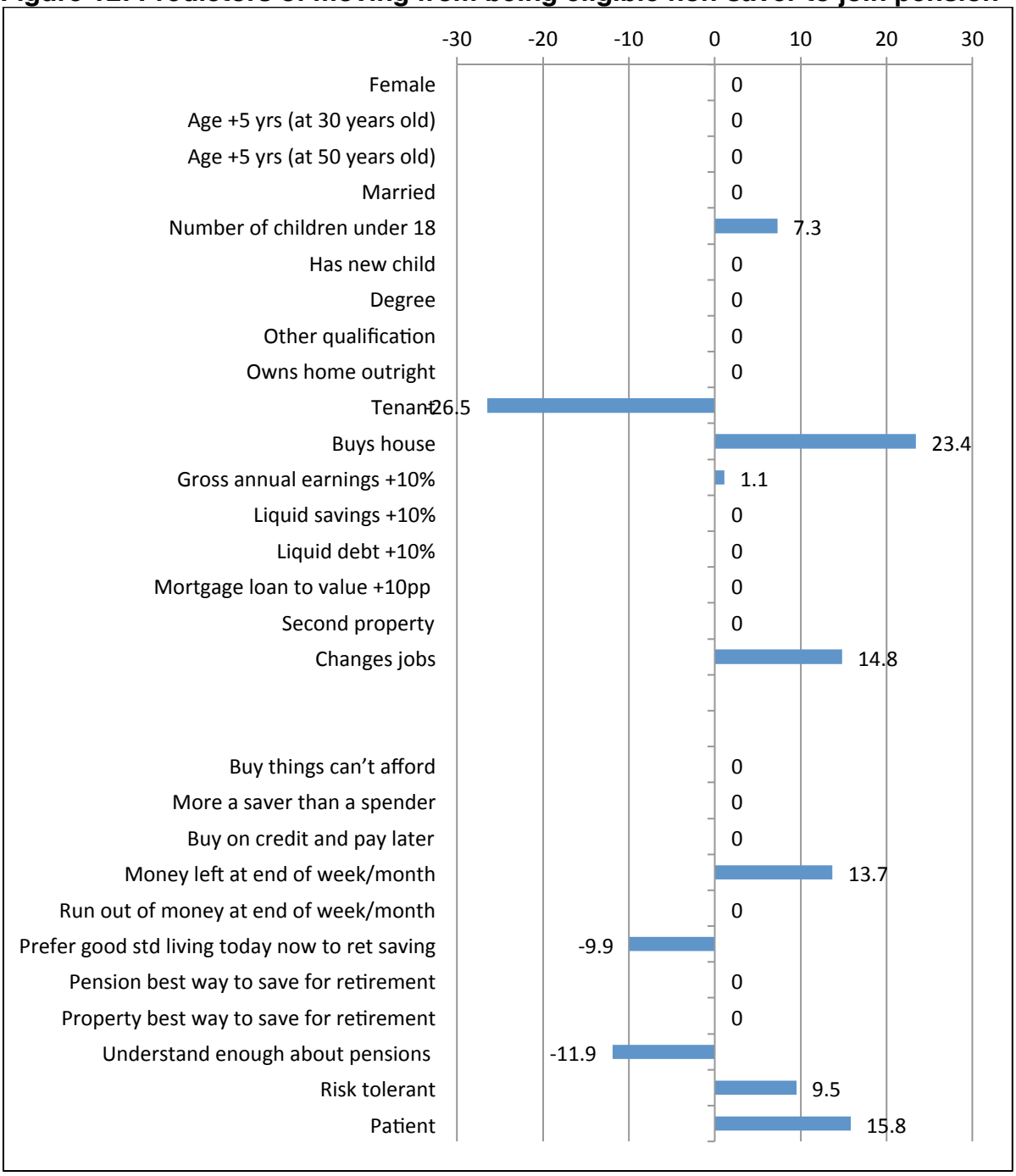


Average marginal effects (percentage points) from probit model. All characteristics measured at wave 1, except "has new child" and "buys house" measured as transitions between waves 1 and 2. Overall pension exit rate is 1.4%.

There is a strong cross-sectional relationship between employees' evaluation of different pension saving methods and whether they are eligible non-savers. Those who rate pensions as the best way to save are 6pp less likely to be eligible non-savers, while those who rate personal pensions or property as the safest way to save are about 7pp more likely to be eligible non-savers. Moreover, those who rate pensions as best are less likely to leave a pension, while those who think property is best are more likely to leave. This suggests that

ensuring that pensions are value for money (or at least employees have accurate information about pensions versus other savings methods) could play a role in minimising opt- outs.

Figure 12: Predictors of moving from being eligible non-saver to join pension



Average marginal effects (percentage points) from probit model. All characteristics measured at wave 1, except "has new child" and "buys house" measured as transitions between waves 1 and 2. Overall pension joining rate is 40%.

