Consultation Response

Review of automatic enrolment – initial questions

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About this consultation

The Department for Work and Pensions (DWP) has established a review of the progress of automatic enrolment into private pension saving to date, which is also considering the future direction that policy should take. This response answers a number of initial scoping questions set out by the DWP, and is an early stage in the review process.

Key points and recommendations

- Among jobholders estimated to be ineligible for auto-enrolment, women, disabled people and BAME groups are over-represented. Age UK believes that it is vital that coverage is extended so more people can benefit from saving into a private pension. This should be achieved by reducing the trigger for auto-enrolment to £8,060, in line with the National Insurance Primary Earnings threshold, but also by using the PAYE system to incorporate people with multiple jobs. The higher the trigger, the more it disadvantages those hard-working people with several low-paying jobs.
- We agree that self-employed people should be brought within auto-enrolment and support suggestions that the tax return should be used to facilitate pension payments.
- The Government should resist calls to exclude particular sectors or groups – a pension is part of pay, and there are already easements for short-term employees (such as the three-month waiting period).
- Extending coverage alone will not ensure adequate pensions in retirement – and we do our future pensioners a grave disservice if we do not acknowledge this. Contributions will need to rise from 8 per cent in total. We believe that the Government should set out a timetable for contribution increases, in the same way as it has done for increases in State Pension Age, so that employers have time to plan ahead.
- Adequacy can, however, be improved by ensuring that savings continue throughout working life. Currently the savings habit may be broken whenever someone changes job, becomes self-employed, or has to leave the workforce to have children or become a carer. The Government should look at how these ‘bumps in the road’ can be smoothed out, and should introduce a private pension credit for carers who are eligible for Carers’ Allowance. This is another reason why Government should not exclude labour sectors with a transient workforce – as they often employ younger people who need to get the saving habit early, even if initial amounts are very small. The problem of small contributions should be reduced by widening ‘band earnings’, for those who are over the trigger, to begin at the first pound of earnings.
- The Government should not rely on increased engagement alone to increase pension savings voluntarily. Engagement needs to be built up over the lifetime, with the aid of a mid-life career review and pensions dashboard, and facilitated by simplifying choices at retirement through default pathways. The Government can also support engagement by effective regulation to improve quality and reduce the risk of scandals that could reduce confidence.

- One method for boosting engagement among people at approximately age 50 is through advice on future working options with an element of guidance on pensions and financial planning. We are pleased to see that the Cridland Review into the State Pension age has recommended a ‘Mid Life MOT’, which would help people plan more effectively for the later part of their working lives and retirement.
- Modelling commissioned by Age UK in 2014 suggests that the employer contribution is extremely important in encouraging saving. We believe the Review should specifically consider this point and whether it is possible to further increase the amount employers pay in, as part of the timetable for raising contributions more broadly.
- The Government must take immediate action to ensure that non-taxpayers who are paid using a net pay system (therefore do not receive tax relief) are given their due reward for saving. In addition, the government should investigate making back-payments for people who have missed out. This is an unacceptable anomaly and must be ended.

1. Introduction

Automatic enrolment has so far been a highly successful policy, with over 7 million people newly saving for a pension since 2012, and with opt-out levels considerably lower than anticipated. Age UK remains very supportive of the process and are keen to work with the DWP, The Pensions Regulator and other governmental stakeholders to ensure this progress is continued.

2. Consultation questions

Theme 1: Coverage

1. Do the earnings trigger (£10,000 in 2017/18) and age criteria (22 to SPA) continue to bring the right people into automatic enrolment?

- In principle, we do not see any justification for age limits – if someone is working, and earning enough to reach the threshold, they should be entitled to be auto-enrolled and benefit from an employer contribution and tax relief. We would like to see the age limits removed to become consistent with those for receiving pension tax relief – i.e. with an upper age limit of 75. We understand that many larger employers (including Age UK) already offer a pension contribution to employees above SPA.

- Age UK does not agree that the current earnings trigger of £10,000 brings the right people into automatic enrolment. We consider it is disadvantageous to lower earners who are missing out on saving – not to mention their employer contribution and tax relief – and it should be brought down to allow more of the population to come within scope for automatic enrolment.

- The earnings trigger should be brought it in line with the National Insurance Primary Earnings threshold – the same threshold at which people start to pay contributions to towards their state pension – which is currently at £8,060 per year.

- This has the potential to bring a significant number of additional people into automatic enrolment. Because it is consistent with existing National Insurance thresholds it would also reduce administrative burdens for employers.

