



The Pensions Group

Part of the Department for Work and Pensions

Alliance for Consumer Education

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PIP

(Pension Increase Pledge)



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Background

- Feb 2004 Government Command Paper
 - “Simplicity, security and choice: Informed choices for working and saving”



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Background (cont)

- Based on US SMarT™ programme
- PIP will test SMarT™ theory in a UK context.



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Behavioural Principals

- Many want to save more, but lack the self control
- Restrictions on future choices are easier to accept if they take effect in the future



Behavioural Principals (cont)

- It is much easier to forego a gain than to accept a loss
- Inertia



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SMarT™

- People pre-commit to save more in the future
- Saving increases are synchronized with pay raises
- People remain in the ‘program’ unless they opt out

May 2006 White Paper

Box 1i: Encouraging people to contribute more to their pension

The Save More Tomorrow (SMarT™) scheme, pioneered in the US using behavioural economics concepts, has successfully increased savings rates in US employer-based retirement programmes. US research studies encouraged employees who were already saving for their pension through the workplace to save more by pre-committing to increase their contributions with each pay rise. Employees were given the choice to leave the plan at any time, but the majority of people who joined stayed in. Findings included:

- 78 per cent of employees who were offered SMarT™ in the first case study joined.
- Of these, approximately 80 per cent remained in the scheme for four saving increments.
- Savings contributions increased until employees reached the maximum allowed contribution (typically within four years).

By giving employees the choice to automatically increase their saving rate by 3 per cent at each future pay rise, the average savings rates, in one US research study, increased from 3.5 per cent to 13.6 per cent in just over three years.⁶¹

Box 1i: Encouraging people to contribute more to their pension (continued)

The encouraging results in the US have prompted the Department for Work and Pensions to work with pension providers to facilitate two case studies with employers who contribute to pensions in their workplace to evaluate the effectiveness of this technique in the UK. PIP (Pension Increase Pledge) is the working title of this initiative. The study will examine if employees who are already enrolled in a workplace pension can be encouraged to save more by agreeing to have their contributions automatically increased annually.

The results of this research⁶² will provide us with an insight into ways in which we can increase pension savings in the workplace. This technique may be one way of encouraging people to contribute more and, if effective, we will consider how it can be promoted more widely.

“...The study will examine if employees who are already enrolled in a workplace pension can be encouraged to save more by agreeing to have their contributions automatically increased annually...”



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What is PIP?

- A small scale case study evaluation
- PIP will test behavioural concepts in a UK context
- It is an enhancement to the employees existing pension plan.

DWP Role

- DWP is currently facilitating two case studies
- **PSI (Policy Studies Institute)** contracted as independent researchers to gather data from providers/employers
- **PSI** will evaluate the data



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PIP - Key Features

- DC pension scheme
- Must have at least 250 current scheme members
- At least 3% employer contribution
- Employees must be contributing
- Change to contributions may or may not coincide with a pay rise

PIP - Key Features (cont)

Employees who do decide to participate: -

- Participate voluntarily
- Agree to partake in writing
- Know *exactly* what they are participating in
- Are given 'opt out' opportunity
- Reminded prior to increases.

PIP - Key Features (cont)

- Two providers participating
- **Legal and General**
 - commenced November 2005
 - Pay changes July 2006
- **Zurich**
 - commenced February 2006
 - Pay changes April 2006



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PIP - Key Features (cont)

- Offered to employees at group presentations
- Asked to agree to stepped increases to their pension contribution
- The research will last for 3 years

PIP - Analysis

- All research / analysis carried out by independent researcher - **PSI**
- Initial results published Winter 2006
- Subsequent “persistence” reports in 2007, 2008 and 2009.



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PIP - Analysis

- Qualitative as well as quantitative
- Longitudinal
- ‘Success’ measured over time
- Motivation to join / not join



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Any Questions