Changing jobs is a focal point for taking a decision about a pension. Indeed, a job change is by far the strongest predictor of leaving an occupational pension (raising the probability by 3pp), even when the new job offers a pension with employer contributions (as in our sample). Similarly a job change is often the trigger to join a new pension after being an eligible non-saver. This points to the importance of providing information about occupational pensions

when people start new jobs, and the important role of automatic enrolment for individuals three months into their new role.

Looking at the predictors of pension exits, except for a job change and the effect of age, few objective factors appear to affect the decision to become an eligible non-saver (at least to the extent we can detect them given the relatively small sample of leavers). Instead, the decision appears to be driven by subjective attitudes, including how employees rate pensions versus property investment. In contrast, objective factors play a greater role, in addition to attitudes, in the decision to join a pension. As mentioned, housing tenure is a major predictor; also those with higher earnings and more children are more likely to join. Ensuring high and stable pension participation is likely to require measures both to limit drop out after auto-enrolment but also to encourage eligible non-savers to re-join. The most effective, and feasible, policy measures are likely to differ across these two cases. For example, promoting affordable housing may promote rejoining decisions but not affect dropout rates.

6. References

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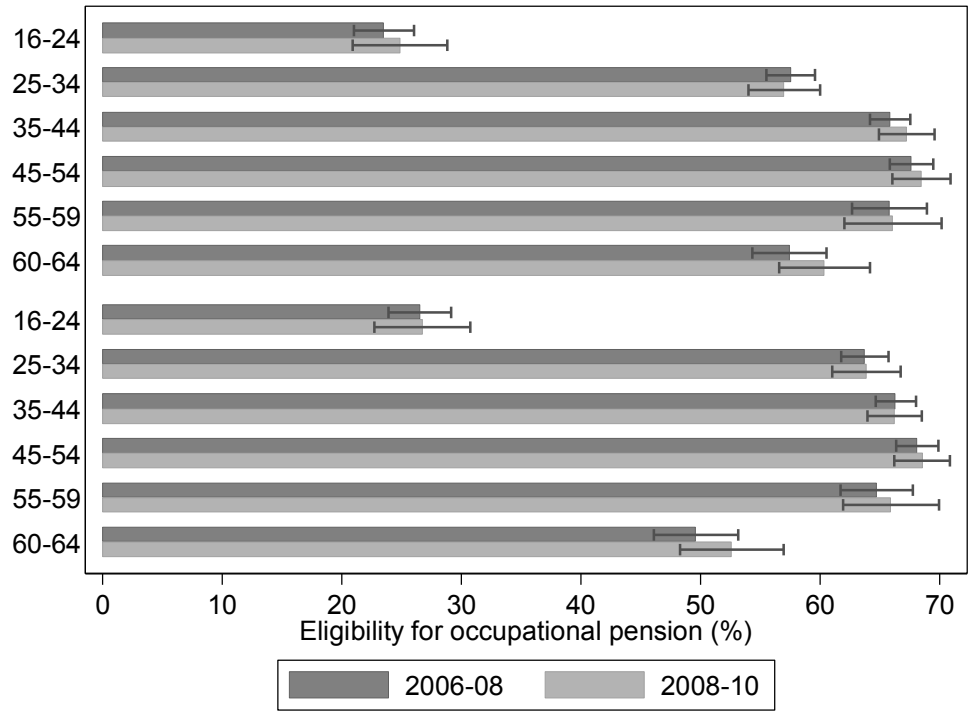
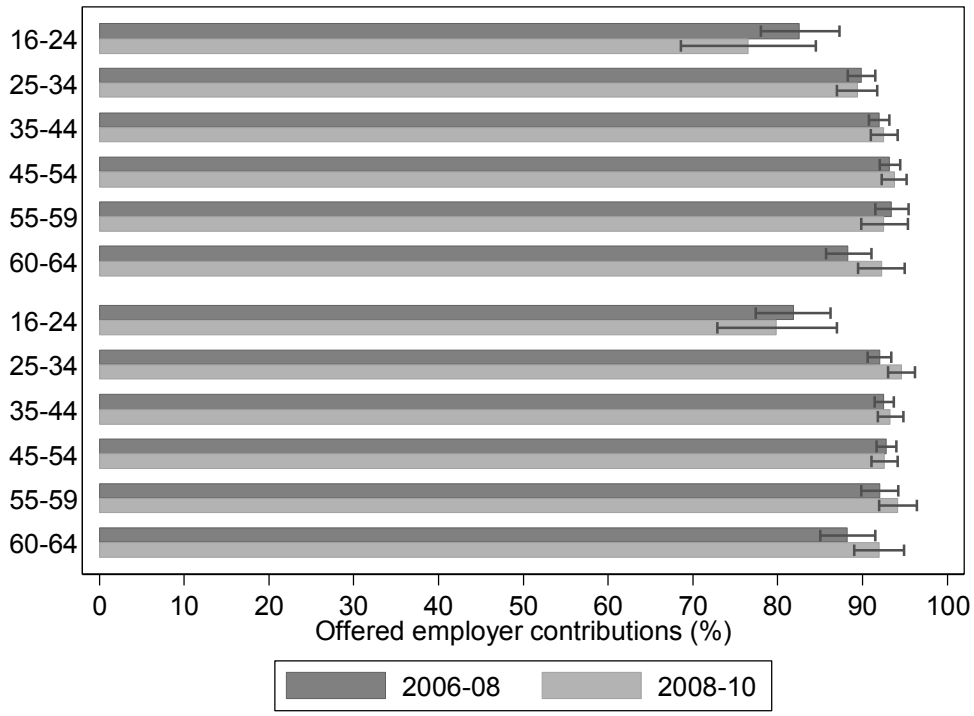
7. Appendix A

