Financially vulnerable groups still slipping through the 'Auto Enrolment' net

- Nearly seven in 10 (69%) of lower earners who have a workplace pension say they cannot afford to make any contributions due to the rising cost of living
- 59% of younger workers didn't realise they could ask their employers to be enrolled
- 38% of low-paid workers would have joined an employer's scheme if they'd known they had the right to ask
- 50% of young women didn't join a workplace pension scheme as it wasn't offered vs. 28% of young men

London, 21 September 2022: More than 10 million UK employees have been automatically enrolled into a pension scheme since the auto-enrolment (AE) initiative launched almost a decade ago. With the 10-year anniversary of AE in October this year, it will be celebrated as a huge success which has encouraged thousands of people to join a workplace pension scheme and start saving for a more secure financial future. However, this positive milestone belies the fact that thousands of individuals across financially vulnerable groups could be slipping through the net.

New research of more than 5,000 people in the UK private sector workforce, conducted by Legal & General Investment Management (LGIM), one of the world's largest asset managers, uncovered some worrying statistics, specifically among three cohorts: low wage workers, younger workers and female workers.

The findings shine a light on the education gap within pensions and the potential retirement crisis for those currently falling outside the eligibility thresholds for AE. The research was carried out against a backdrop of rising inflation rates and the daily challenges people are facing with the cost of living crisis.

Lack of education and understanding among surveyed groups
There is still a widespread misunderstanding of the rules around how pensions work, employer contributions, tax savings and AE thresholds, particularly with younger workers. The research found that nearly two thirds (62%) of younger workers didn't realise they could ask to be enrolled, while more than half (59%) said they were not aware that employers wouldn't have to make contributions on the first £6,240 of their income.

The research also showed that within the cohort of lower wage workers, part of the reason for not contributing was because of a lack of information. For instance, 38% of low-paid workers not currently in a workplace pension would have joined their employer's pension scheme if they had been aware that they had the right to ask, while 38% said their employer had not explained the eligibility rules for joining their workplace pension scheme. One respondent who currently earned £9.8k per year at a bar, claimed that if they had known about the £10k threshold, they'd happily take a few more shifts to take them over that amount and ensure their employer contributed towards their retirement.

The cost-of-living crisis is putting more pressure on lower paid workers
One of the biggest concerns the research uncovered, perhaps unsurprisingly, is the financial resilience among low wage workers. Low-paid workers who earn less than £10,000 a year tend to be younger or in part-time, zero-hours contract or shift work. Women also feature disproportionately due to childcare responsibilities (55% of women in our survey earning less that £10,000 annually have children under 17).

Nearly seven in 10 (69%) of lower earners we surveyed who have a workplace pension say they cannot afford to make any contributions due to the rising cost of living, while a third (32%) of those lower earners who are not currently in a workplace pension said the reason for this was that they opted out. Despite that figure, a trend of opting out is not something we have seen across L&G's 4.7 million defined contribution scheme members*. Our data shows that at present, opt out levels remain stable between 6-7%** and are generally in line with the long term average since the introduction of AE.

We do recognise the cost of living is bearing down hard on low paid workers' and that many are struggling to meet their financial obligations. This in turn means many may be forced into making tough spending choices and take short-term decisions about their pensions that could mean they miss out on the long-term benefits. We also know that for some people, paying in anything at all is out of the question right now. We need to be sensitive about this while doing whatever we can to make it as easy as possible for those who can contribute, to get into the habit of saving even small amounts, as early and regularly as they can.

Issues for younger employees, female workers and the gig economy
The main issue for younger workers (those aged under 22) is that they fall below the current age threshold for AE. However, the research also found that nearly two thirds (62%) of younger workers didn't realise they could ask to be enrolled if they earned less than £6,240, while more than half (56%) also said they were not aware that employers wouldn't have to make contributions on the first £6,240 of their income.

