Understanding Society

POLICY EVALUATION

Automatic pension enrolment and the mental health gap

Evaluation asks if automatic enrolment in pensions reduces mental health gap between those who have and don't have a plan in place

Beginning in 2012, the UK government introduced automatic pension enrolment, which at the time was one of the largest pension policy reforms in the world. This research uses Understanding Society data to identify a baseline mental health gap in pension participation in the UK and evaluate to what extent the policy closed the mental health gap.

Before automatic enrolment, the researchers found that male private sector employees with poor mental health were 3.7% less likely to participate in a workplace pension scheme – while female private sector employees with poor mental health were 2.9% less likely to participate. This was true after controlling for age, education, race, marital status, number of children, occupation type, industry type, presence of a physical health condition and cognitive ability. The implementation of automatic enrolment policy coincided with the removal of this mental health gap in pension participation, equalising the pension participation rates of individuals with and without poor mental health in the private sector.

Why was the policy considered necessary?

There are widespread inequalities in levels of pensions savings, largely driven by disparities in levels of earnings and wealth. But for those with mental health problems, the reasons for inequalities in pension participation will be more nuanced. In the UK, 1 in 6 people have at least one common mental health condition, which is often accompanied by high levels of emotional distress that interfere with the ability to participate effectively in daily activities. Individuals with poor mental health are particularly at risk of retirement poverty as they are more likely to earn less over their working lives, experience greater unemployment, and face additional health care costs. Those with poor mental health also face additional barriers to signing up to pensions, including cognitive burden, procrastination, self-control failures and a tendency to favour immediate rewards over larger longer-term rewards.

Automatic enrolment in a workplace pension scheme was legislated in the Pensions Act 2008 for employees in the UK's private sector. The goal of automatic enrolment was to make it mandatory for employers to provide a workplace pension scheme for their employees, and to put pension schemes in place where they were not previously available. The legislation requires employers to automatically enrol those employees who meet the eligibility criteria in a workplace pension scheme, contributing at least a minimum level of employee and employer contributions. The implementation of the policy began in October 2012 and was carried out over a period of five-and-a-half years, by which time automatic enrolment was implemented UK-wide and employers were no longer permitted to opt out.

How was the evaluation carried out?

The design and implementation of automatic enrolment in the UK allowed the researchers to isolate the effect of the policy on the mental health gap in pensions. The researchers modelled the relationship between baseline psychological distress captured in Wave 1 of the Understanding Society survey, combined with pension participation in a private sector workplace scheme before and after automatic enrolment. The pension participation data was derived from Understanding Society's questions on whether each participant is currently employed, whether their employer runs a pension scheme, and whether the respondent belongs to the scheme. The sample was working age population (aged 22 to 65) who are currently employed part time or full time in the private sector.

Mental health was estimated using the General Health Questionnaire (GHQ-12), which is a commonly used tool for measuring psychological distress. Respondents with a score of 3 and above on this 0-12 scale were considered to have poor mental health.

The analysis included a number of controls, correcting for the possibility that the observed changes in pension participation were due to other factors including age, education, race, marital status, income, number of children, occupation type, physical health, and cognitive ability.

What were the strengths of using Understanding Society data?

This analysis required longitudinal data that offered rich baseline data on employment, company pension availability and pension participation for a representative sample of the UK population. In addition, the range of questions asked allowed the researchers to control for several other variables and to investigate whether automatic enrolment had any impact on the levels of non-pension savings.

Findings

Initial findings confirmed a mental health pension gap, meaning that, before automatic enrolment, individuals with poor mental health were more likely to work for employers that were less likely to offer a workplace pension scheme. This was particularly the case for male employees. After controlling for other possible reasons for the gap, male private sector employees with poor mental health were 3.7% less likely to participate in a workplace pension scheme – while female private sector employees with poor mental health were 2.9% less likely to participate.

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The analysis found that the mental health disparity in pension participation disappeared among both male and female employees in the private sector after the implementation of automatic enrolment. The increases in pension participation were found to be 7.7% for men with poor mental health (4.7% in the controlled model) and 3.5% (1.4% in the controlled model) for female employees.

The researchers checked and confirmed this finding by performing a statistical test which demonstrated that there is no longer a relationship between baseline psychological distress and pension participation.

The analysis also considered the impact on non-pension savings and found an increase among male employees with poor mental health after automatic enrolment, but a decrease among female employees. However, these changes were considerably smaller than the savings associated with the pension enrolment.

Source: *Karen Arulsamy, Liam Delaney, The impact of automatic enrolment on the mental health gap in pension participation: Evidence from the UK. Journal of Health Economics, 2022:* https://doi.org/10.1016/j.jhealeco.2022.102673