



## Making Automatic Enrolment Work: A Review for the Department of Work and Pensions

28 October 2010

### Summary

On 27 October the Department for Work and Pensions (DWP) published their review on automatic enrolment in workplace pension schemes<sup>1</sup>. The review considers the scope for automatic enrolment and the policy of establishing the National Employment Savings Trust (NEST) to serve the automatically enrolled population. Its key proposals are:

- Automatic enrolment should apply to all employers regardless of size, as previously proposed.
- The earning threshold for automatic enrolment should be aligned with the personal allowance for income tax and the threshold from which pension contributions become payable should be aligned with the National Insurance primary threshold.
- There should be an optional 3-month “waiting period” before an employee needs to be automatically enrolled. Workers may opt in during the waiting period.
- There should be a simple system for employers to certify their money-purchase pension scheme meets the required contribution levels.
- NEST is necessary to support successful implementation of automatic enrolment.

**Next Steps:** Auto-enrolment will begin in Oct 2012 for large employers and from Sep 2016 for smaller employers.

### Background

There is growing concern that too few employees are saving for retirement meaning that millions will not be able to access enough income later in life to sustain a comfortable lifestyle. DWP estimates that about seven million people are not saving enough for retirement.

The Office of National Statistics has since revealed that the number of people contributing to occupational pension schemes has actually fallen from 9 to 8.7 million in two years.<sup>2</sup>

Behavioural economics research suggests that one way to encourage increased pensions savings is through automatic enrolment whereby employees would join a pension scheme by default. Joining would not be mandatory, but employees would have to actively opt-out.

From 2006, the DWP has been introducing such an auto-enrolment policy. Workers would be able to enrol into any qualifying pension scheme, and a Government-supported pension scheme called the National Employment Savings Trust (NEST) is being made available as an option.

**In this context, yesterday’s review considers the proposed scope for automatic enrolment and the policy of establishing NEST to serve the automatically enrolled population.**

<sup>1</sup> <http://www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/automatic-enrolment/index.shtml>

<sup>2</sup> <http://www.bbc.co.uk/news/business-11643028>

## Scope for Automatic Enrolment: Individuals

**Proposal:** *People should only be automatically enrolled once they reach the income tax threshold but that contributions should be on earnings in excess of the National Insurance Earnings Threshold.*

The Review argues that this proposal will:

- Avoid automatically enrolling those individuals not earning enough to pay income tax
- Ensure that insignificant pensions contributions are avoided
- Ensure that many who may benefit from automatic enrolment are not excluded by a higher threshold.

However, the Review **does not recommend a change to the upper age threshold for automatic enrolment**. This is because it is argued that many older workers see benefits to saving, such as building on earlier savings or working and saving beyond the pension age.

## Scope for Automatic Enrolment: Employers

**Proposal:** *The automatic enrolment duties should apply to all employers regardless of size.*

The Review considers the logistical, regulatory and enforcement challenges posed by introducing automatic enrolment for around 800,000 small firms<sup>3</sup> in the UK. The Review came to the conclusion that excluding small firms would:

- Result in excluding 1.2 million employees from enrolment.
- Present substantial problems for regulators as they try to determine a firm's size.
- Act as a disincentive to business growth.

For these reasons the DWP will press ahead with the proposal to include all firms. However the Review argues that the DWP would not have come to this conclusion had they not been convinced that NEST will provide a pension scheme that is appropriate and easy to use for small employers.

**Other recommendations:** In communicating with small businesses the Pensions Regulator should emphasise that the design of NEST takes specifically into account the needs of small firms.

## Proposed Regulatory Changes

### Key Proposals:

- 1. Employers should be given a waiting period of up to three months before they have to enroll their staff into a pension scheme.**

The Review argues that such an approach will have a number of benefits:

- Avoid automatically enrolling large numbers of workers who may leave after a short period of time.
- Allow employers flexibility to align enrolment dates with their own payroll.
- Allow workers flexibility to decide whether they want to opt out.
- Close the gap in treatment between contract based pension schemes and trust based schemes<sup>4</sup>.

