Review of Automatic Enrolment

Thank you for your letter of 8 January in response to the Review of Automatic Enrolment, which was published on 18 December 2017.

The Government’s Review report makes clear our continued commitment to building on the acknowledged success of automatic enrolment to date. We have set out a clear vision for developing the policy further to meet the needs of future generations including the lowest paid, while recognising the need to develop and renew the consensus on our approach. This is important as it has underpinned the success of automatic enrolment to date, and it will help to ensure the proposals are deliverable and sustainable for the long-term. As I said in my previous letter, I believe that the Review has proposed a comprehensive and balanced package which, crucially, recognises that costs will be shared between families and businesses and they will need time to plan for change.

Millions of people are already saving, and saving more, for their retirement. Workplace pension saving is now the norm and without the introduction of automatic enrolment, a further 2 million people would still be under-saving. Our focus through the Review proposals is to normalise pension saving for future generations, and to strengthen contribution levels among the lowest paid.

By proposing the removal of the lower earnings limit so that contributions are calculated from the first pound of earnings, we will be enabling people to save more, particularly the lowest earners whose private pension provision would increase by around 80 per cent (with a comparable increase of around 40 per cent for a median earner). This will begin to address the under-saving challenge. I know that this was a specific area considered in your Committee’s May 2016 inquiry into automatic enrolment, and I welcome your support of this measure as a step to improve the retirement incomes of millions of lower paid
savers. The proposal to extend age eligibility down to 18 will help to normalise saving for future generations, and help more people to build up a solid foundation of saving from the start of their career.

As you noted, for 2018/19 we propose to maintain the earnings trigger at £10,000, subject to Parliamentary approval. The Government’s view is that, at this stage, keeping the trigger at this level strikes the right balance between supporting those for whom it makes most financial sense to automatically be brought into saving, while helping to ensure affordability for employers. In real terms, freezing the trigger slightly expands the group brought into saving but also provides stability for employers as we prepare for the first phased increase to contributions on 6 April this year.

Stability and consistency in the policy – both for savers and employers – is of particular significance at this pivotal stage of roll out. I recognise the concerns you have raised around the very lowest earners. The opportunity for them to opt-in is still protected in legislation, and our proposal to remove the lower earnings limit will also positively benefit these savers as now every pound saved will count towards their retirement. In addition, our proposal to remove the entitled workers category will ensure that all those who choose to opt-in will benefit from a mandatory employer contribution. We will, however, continue to keep the level of the earnings trigger under review on an annual basis, consistent with the statutory requirement, and consider factors including affordability for employers, and whether or not it ‘pays to save’ for individuals. The published scope of the Review confirmed that it would be an opportunity to strengthen the evidence base around future contributions but not make policy decisions in this area. The need to learn from the response to the increases in contribution rates in 2018 and 2019 before making decisions about future contribution rates is widely recognised. A recommendation from your Committee’s inquiry was that any further changes to automatic enrolment should be implemented after the critical phase of roll out to small and micro employers. Learning from and responding to experience from implementation has been a crucial factor in the successful delivery of AE so far. The Government’s view is that the increases in contributions during April 2018 and April 2019 are part of this critical phase and that it is right we take the time needed to fully understand and learn from the evidence resulting from this before committing to a firm future direction on contribution rates.

The responses to our initial questions also showed broad consensus among all groups of stakeholders that completing the roll-out of automatic enrolment to all employers and the phased increases in contribution rates should be the priority before any consideration of changes to headline contribution rates. The work of the Review also showed that currently there is no consensus about future contribution rates and whether, when and to what level they might increase. We welcome these responses as we continue to build the evidence base around
contribution rates as part of the next stage of our work including discussions with stakeholders to shape and develop more detailed plans.

Turning to the work of the Review around pension saving for the self-employed, this and the extensive responses that we received on options in this area highlighted that there is no simple answer that will meet the diverse needs of all 4.8 million people who are self-employed: they are a hugely varied population with different income and savings needs. Rushing too soon to a single saving intervention, which might not be effective nor command public support would be counter-productive – testing and understanding what works in practice is critical to the success of any intervention. A major reason for the success of the current programme of automatic enrolment is because sufficient time was taken to ensure the design and implementation plans were developed appropriately, in partnership with delivery organisations throughout the supply chain and with appropriate lead-in times for implementation.

The suggestion regarding National Insurance Contributions as proposed by Royal London was carefully considered and determined not to be the most effective option at this stage for a number of reasons. For instance, not all self-employed individuals pay National Insurance, and having a system of reclaiming payments or seeing them accrue to the Exchequer is problematic both in terms of design and operation; for example a system that involved reclaiming NI Contributions may not work well for those less able to make additional payments and/or those less able to obtain professional advice.

We are nonetheless fully committed to further work on this issue, building on the engagement we have seen during the Review, to work towards the Government’s manifesto commitment on this issue. We are, therefore, developing targeted interventions this year so that they can be tested at the earliest possible opportunity. Options include exploring the scope to work through HMRC’s Making Tax Digital project. Through this and other work, we will be able to identify the most effective options to increase pension saving among self-employed people and build a more robust and effective evidence base from which to take further work forward. We will then evaluate the outcomes in 2019 so that we can consider full scale implementation options and costs, and better understand what can be delivered to scale.

During the Review we also explored the role that engagement can play in supporting pension saving, and the development of the Pension Dashboard as a tool in that space. As you are aware, we will be reporting on our feasibility work in March.

The approach that we have set out in the Review is one which, I believe, has been welcomed by most stakeholders as providing clear momentum whilst recognising the need to keep employers and individuals on board as we continue the successful rollout of automatic enrolment. Over the coming year
we will be working with stakeholders to deliver the detailed design and implementation of our proposals. I would welcome the opportunity to discuss the thinking behind the Review and our approach with you.

Guy Opperman MP
Minister for Pensions and Financial Inclusion