

Closing the Mental Health Gap in Pension Participation in the UK with Automatic Enrolment*¹

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Despite growing research on how mental health affects income, we know little about how poor mental health affects savings behaviour. The decision to save for retirement through participating in a workplace pension plan is one of the most important decisions that individuals can make, with huge repercussions for their financial security in retirement. By failing to take advantage of a workplace pension individuals lose potential savings as well as the valuable matching contributions made by their employers. Individuals with mental health conditions are especially vulnerable to retirement poverty since they earn less income and face greater unemployment during their working life.²

Behavioural economists have shed light on why people do not participate in workplace pension plans and how behavioural interventions can help. Three of the main behavioural factors that affect pension participation are cognitive overload, self-control failures and procrastination.² Automatic enrolment in particular has been immensely effective in addressing these factors and increasing pension participation across many countries. Importantly, it has reduced the decades-long inequality in pension participation among young, low income and female employees.³

In 2012 onwards, the UK introduced automatic pension enrolment for all employees who met a minimum earnings threshold of £10,000 per year. Employers are mandated to automatically enrol eligible employees into a workplace pension plan and to introduce these plans if they are not already in place. Employees who earn less than £10,000 per year can opt in if they wish and automatically enrolled employees can opt out if they prefer. The policy is lauded for enrolling a record number of 10 million people into workplace pension plans and

*¹ This essay is based on the paper “The Impact of Automatic Enrolment on the Mental Health Gap in Pension Participation: Evidence from the UK” co-authored with Liam Delaney (LSE) which is available as a [working paper](#).

² Alissa Goodman, Robert Joyce, and James P. Smith, ‘The Long Shadow Cast by Childhood Physical and Mental Problems on Adult Life’, *Proceedings of the National Academy of Sciences*, 108.15 (2011), 6032–37 <<https://doi.org/10.1073/pnas.1016970108>>.

Richard H. Thaler and Shlomo Benartzi, ‘Save More TomorrowTM: Using Behavioral Economics to Increase Employee Saving’, *Journal of Political Economy*, 112.S1 (2004), S164–87 <<https://doi.org/10.1086/380085>>.

³ Richard H. Thaler and Shlomo Benartzi, ‘Save More TomorrowTM: Using Behavioral Economics to Increase Employee Saving’, *Journal of Political Economy*, 112.S1 (2004), S164–87 <<https://doi.org/10.1086/380085>>; John Beshears and others, ‘The Importance of Default Options for Retirement Saving Outcomes: Evidence from the United States’, in *Social Security Policy in a Changing Environment* (University of Chicago Press, 2009), pp. 167–95; Carl Emmerson and Jonathan Cribb, *What Happens When Employers Are Obligated to Nudge? Automatic Enrolment and Pension Saving in the UK* (The IFS, 17 November 2016) <<https://doi.org/10.1920/wp.ifs.2016.1619>>.

reducing the pension gap among female and low income employees.⁴ The opt out rate is about 10 percent with employees close to retirement age more likely to opt out. Employers are also required to provide a minimum level of contributions based on rates set by the government. Many employers exceeded the minimum contribution rates which has resulted in vastly increased retirement savings.⁵ The policy also introduced automatic increases in the employee's and employer's contribution amount over time to encourage growth in savings.

People with mental health conditions may be particularly at risk of not taking part in workplace pension plans, possibly because they work in occupations or with employers that do not provide access to workplace pension plans. As those with mental health difficulties tend to have less educational attainment, they may be more likely to work in low skilled and part time occupations that do not provide retirement benefits.⁶ They are also more likely to experience unemployment which may increase their risk of accepting poorer quality jobs with employers who are less likely to provide access to workplace pension plans.⁷

Individuals experiencing mental health conditions also experience poorer executive functioning and a stronger tendency to accept smaller rewards today as opposed to larger rewards in the future (present bias) which makes it harder to navigate the complexity of pension decisions.⁸ These cognitive difficulties are worse among individuals who have experienced psychological distress over longer periods of time or more frequent episodes of psychological distress.⁹ Pessimism and uncertainty about future events have been suggested as key factors that may influence how individuals experiencing depression and anxiety respectively perceive benefits far into the future for actions taken today.¹⁰ The greater

⁴ Emmerson and Cribb.

⁵ Emmerson and Cribb.

⁶ Francesca Cornaglia, Elena Crivellaro, and Sandra McNally, 'Mental Health and Education Decisions', *Labour Economics*, 33 (2015), 1–12 <<https://doi.org/10.1016/j.labeco.2015.01.005>>.

⁷ Mark Egan, Michael Daly, and Liam Delaney, 'Childhood Psychological Distress and Youth Unemployment: Evidence from Two British Cohort Studies', *Social Science & Medicine*, 124 (2015), 11–17 <<https://doi.org/10.1016/j.socscimed.2014.11.023>>; Victoria Mousteri and others, 'Adolescent Mental Health and Unemployment over the Lifespan: Population Evidence from Sweden', *Social Science & Medicine*, 222 (2019), 305–14 <<https://doi.org/10.1016/j.socscimed.2018.12.030>>; Peter Butterworth and others, 'Poor Mental Health Influences Risk and Duration of Unemployment: A Prospective Study', *Social Psychiatry and Psychiatric Epidemiology*, 47.6 (2012), 1013–21 <<https://doi.org/10.1007/s00127-011-0409-1>>.