- We propose that the Review should consider an alternative mechanism for increasing contributions – although an earnings trigger should still apply, once someone is over the trigger, contributions should be made from the first pound of their earnings, rather just on their 'band earnings' over £5,824 as at present. This would increase the amount of money being saved by eligible individuals, leading to better outcomes in later life, while avoiding very small contributions being made by people earning just over the trigger that might be disproportionately expensive to administer.

1a. Is there a case for bringing individuals not currently eligible for automatic enrolment into scope, and on what grounds?

- <u>Multiple part-time workers:</u> those working in multiple part-time roles each paying less than the £10,000 trigger, but which comprise total earnings at or over £10,000 are unfairly excluded from automatic enrolment. We consider that those earning a total of at least £10,000 should be automatically enrolled, and their multiple employers should make proportionate contributions. These contributions could be collected by HMRC, as the PAYE system already provides a mechanism for tax to be collected proportionately from more than one employer.

- **2. Do the categories of non-eligible jobholders and entitled workers continue to make sense in terms of enabling those who are not eligible to be automatically enrolled to save into a workplace pension?**

- <u>Carers:</u> Carers are disadvantaged in retirement as a result of their significantly lower levels of private pension saving than the wider population. Although recent changes to the state pension system should, over time, ensure that more carers retire on a full state pension, their incomes overall will remain lower. Age UK would like to see carers who are eligible for Carer's Allowance also being paid a private pension credit, which goes into a private pension account, for example held by NEST. This would be similar to the Carer's Credit which exists for the State Pension.

3. In the light of the continuing evolution of the labour market, is there a case for exempting any group or groups of employers from automatic enrolment duties?

No. Age UK can see no justification for exempting any specific groups. Groups of employers that have asked for exemptions have tended to be those in low-wage or short-term contract sectors, such as the hospitality industry, and exempting them would not only accentuate existing poor employment practices and be most detrimental to lower earners, but also lead to a clamour of ‘me too’ calls from other sectors, resulting in a drive to the bottom. We note that the question of exempting small employers was addressed by the 2010 ‘Making Automatic enrolment Work’ review, and rejected. If there are administrative reasons why employers find it difficult to comply, these reasons should be investigated and if possible simplified, but in principle Age UK thinks all workers deserve the opportunity to build up a private pension.

The care industry is one that has found the introduction of the national living wage and auto-enrolment particularly difficult (and there has been concern about the impact on people employing personal care assistants, although we are not aware of any evidence showing how much of a problem this is in practice). However, the need for committed and experienced care workers will only increase in future in line with changing demographics, so it is all the more important to attract workers into the industry by offering them a pension.

4. How can self-employed people be encouraged and enabled to save more for later life/retirement?

- Self-employed people make up about a sixth of the UK workforce but are known to save less on average than employees. Boosting saving rates is an important consideration for the Review. We would like to see self-employed people brought into pension saving via the tax return – as these are largely completed online, it would be straightforward to include a percentage of profits – ideally as a default amount diverted into a personal pension account, with the ability to opt out. Failing that, the form should clearly demonstrate a suggested contribution for people who wish to save, including how much tax relief this would qualify for. Alternatively, a contribution could be collected through the National Insurance system and paid into a personal account, alongside any tax relief.

- ‘Workers’ and people with irregular working patterns – many people in the so-called ‘gig economy’ are classed as ‘workers’ rather than ‘employees’, where their working patterns mean that they may miss out on being automatically enrolled. Such ways of working needs to be examined both separately and in conjunction with the self-employed to ensure that ‘workers’ and people on zero hours contracts do not fall through the cracks – this Review should consider any findings from the Review of Modern Employment Practices, currently being carried out by Matthew Taylor, to make sure that people working in such jobs do not miss out on pension saving. Even if an individual’s employment status is ambiguous, and it is unclear whether they are a ‘worker’ or are truly self-employed, it should not affect their ability to save into a pension – auto enrolment must be the default.

Theme 2 – Engagement

In an individual’s automatic enrolment journey, what are the most and least effective touch points when appropriate engagement can help reinforce personal ownership of

pension saving? What form should that engagement take, who should deliver it and how?

Past experience has shown strongly that engagement is hard to achieve and less effective than defaults, so Age UK believes that relying on engagement alone instead of increasing contributions is not the right way forward. Instead, the emphasis should be on avoiding any barriers to engagement – such as anything that damages the reputation of the private pensions industry. NEST research showed clearly, for example, that poor investment returns in the early years are likely to deter young savers, and NEST has therefore developed its investment approach to avoid such 'shocks'. The Government should also continue its recent work to improve the quality of workplace pensions, for example by reducing charges and fees.

