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Automatic Enrolment Review 2017

Automatic enrolment has transformed pension savings in the UK and the government has stated its commitment to building on what has so far been achieved.

The government has just published the findings of its Automatic Enrolment Review 2017. This is the first such review since 2010.

A number of proposals have been made, but it should be noted that no changes are expected until the middle of the next decade, and a number of the proposals are subject to prior consultation.

Background

Employers began automatically enrolling eligible jobholders into workplace pensions in 2012, with the aim of improving the retirement prospects of future generations of workers.

To date, automatic enrolment has rightly been judged as a success, by harnessing inertia, and leading to some nine million extra workers now contributing to a workplace pension as a result (with the numbers of workers opting out of these pension schemes still very low).

With the rollout of automatic enrolment due to be completed in 2018, and the increase to the rate of contributions to workplace pensions set to rise to 8% in 2019, the government is looking to build on this success without the opt-out rate increasing too sharply.

Increasing Pension Savings

Current pension saving levels risk a significant proportion of the working-age population not meeting their retirement expectations. In addition, the current structure of automatic enrolment means there are significant gaps in coverage, in particular for those in low paid part-time jobs, younger workers and the self-employed.

Removing the Lower Threshold of the Qualifying Earnings Band

The qualifying earnings band sets out the portion of earnings on which the employee and their employer have to pay contributions into a workplace pension. One of the original aims of automatic enrolment was to target the lower paid, who were often more likely to not be in pensionable employment.

Eligible jobholders who earn more than £10,000 a year from a specific employment are automatically enrolled into a workplace pension scheme, but because their contributions are calculated from the lower threshold of the qualifying earnings band (£5,876 in the 2017/18 tax year) in each job, they can miss out on a potentially significant contribution, and possibly more than once.

The government is intending in the mid-2020s, following consultation, to change the framework for automatic enrolment so that pension contributions would be calculated from the first pound earned, rather than from the lower threshold.

Removing the lower threshold would simplify the messaging about automatic enrolment for both employers and workers: everyone then earning over £10,000 and under the upper threshold of the qualifying earnings band (£45,000 in 2017/18) (and who meet the other eligibility rules) would be automatically enrolled by their employer and be eligible for pension contributions on 8% of all their earnings to be paid into a workplace pension scheme.

Maintaining the Earnings Trigger and Upper Threshold of the Qualifying Earnings Band

Non-eligible jobholders with more than one source of employment, who earn £10,000 a year or less in each of their jobs, do not qualify for automatic enrolment, even if their combined earnings exceed £10,000. Earnings above the upper threshold are not used to calculate minimum contributions to a workplace pension scheme.

The government is not looking to remove the earnings trigger set at £10,000 for the 2018/19 tax year.

The upper earnings threshold will also remain in place.

Entitled Workers Missing Out on Employer Contributions

Entitled workers who earn less than the lower threshold in each of their jobs are not necessarily entitled to an employer contribution even if they opt in.

The government is intending (from a future date in the mid-2020s) to change the framework for automatic enrolment so that whilst those earning less than £10,000 would not be automatically enrolled, if they opt in to a pension scheme they would also benefit from pension contributions by their employer.

Younger Workers

Workers must be aged at least 22 to be eligible jobholders, and so automatically enrolled into a workplace pension scheme. Younger workers aged 18 to 21 currently miss out on automatic enrolment because the minimum age of 22 was based on previous National Minimum Wage criteria which were superseded in 2010.

The government is intending (from a future date in the mid-2020s) to change the framework for automatic enrolment so that the lower age limit is reduced from 22 to 18.

Increasing the Statutory Minimum Contributions

In 2019, the statutory minimum contributions to workplace pensions is set to rise to 8%. The government is not currently proposing an increase to this percentage. It will, however, carry out further work on the adequacy of retirement income and use that evidence to look again at the level of statutory contributions.

Thus, the government is quite wisely not ruling out a further increase to the statutory minimum level at some stage in the future.

Self Employed

Around 15% of the UK's workforce is self-employed and pension savings amongst this sector of the economy varies widely. Currently the framework for automatic enrolment does not extend to the self-employed.

The government is not proposing to change this immediately, recognising that automatic enrolment cannot just be copied across to the self-employed, not least because of the lack of an employer. However, it will test what it describes as "targeted interventions" with the aim of establishing what works to increase pension saving for the self-employed. Further consultation on this issue will take place in due course.

Comment

While some nine million more people have been introduced to pension saving through automatic enrolment, it is clear that the statutory minimum levels of contribution under automatic enrolment are not going to provide adequate income in retirement.

Much of the success to date has been down to simple inertia, with workers being enrolled into pension schemes automatically, and having to make a decision to reverse this move. It is one thing to increase membership of workplace pension schemes, but driving up member engagement with pension saving may prove far harder. To that end the government supports initiatives such as the pensions dashboard (which the DWP is expected to provide an update on in the spring of 2018).

The government has shown it is not willing to use compulsion, and must therefore plan how it introduces the proposals detailed in its review very carefully, to prevent risking the achievements of automatic enrolment to date.

Authors
Gary Crockford, Head of the Knowledge Resource Centre
John Dunkley, Senior Technical Consultant

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