Department
for Work &
Pensions

Automatic Enrolment Review 2017: Maintaining the Momentum

Cm 9546

Department for Work & Pensions

Automatic Enrolment Review 2017: Maintaining the Momentum

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by the Secretary of State for Work and Pensions
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Foreword by the Secretary of State for Work and Pensions

We are committed to enabling more people to save while they are working, so that they can enjoy greater security and independence when they retire.

Workplace pension saving is now becoming the norm for a new generation of workers. 9 million individuals have now been automatically enrolled into a workplace scheme by their employer, with nine out of every ten of them continuing to save. Many of those benefitting were once poorly served or excluded from workplace pensions, but thanks to automatic enrolment, many more women, low earners and younger people are now building an asset for their future. By 2019/20, it is estimated an extra £20 billion a year will be saved into workplace pensions as a direct result of automatic enrolment.

We are rebuilding the UK's savings culture. And as a pioneer of this shift in workplace pension saving, other countries are seeking to learn from our experience.

Over this year, the government has carried out a review of automatic enrolment to consider how to build on its success for the future. A key focus is for individuals to keep saving and to save more after minimum contributions reach 8 per cent in 2019. But we recognise that contributions of 8 per cent are unlikely to give all individuals the retirement to which they aspire. We also know there is more to do to ensure that younger people, part-time workers and the self-employed can achieve more security in later life. As per our manifesto commitment on the self-employed, the government's aim is to use the principles and learning of automatic enrolment to improve pension participation and retirement outcomes among self-employed people.

This Review sets out proposals to maintain the momentum achieved so far and to build a stronger, more inclusive savings culture for future generations. We stand ready to learn from the contribution rate increases which will come in to effect in 2018 and 2019, and to carry out further work on the adequacy of retirement incomes. We will then take this forward to look again at the right overall level of saving and the balance between prompted and voluntary saving.

- We are setting out a comprehensive and balanced package of reforms which together would increase median earners' private pension provision by over 40 per cent and lower earners by over 80 per cent.
- We are continuing to make saving the norm for young people, by lowering the age threshold for automatic enrolment from 22 to 18, enabling more people begin to save. Confirming that automatic enrolment will continue to be available to all eligible workers regardless of who their employer is, or the sector in which they work;
- We are supporting those with low earnings and multiple jobs to save by removing the lower earnings limit so that contributions are calculated from the first pound earned and everyone has access to a workplace pension with an employer contribution;

- We will work to implement the government's manifesto commitment to improve pension participation and retirement outcomes among self-employed people by testing a number of different approaches aimed at increasing the savings of self-employed people from 2018, with a focus on those with low to moderate incomes. This recognises that there are 4.8 million self-employed people in the UK for whom a single saving initiative is unlikely to work. We will then set out proposals to implement the most effective approaches at scale.
- We are underpinning this with a package of measures, and a call upon the pensions industry, employers and wider government, to work together to deliver better engagement with individuals on the benefits of workplace saving.

Automatic enrolment has worked to date because of the commitment and support of our key delivery partners. In particular, over 900,000 employers across the UK have played a vital role in making sure that their workers are now saving.

An independent Expert Advisory Group has supported this Review, led by Ruston Smith (Chair of the Tesco Pension Fund and Tesco Pension Investment Ltd.), Jamie Jenkins (Head of Pensions Strategy, Standard Life) and Chris Curry (Director, Pensions Policy Institute). Through the Group's work, we know that there is wide support for these proposals as well as the principles which underpin them. I am very grateful for their work, as well as the enthusiasm, ideas and insight we have received from many people and organisations across the employer, consumer and financial services communities. This widespread support will remain critical to sustain the success of automatic enrolment.

The government's ambition is to implement these changes to the automatic enrolment framework in the mid-2020s. Over the coming year, we will work to build a renewed consensus to deliver the detailed design and implementation of our proposals. The government recognises that while the changes being proposed will bring future financial benefits for individuals and the UK's longer term fiscal position, there are also significant cost consequences which will need to be shared between individual savers, employers and government. All parties will need time to plan for this, being mindful of the broader economic climate.

Our long term goal is that future generations can have confidence in saving through workplace pensions and look forward to greater financial security and independence in retirement. We look forward to continuing to work with a wide range of partners to achieve this through making automatic enrolment sustainable for the long term.


