From the Chair

Guy Opperman MP
Parliamentary Under Secretary of State for Pensions and Financial Inclusion
Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9NA

8 January 2018

Review of Automatic Enrolment

Thank you for your letter publicising the Review of Automatic Enrolment that the Department released last month. The Work and Pensions Committee has been a consistent supporter of automatic enrolment and this Review shows that the overall impacts of the policy remain very positive in terms of increasing the number of individuals saving into workplace pensions. There remain big issues to be resolved, though, most notably how to increase the savings of the 12 million people the Department estimate are undersaving, and how to involve the 4.8 million self-employed in automatic enrolment.

In the last parliament, the Committee produced a report on automatic enrolment that suggested the Review should consider:¹

Mechanisms for automatically enrolling self-employed workers, including how the income tax self-assessment system might be used

The Review has committed the Department to considering how self-assessment might be used to nudge the self-employed towards saving. It is disappointing, however, that this appears to be the extent of the Department’s ambition for the self-employed. More radical proposals to tackle this issue, such as Royal London’s suggestion that National Insurance Contributions be used to default the self-employed into pensions, are dismissed with little consideration.

The Conservative party manifesto committed to making automatic enrolment available for the self-employed, yet there appears to be little evidence of this happening.² As the Review notes, there are now record numbers of self-employed individuals. Despite this, there is little in this Review to offer them hope that the Government is committed to helping them save towards a decent private retirement income.

¹ Work and Pensions Committee, Automatic Enrolment, p.27
² Conservative Party 2017 Manifesto, p.64
Approaches to increasing contributions beyond the statutory minimum of 8% of qualifying earnings, including mandatory increases in employee and employer contribution rates and means of encouraging greater voluntary contributions

The Review failed to consider the issue of contribution rates, despite admitting that by the Pensions Commission's metric, there are up to 12 million people currently undersaving for retirement. This is a small increase since the Department last modelled undersaving in 2014, which showed 11.9 million people undersaving.

The Department has been very keen to talk up the success of automatic enrolment in increasing the number of people saving into workplace pensions and to promote the new freedoms they have to spend their pension pots at retirement. This Review suggests, however, that there is an alarming level of complacency about the risk of millions of people being unable to make full use of the new freedoms afforded to them at retirement because their contribution levels throughout their working lives have been insufficient.

The Department appears content to wait for the scheduled increases in rates due to take place in April 2018 and 2019 before considering any action in this area. Your own analysis, however, shows that this is an issue that needs urgent consideration and I would urge the Department to look at this issue again.

Removing the lower qualifying earnings band for contributions and lowering the earnings trigger threshold in order to bring more low paid people, including many more women, into AE

I welcome the recommendation in this Review to remove the lower earnings limit, which will see a median earner increase their total pension contributions by £470 p.a. I also welcome the positive impact this move will have for some multiple job holders below the earnings trigger, if they elect to opt-in.

The Review decided against lowering the earnings trigger because it would "lead to significant costs for employers, and government in the form of tax relief, and also risk bringing in greater numbers of individuals for whom it may not make economic sense to save and who then may be disproportionately likely to opt-out of saving. Diverting income away from the day-to-day needs of the lowest earners risks impacting significantly on their living standards."

Clearly there is a balance to be struck here, but I remain concerned that there are millions of individuals who will be solely reliant on the state pension in retirement who would benefit from contributing to a private pension. By the Review's own analysis, an extra 1.5 million individuals could be automatically enrolled if the trigger was reduced to the current LEL, and 73% of these would be women.

Steps necessary to create a single, comprehensive pensions dashboard by 2019 and the degree of Government intervention necessary to deliver on its pledge
I recognise that the Department is currently undertaking a feasibility study on the dashboard and the Committee are currently considering progress on the dashboard as part of our inquiry into pension freedoms.

Overall, this Review feels like a wasted opportunity to tackle several big issues with automatic enrolment. The Department should not rest on its laurels it has achieved so far with automatic enrolment, but should instead be seeking to improve it so that it works for everyone. I will await a response from yourself before considering the Committee's next steps in this area.

Best wishes and I look forward to hearing from you.

Rt Hon Frank Field MP
Chair