- 2. A simplified certification process so that employers can have clarity about whether the current contributions made by their staff meet the proposed guidelines.**

<sup>3</sup> In this context small firms are those firms employing fewer than five members of staff. Large employers are those firms employing 250 or more staff.

<sup>4</sup> Trust based schemes offer refunds of contributions if the employee leaves within two years. Contract based pensions do not.

## NEST

**Proposal:** *NEST is to be rolled out as planned, ensuring that all employers are able to find a pension scheme in which they can automatically enroll their staff.*

The market was consulted on whether there was an alternative way to provide pension schemes to small employers. However, no respondents were confident this could be done in the short term and many were skeptical whether this could be achieved in the long run.

### Other Important Recommendations:

Moving pension pots between employers should be made easier. In this context NEST should be able to pay transfers in and out but only once automatic enrolment is established and the more general issue of pensions transfers has been addressed.

The Government must resolve the difference in treatment between those employees enrolled in trust based versus contract based pension schemes.

The Government should review whether the existing regulatory regime for the provision of defined benefit contribution workplace pensions remains appropriate after the proposals for automatic enrolment are in place.

### Views from Other Stakeholders

While there were some reservations to certain aspects of the proposals, the Review was widely welcomed as a way forward for increasing the proportion of savings undertaken by the British public in advance of retirement.

- **Association of British Insurers:** *"This is good news for millions of people. We are very pleased there will be no delay to the introduction of automatic enrolment into workplace pensions in 2012 and the setting up of NEST."*(Maggie Craig: Acting Director)

<http://www.ifaonline.co.uk/ifaonline/news/1811281/dwp-auto-enrolment-threshold-gbp7-475-exemption-firms>

- **Federation of Small Businesses:** *"While the FSB welcomes initiatives to help people save for their future, the FSB is severely disappointed the Government has not listened to the needs of the UK's micro firms and has not made them exempt from automatic enrolment into pensions, which will cost employers in time and money."* (Mike Cherry: Policy Chairman)

<http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=6725>

- **National Association of Pension Funds:** *"The Government has listened to most of the NAPF's recommendations by adopting a common-sense approach that will widen pension provision, whilst still keeping existing good schemes open."* (Joanne Segars: Chief Executive)

[http://www.napf.co.uk/PressCentre/Press\\_releases/0057\\_Green\\_light\\_for\\_pensions\\_auto-enrolment\\_welcomed\\_by\\_NAPF.aspx](http://www.napf.co.uk/PressCentre/Press_releases/0057_Green_light_for_pensions_auto-enrolment_welcomed_by_NAPF.aspx)

- **Trade Union Congress:** *"This review could have ripped the heart out of the hard-won consensus to implement Lord Turner's Pensions Commission. It is good news that it has not, but there are still some backward steps... we are concerned at the increase in the threshold for auto-enrolment and the three-month waiting period."*(Brendan Barber: General Secretary)

<http://www.tuc.org.uk/workplace/tuc-18726-f0.cfm>

- **Rachael Reeves (Shadow Pensions Minister):** *"Overall, I am happy the coalition has gone ahead with Labour's plans for NEST and auto-enrolment. However, I do not agree with this government's attempts to unpick the recommendations, as those that lose out are likely to be the very people that the scheme was designed to reach; namely women and part-time workers, and temporary and agency workers."*

<http://www.ifaonline.co.uk/ifaonline/news/1811542/reeves-warning-auto-enrolment-threshold-hike>

## Next Steps

These proposals will be phased in over the coming years<sup>5</sup>:

Oct 2012	Auto-enrolment begins – largest employers begin contributing.
Sep 2016	Smaller employers begin contributing

The total/employee contribution will be as follows:

	Total minimum contribution	Of which employers contribute at least...
Oct 2012-Sep 2016 (Largest employers first and then some smaller firms)	2%	1%
Oct 2016–Sep 2017 (All employers)	5%	2%
Oct 2017 onwards (All employers)	8%	3%

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<sup>5</sup> See page 18 of the review for a breakdown