Over
9 MILLION
eligible employees have been automatically enrolled into a workplace pension
Source: AE Declaration of Compliance Report, July 2012 - end October 2017, The Pensions Regulator
The number of eligible employees participating in a workplace pension has increased
10.7
MILLION
16.2
MILLION
in 2016
80% of employees agree...
"Overall, it is worthwhile for me to save into a workplace pension"
Source: British Social Attitudes Survey 2016
Over
900,000
EMPLOYERS
have declared compliance with their automatic enrolment duties
Source: AE Declaration of Compliance Report, July 2012 - end October 2017, The Pensions Regulator
Workplace pension participation is
RISING
PRIVATE SECTOR
2012
42%
2016
73%
WOMEN
2012
40%
2016
73%
22-29 YR OLDS
2012
24%
2016
68%
EARNING £10-20K
2012
20%
2016
63%
Source: Workplace pensions participation and saving trends: 2006 to 2016
TEN
YEAR
HIGH
£87
BILLION
total annual contributions in 2016
78% of employees agree...
"It is normal for someone like me to save into a workplace pension"
Source: British Social Attitudes Survey 2016
Since the introduction of automatic enrolment,
2 MILLION
FEWER PEOPLE
are under-saving for retirement
1.5 MILLION
MORE PEOPLE
classify themselves as self-employed since 2000
Source: Trends in self-employment in the UK: 2001 to 2015

Executive summary

Introduction: Building on success

We are committed to enabling future generations to achieve security in later life. Automatic enrolment into workplace pensions has already succeeded in transforming pension saving for millions of today's workers. Since automatic enrolment started in 2012, workplace pension participation has increased among eligible employees from a low of 55 per cent in 2012 to 78 per cent in 2016.

For the private sector this shift has been transformative; among eligible employees, participation has risen by over 31 percentage points since 2012 to 73 per cent of eligible employees in 2016. The greatest increases have been among those who have traditionally had least access to workplace pensions: the lowest earners; younger people (those aged 20 – 29); and women. Workplace pension participation among eligible men and women has been equalised. Total annual contributions into workplace pensions are currently at a ten-year high of £87 billion in 2016.

In 2018 the roll-out of automatic enrolment to employers will be completed and it is estimated that around 10 million people will be newly saving or saving more.[1] The existing policy framework will deliver phased increases in the minimum contributions rates to 5 per cent in April 2018 and 8 per cent in 2019.

Automatic enrolment is a policy that is working. It has been based on widespread consensus about the need to reinvigorate workplace pension saving, grounded in the work of the independent Pensions Commission over a decade ago. Employers and private sector delivery partners have been central to that success. Since the Pensions Commission reported the detailed design and implementation approach have been developed by a broad delivery partnership encompassing government, regulators, employers, payroll firms, intermediaries and the pensions industry.

CBI *"Automatic enrolment is a successful policy built on sound principals – employer support is key to this".*

USDAW *"USDAW has given its full backing to auto enrolment. It has in our opinion been a fantastic initiative, however, more needs to be done and we want to encourage Government and the pensions industry to continue to build on the successes which have been achieved so far".*

Which? *"…agrees that it has been successful in engaging workers to newly save, or save more, into a workplace pension".*

TUC *"Automatic enrolment has been a great policy success…..has the potential to become the bedrock of workplace pension saving in the UK".*

Government is committed to building on the transformational progress that has already been made and this report sets out a clear direction beyond 2019, so that employers, savers and the pensions industry

[1] DWP (2016) Workplace pensions: Update of analysis on Automatic Enrolment 2016 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

can understand how automatic enrolment will continue to develop into the mid-2020s, and how they will be involved in that process.

Creating a fairer, more robust and sustainable system for the future

This Review has confirmed that automatic enrolment is making savings into a workplace pension the new norm for millions of individuals in the UK and that overall the framework that has been established remains the right one for individuals, employers and delivery partners.

In line with its published scope, the Review has examined three main areas: the existing coverage of automatic enrolment and whether or not this remains appropriate over the longer term; the evidence base concerning future contributions and how this can be strengthened; and how engagement can be improved so that individuals have a stronger sense of ownership and are better enabled to maximise pension saving.

In the process of examining these areas and assessing the success of automatic enrolment to date and the challenges that remain, we have identified and considered three significant and complex strategic problems**:**

1. Current 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 gaps in coverage, in particular for those in low paid part-time jobs and younger workers. Employers are facing competing burdens including the National Minimum Wage (NMW) and National Living Wage (NLW) costs. In addressing these challenges there must be a realistic and fair balance between the costs to employers, individuals, and the public finances.
2. A large proportion of the self-employed experience significant gaps in pension coverage and other savings for retirement. However, most self-employed people cannot be covered by the current design of automatic enrolment.
3. Individuals are beginning to save but for multiple reasons do not actively engage with their pensions. The barriers to engagement with workplace pension saving that led to the introduction of automatic enrolment remain and engagement alone will not address pension participation and savings challenges. However, improving awareness and understanding by delivering the right support in a simple way complements the role of automatic enrolment and provides a better platform for voluntary saving and helps to build trust and confidence in the system.