Engagement of course does have a role, particularly in keeping people saving and encouraging them to increase their savings as they can afford to do so. Evidence suggests that the employer contribution plays a strong part in increasing an individual's contribution[i]. We also suggest that reframing pensions tax relief as a 'matching' contribution might help.

Age UK is strongly supportive of the development of the Pensions Dashboard as a means of increasing consumer engagement with, and feelings of ownership over, pension savings.

A free-to-use dashboard that consolidates an individual's pension pots will simplify an otherwise complex and obscured picture. A single savings figure gives the consumer a precise grasp of what they have achieved (and how much further they may need to go to) could make pension planning more tangible. This has the potential to be a powerful tool to encourage ownership of a retirement savings plan – but enabling free and unfettered access to that information is crucial to ensuring regular engagement. Age UK strongly supports the provision of a neutral space in which consumers can access their consolidated pension information – i.e. a dashboard accessible through the new Public Financial Guidance body. This would means consumers need not have an existing relationship with or awareness of any one provider in order to access a version of the dashboard, and is more likely to engender trust.

There must also be a continued drive to make pension statements and other industry-consumer communications as accessible as possible. This should include widespread adoption of the ABI's clear language guide and full use of behavioural sciences to push consumers towards the best outcomes.

Engagement is also particularly important as the time comes to draw down pension savings, combined with a simple range of choices (Age UK strongly believes that there should be 'default pathways' for retirement income). The concept of mid-life career reviews has been successfully tested by BEIS – we would like to see these introduced and include information on pension decumulation options, and then be followed up with more opportunities for advice and/or guidance once people have accessed their savings.

Theme 3 - Contributions

What are the key drivers, opportunities and barriers for individuals and employers that may affect their behaviours in relations to sustaining existing, or managing increasing, contribution rates?

Age UK strongly believes that an 8% contribution will not be enough and the Government should be setting out a route map to increased contributions at the earliest opportunity – even though we acknowledge that this may be some years ahead.

Low opt-out rates to date strongly suggest that the majority of eligible jobholders find the payment levels affordable. Young people in particular remain more likely to keep saving, with only 7 per cent of the under 30s opting out compared to 23 per cent of those aged 50+ in 2014.[ii] In addition, the level of 'persistent saving' (having saved in three out of the past four years) among eligible employees is 79 per cent, with only 1 per cent confirmed as not doing do (the data is unclear for the remaining 20 per cent)[iii], suggesting that people who keep working for the same employer do not subsequently opt out, so the saving is affordable.

We hope the Government remains committed to ensuring that people are enrolled at the earliest possible point in their employment. When existing savers switch to a new job, it is a shame that the saving habit may be broken, and we believe the Government should mitigate this by, for example,[iv] paying a credit or bonus for the 'missed' saving period into the employee's pension account once they re-commence saving, possibly alongside a retrospective employer contribution too. Alternatively, it might be possible to incentivise employers to make contributions from day one.

Lifetime ISAs

LISAs are a potential threat to pension saving, as they may tempt people to divert savings into a vehicle that is likely to be less appropriate for long-term pension saving.[v] This is an important consideration for the Review.

The interaction with the state pension

In looking at whether people can achieve an adequate income in retirement it is important that the different elements of retirement income are considered together – for example, if the state pension is uprated by a less generous formula than the current triple lock it will be all the more essential for contribution rates to be increased. For example, the Pensions Policy Institute (PPI) has calculated that a younger person with lower earnings has a 63 per cent chance of achieving an adequate retirement income if the new State Pension is increased by the triple lock, but just a 36 per cent chance if it is linked to earnings.[vi]

We note that for most pensioners State Pensions and benefits make up the majority of their income – currently nearly three-fifths of pensioners receive at least half their income from the State. While this may change to some extent in the future, it is clear that for many, particularly lower earners, the State Pension will continue to be the most important source of income. We want to see more people brought into private pension saving, and people encouraged to contribute more, and in order for this to be worthwhile it is important that the State Pension provides a decent platform for saving going forward.

2. Is there scope for a more flexible approach to contribution rates to reflect an individual's life and employment journey?

The contemporary labour market gives rise to a wide array of working patterns, which affect people in different ways and at different times – but the 'gig economy' particularly affects low earners and people in insecure work. Because of this, we don't believe it is desirable to introduce more flexible ways of saving relating to the individual's age or occupation. This would be likely to mean that lower earners, and in particular women and other minority groups, would ultimately save less into a pension (which of course they already do in absolute rather than percentage terms). It would also increase complexity for employers.