Figure A.1: Changes in occupational pension eligibility, 2006-8 to 2008-10



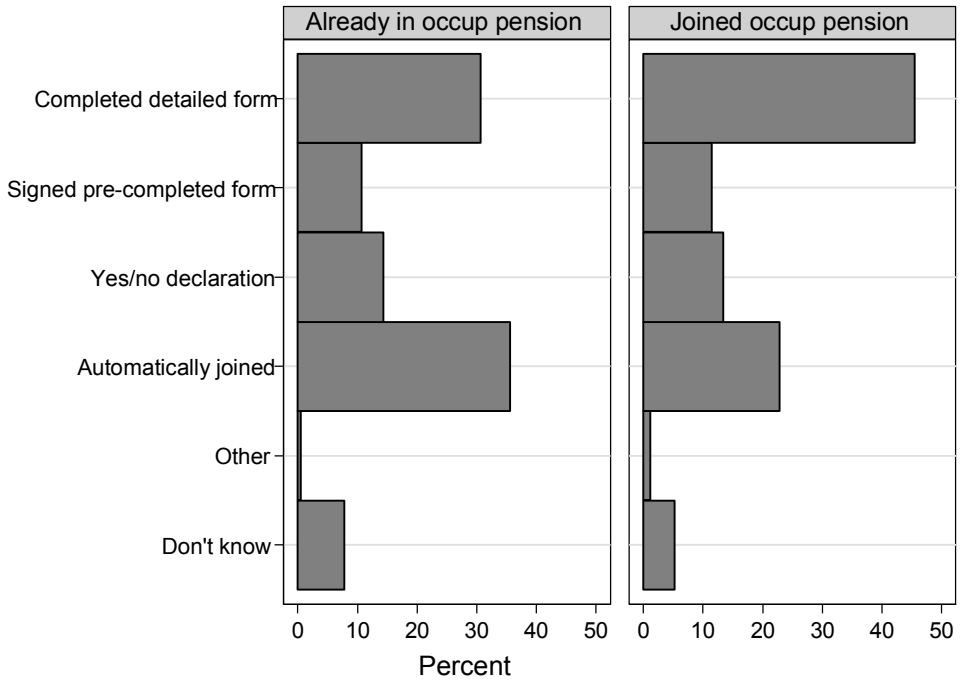
Consistent with the lack of change in occupational savings rates, there have been no changes in eligibility over the two waves.

Figure A.2: Changes in proportion of eligible employees offered employer contributions, 2006-8 to 2008-10



Employers were as likely in 2008-10 as in 2006-08 to offer contributions (if they offered a pension)

Joining routes of occupational pension savers in 2008-10



Graphs by newoccpen

(Only asked at wave 2)

Table A.1: Job characteristics and occupation of eligible non-savers, by reason for not saving

	Other reasons	Can't afford	
Part-time	20.4%	21.3%	
Public sector[a]	18.8%	22.2%	
Workplace size			
1-24 employees	26.5%	23.3%	
25-499 employees	57.3%	58.4%	
500+ employees	16.3%	18.3%	
Socio-economic classification			
Higher managerial & admin	6.5%	3.4%	**
Higher professional	7.3%	6.3%	
Lower managerial, admin & professional	30.6%	26.7%	
Intermediate occupations	14.9%	15.5%	
Lower supervisory and technical	12.5%	13.0%	
Semi-routine occupations	17.9%	25.6%	**
Routine occupations	10.1%	9.3%	
Industry			
Manufacturing	13.9%	14.0%	
Construction	4.8%	3.4%	
Retail, accommodation & food	22.5%	23.6%	
Transport	7.4%	5.2%	*
Information and communications	4.6%	4.2%	
Finance and insurance	5.3%	2.9%	**
Property	1.3%	1.3%	
Professional and technical activities	5.3%	4.8%	
Administrative and support services	4.7%	3.8%	
Public administration and defence	4.4%	5.5%	
Education	7.9%	12.2%	**
Health and social work	12.7%	15.2%	
Other industries	5.2%	3.9%	

[a] Measured at wave 2 only (other characteristics measured at both waves); * Significant at 10%; ** significant at 5%. Other industries comprise: agriculture, forestry and fishing; mining; electricity, gas and water; arts and entertainment; other services; private households; and extraterritorial organisations.

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