Among female workers, there is much research showing that women's salaries and their pensions - lag behind men's. This survey also showed that this is an issue from the very start of their careers. Of those aged under 22 who are making contributions into a pension scheme, 67% are male, while just 30% are female. This reflects the higher proportion of women with earnings below the AE threshold, with many working part-time or in multiple jobs and missing out on employer pension contributions as a result.

Another of the reasons for this stark divide appears to be the fact that many women are simply not receiving the relevant information from their employer. Of those young females without a pension, 50% said this was because it wasn't offered to them, while only 28% of young men cited the same reason as to why they weren't in a workplace pension scheme.

A significant majority of younger workers (72%) believe that employees aged under 22 should also be automatically enrolled, with the same proportion also wanting to see a more progressive system that offers additional support to low earners. The age threshold for younger workers and the rules on multiple jobs were seen as a barrier to contributions, with workers deeming both rules to be problematic. An engineering apprentice thought it was unfair that he wasn't receiving employer contributions, when doing the same job as colleagues aged 22, whereas a takeaway driver earning £11,500 across two jobs, was also perplexed at missing out on employer contributions.

Commenting on the findings, Rita Butler-Jones, Co-Head of Defined Contribution at LGIM, said, *"There's no doubt that auto-enrolment has been a huge success as more people than ever are saving for their retirement. However, far too many workers, particularly the lower paid, are still likely to face pension poverty in their later years if they remain excluded from the system. At L&G, we fully support practical measures such as lowering the current age and earnings thresholds to give more people the opportunity to be enrolled into a workplace pension.*

"Millions of Britons are facing tough spending choices as the cost-of-living crisis continues to bite and many could, understandably feel forced to take decisions about whether they contribute to a workplace pension. That's why it's essential to ensure that as many people as possible understand pensions, such as the value of employer contributions and how those multiply over time, so they can make their spending choices on an informed basis."

Employers and government can still do more to help educate employees
Auto-enrolment has been one of the most progressive additions to the pensions landscape and is helping many workers to be more financially stable in retirement; but there is still a long way to go to ensure a similar level of support for those who are currently falling outside of the existing provision.

When LGIM asked all three cohorts what might make them more likely to join and pay into a pension scheme, there were some clear recommendations. The top factor cited by both low wage workers (84%) and younger workers (80%) was reassurance from the government that other state benefits would not be affected. Among female workers, 87% suggested a tax break where the government matched contributions up to a certain limit.

Stuart Murphy, Co-Head of Defined Contribution at LGIM added, *"Some employers may need more support around their obligations in offering scheme membership and pension benefits and how they can be promoted. We acknowledge that providers such as Legal & General have a role to play in delivering clearer, more engaging communications that explain the benefits to members. However, we also recommend a truly collaborative approach by the government, regulators and the financial services industry to ensure that pensions are better understood."*

Better financial education is needed so that people can understand the value of building up contributions and appreciate what they might be turning down in the longer term if they decide to opt out. This education is not only relevant for school leavers or younger children, but also needs to be delivered to those already in employment. Legal & General is committed to supporting employers in understanding and tackling the gaps in their own workforce and has already set up working groups to tackle pension inequality at an industry level. It is also calling on the government and regulators to make workplace pensions more inclusive and attractive by reviewing some of the thresholds involved in AE schemes.

- ENDS -

Notes to editors

Research Methodology
This research was conducted between 1 July - 18th July 2022. We performed quantitative and qualitative research through the use of a questionnaire and interviews. We interviewed 5,259 respondents across the UK and they were split across genders, age and income levels.

- Gender: Male: 2464 Female: 2774
- Workplace or self-employed: Workplace 4445; self-employed 866
- Ages of respondents: 16-84

*** According to L&G internal client data as of 6 September 2022**

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Key Risk Warnings
Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security. Views expressed are of LGIM as at 1 July 2022.

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For more than 50 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property, and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

[2] LGIM internal data as at 30 June 2022. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.