At present there is insufficient evidence of high opt-out rates, and where people are opting out it is because of a variety of reasons, many of which can be targeted through more effective messaging. For example 'insufficient time to build up a pension' is cited by 50+ opt-outers[vii], but could be tackled through a 'Mid Life MOT', as recommended by John Cridland in his review of the State Pension age. With increasing numbers of people working longer, and likewise moving jobs in later life, this represents an opportunity for older workers to have a late flourish at pension saving. Encouraging people to save at approximately age 50 at the same time as receiving careers advice is a good opportunity to increase saving rates among this group.

It is important that individuals do not break the savings habit, and as people move jobs or experience temporary financial issues they should be encouraged to keep saving into a pension as a priority.

3. Do you have any evidence or views on the most appropriate/effective balance between employer and individual contribution levels? What are the options for encouraging, 'nudging' and enabling people to save more into their workplace pension?

The ultimate aim of saving into a pension should be to achieve a decent standard of living in and throughout retirement. There are different ways of optimising the end result, which vary according to the individuals' characteristics, including their income while working. As already mentioned, the modelling undertaken for Age UK by NIESR indicated that lower earners find it hard to save no matter what incentives are on offer, but found that two models tested did improve their outcomes. These were:

1) Higher employer contributions – where the employer raises its contributions with no increase from the individual. This scenario benefitted lower and middle earners (although not as much as higher earners), giving people an increase on their lifetime disposable income and leading to better pension outcomes. This highlights the importance of the employer contribution.

2) Cutting the employee contribution from 5 to 3 per cent – the model used the full AE rates from the outset (i.e. it didn't include phasing), and reducing the individual's rate of

contribution had the biggest impact on lower earners' pension outcomes. It was the only scenario where the disposable income of lower groups actually increased relative to higher income groups – but only because the reduction in saving was countered by an equivalent increase in employer contributions.

As the NIESR modelling shows, the employer contribution (or perhaps, more accurately, the non-individual contributions) is crucial in delivering good outcomes for lower income groups. The AE Review should consider how the different components can fit together to best deliver good outcomes in retirement for those who earn at around the median income and below.

Age UK recommends that the Review considers specifically whether employers can make a greater contribution to their workers' pension pots. As the NIESR modelling shows, this could have a disproportionately beneficial impact on pension saving.

4. To what extent are individuals saving outside of a workplace pension for retirement and how does this impact on their interest and ability to save into a workplace pension?

In some situations it may be more appropriate for people to save for retirement in other vehicles, and there is inevitably a trade-off between the types of long-term saving that people can undertake. Perhaps most notably, saving for a property and a pension interact, and property plays a significant role in many peoples' retirement incomes. However, this is not always appropriate to meet the need for a sustainable income in later life.

According to the latest attitudes to saving for retirement data from the Wealth and Assets Survey[viii], 46 per cent of people believe that property will get the most from their money for retirement. This no doubt reflects the recent history of house prices (although not of course in all parts of the country), but is worrying nonetheless, especially when only 24 per cent believe a pension does the same.

Pensions are still regarded as the safest method of saving for retirement (40 per cent), although property is not far behind (29 per cent). Interestingly only 9 per cent believe ISAs are the safest method (and this proportion is falling) suggesting that the LISA may not be an appropriate product.

Research conducted by NIESR for the Association of British Insurers in 2016 found that housing policy is responsible for people saving for their retirement at a lower rate. The current policy incentives to buy a house, such as Help to Buy, risk effectively diverting money away from pension saving and may have consequences for later life.[ix]

[i] http://strategicsociety.org.uk/wp-content/uploads/2013/01/Who-Saves-for-Retirement.pdf
[ii] Department for Work and Pensions (2014) Automatic enrolment opt-out rates: findings from qualitative research with employers staging in 2014

[iii] Department for Work and Pensions (2016), Workplace Pension Participation and Savings Trends of Eligible Savers Official Statistics: 2005 to 2015
[iv] DWP (2017) Workplace pensions automatic enrolment: miscellaneous regulations package 2017
[v] See Age UK's response to the Work and Pensions Select Committee inquiry into Lifetime ISAs for more detail http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/Work_and_Pensions_Inquiry_into_Lifetime_ISAs.pdf?dtrk=true
[vi] What level of pension contribution is required to obtain an adequate retirement income? PPI, 2013. https://www.pensionspolicyinstitute.org.uk/default.asp?p=12&publication=0349&
[vii] DWP (2014) Automatic enrolment: experiences of workers who have opted out
[viii] Early indicator estimates from the Wealth and Assets Survey: attitudes towards saving for retirement, credit commitments and debt burden, July 2014 to June 2016, Office for National Statistics
[ix] See https://www.ft.com/content/51976728-1044-11e6-91da-096d89bd2173