⁸ Matteo Cella, Simon Dymond, and Andy Cooper, 'Impaired Flexible Decision-Making in Major Depressive Disorder', *Journal of Affective Disorders*, 124.1–2 (2010), 207–10; Erin A. Maloney, Jason R. Sattizahn, and Sian L. Beilock, 'Anxiety and Cognition', *Wiley Interdisciplinary Reviews: Cognitive Science*, 5.4 (2014), 403–11; E. Pulcu and others, 'Temporal Discounting in Major Depressive Disorder', *Psychological Medicine*, 44.9 (2014), 1825–34 <<https://doi.org/10.1017/S0033291713002584>>; Lisheng Xia and others, 'Anxious Individuals Are Impulsive Decision-Makers in the Delay Discounting Task: An ERP Study', *Frontiers in Behavioral Neuroscience*, 11 (2017) <<https://doi.org/10.3389/fnbeh.2017.00005>>.

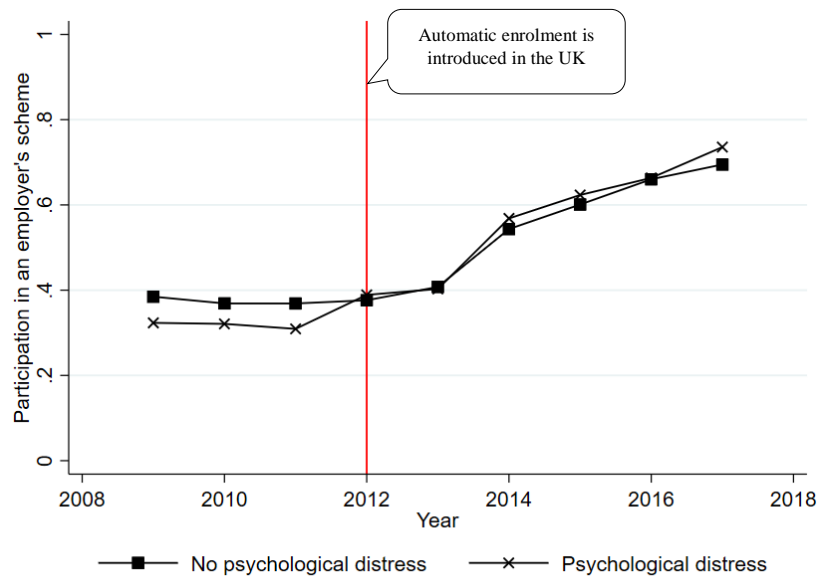
⁹ Philippe Fossati and others, 'Verbal Memory Performance of Patients with a First Depressive Episode and Patients with Unipolar and Bipolar Recurrent Depression', *Journal of Psychiatric Research*, 38.2 (2004), 137–44 <<https://doi.org/10.1016/j.jpsychires.2003.08.002>>.

¹⁰ Pulcu and others; Xia and others; Jinling Zhao and others, 'Anxiety and Intertemporal Decision Making: The Effect of the Behavioral Inhibition System and the Moderation Effects of Trait Anxiety on Both State Anxiety

tendency for ‘present bias’ among individuals with poor mental health can lead to more procrastination and self-control failures which may result in them delaying the decision to participate in a workplace pension scheme.

Using a nationally representative large-scale panel dataset (Understanding Society), we provide novel evidence of a mental health gap in workplace pension participation among private sector employees in the UK. Mental health is measured using the GHQ-12 which is a clinically validated and widely used tool to detect the presence of psychological distress. We use a baseline measure of mental health measured before the introduction of the policy. The mental health gap that we find prior to automatic enrolment cannot be explained by key characteristics that typically influence pension participation such as gender, age, education, income and occupational status. This gap in pension participation is larger for male than for female employees. Job characteristics such as industry and occupational status explain most of the relationship between poor mental health and workplace pension participation for male employees. For female employees, characteristics such as age, race, marital status, number of children, and presence of a physical health condition are important in explaining the relationship between poor mental health and workplace pension participation. We had hypothesized that poor mental health affects cognitive ability which may then impact pension decisions. However, cognitive ability does not contribute to the negative association here between poor mental health and pension participation for male and female employees.

Pension participation rates by mental health states among private sector employees in the UK before and after automatic enrolment ¹¹



and Socioeconomic Status’, *Personality and Individual Differences*, 87 (2015), 236–41
 <<https://doi.org/10.1016/j.paid.2015.08.018>>.

¹¹ Sample: Private employees aged 22 to 65 years old. Baseline psychological distress refers to individuals scoring 3 and above and no psychological distress refers to individuals scoring below 3 on the GHQ-12 scale in Wave 1 (2009-2010). The analysis employs pension participation information in Wave 2, 4, 6 and 8. We capture those who respond “don’t know” to whether their employer provides a scheme for which they are eligible and those who respond that their employer does not provide a scheme for which they are eligible as not participating in a workplace pension scheme.

We show that the implementation of automatic enrolment in the UK removes the mental health gap in pension participation in the private sector by equalizing the participation rates of individuals with and without poor mental health. While those with poor mental health earn less income, they are only slightly less likely to meet the threshold of £10,000 per year to be automatically enrolled in a pension. However, these employees were more likely to report that their employers did not provide a pension plan prior to automatic enrolment. This supports the possibility that employees with poor mental health are more likely to work in jobs and for employers that are less likely to provide a lot of fringe benefits including access to a workplace pension participation.

The evidence here supports the effectiveness of pensions automatic enrolment in potentially reducing the inequality in retirement income that individuals with mental health issues experience. This finding provides further support to automatic enrolment policies which have already been shown to reduce gaps in pension participation among female, young and low income employees in the UK. As individuals with mental health conditions earn less to begin with, the threshold at which automatic enrolment is set is crucial to avoid systematically excluding these individuals. The implications of this research are important for countries that are considering interventions to increase retirement savings in particular for financially vulnerable groups in the population. My PhD research will continue to shed light on the prevalence of the mental health gap in retirement savings and how behavioural interventions can help.

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