This Review report provides analysis of the scale and nature of these problems, and government's assessment of where and how the current approach should be extended over the medium term. As part of this assessment we recognise that we will need to continue to learn from the rollout of automatic enrolment, including from impact of the phased contribution rate increases that are still to occur.

A changing delivery context

Our assessment recognises that the context in which automatic enrolment is being delivered has changed in significant ways since it was first introduced, and that it continues to change. Improved health and better living standards mean that individuals are living longer. Following a review of the State Pension age, the government has set out its approach so that there is fairness across generations[2]. The broader pensions and savings landscape has also evolved, for example, as a result of the introduction of pension freedoms and the Lifetime ISA. The rapid growth in consumer credit presents altered risks. The government's 'Help to Save' scheme, which will be introduced from 2018, is designed to strengthen financial resilience for those on low incomes. New ideas related to pension saving are also emerging in this territory (including the NEST Insight Unit's 'liquidity and sidecar savings' and Step Change's 'accessible pension savings' models).

[2] DWP State Pension age review (July 2017) https://www.gov.uk/government/publications/state-pension-age-review-final-report

The economic outlook and labour market context has changed significantly, through the experience of the financial crisis; high employment rates; the growth and diversity in self-employment; the rise of the ‘gig-economy’; low-wage growth; and the decision to leave the European Union in 2019. Rapid technological innovation continues to change the way that people access and use information, including how they set up their pensions.

In the course of this Review we have considered how automatic enrolment fits within this changed landscape, those factors that have particular relevance and what steps can be taken to build in sufficient flexibility for automatic enrolment to respond effectively to future changes.

To support this, the government intends to steward debate and develop consensus on the approach set out in this Review while also closely monitoring the impact of the legislated contribution rate increases in April 2018 and April 2019.

Principles

Our analysis, conclusions and direction have been underpinned by a set of core principles[3], alongside due regard to Section 149 of the Equality Act 2010[4] and the broader principles set out by the Pensions Commission of fairness, affordability and sustainability.

Advisory group and stakeholder input

The Review has been supported by an external Advisory Group (including members that represent the views of employers, individuals, pension providers and intermediaries), whose advice, insight and challenge has informed our analysis of the issues and our direction.

We have also carried out extensive engagement with as many interested parties as possible to help inform our approach. In addition to an initial review of evidence, we have had extensive meetings and discussions with a broad range of individuals and organisations including those representing employers, consumers, unions, pension providers and intermediaries.

Three strategic problems for the future development of automatic enrolment

Strategic problem 1: Current saving levels present a substantial risk that the retirement expectations for a significant proportion of the working-age population will not be supported. In addition the current structure of automatic enrolment means there are gaps in coverage – notably for those in low-paid multiple part-time jobs and younger workers.

Automatic enrolment has transformed participation in pension saving in the UK, particularly among those who were traditionally less likely to have access to workplace pensions. In particular, participation among private sector eligible employees (earning between £10,000 and £20,000) increased from 20 per cent in 2012 to 63 per cent in 2016.

The independent Pensions Commission identified that the State Pension, supplemented by automatic enrolment contributions of 8 per cent of relevant earnings would deliver around half the level of savings needed to deliver adequate retirement incomes for most individuals[5]. The Commission’s proposal was that the remaining gap in savings levels would be met through additional voluntary saving on top of savings from automatic enrolment contributions. Savings levels are projected to improve over time through workplace pension saving. While there are no indications, so far, that voluntary saving for

3 DWP Review of automatic enrolment (February 2017): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590220/initial-questions-automatic-enrolment-review.pdf
4 Equality Act 2010 https://www.legislation.gov.uk/ukpga/2010/15/contents
5 Pensions Commission (2005, Appendix D, Figure D28)

retirement is rising in a significant way, there is also no evidence to date that individuals have offset additional workplace pension saving with reduced liquid saving.

Despite the success of automatic enrolment, using the savings adequacy measure introduced by the Pensions Commission, there are still around 12 million individuals under-saving for their retirement (i.e. not projected to be saving enough for an adequate retirement income[6]) who make up 38 per cent of the working age population.

Of these 12 million, taking account of the planned increases in automatic enrolment contribution rates, some 5.7 million are ‘mild under-savers[7]’. If automatic enrolment had not been introduced, an additional 2 million individuals would now be under-saving.

Looking at under-saving by income level, the vast majority of those individuals who are under-saving - approaching 10.4 million (87 per cent) - earn more than £25,000 a year. Around 1.6 million (13 per cent) earn below £25,000 a year. The government intends to explore adequacy measures, but in this Review we have focused on how best to build on statutory savings rates through automatic enrolment to continue to address under-saving. In doing this, we recognise that it remains important to continue to consider at what level of earnings it will ‘pay to save’ for most individuals.

Despite the gains in participation levels, some workers see more limited benefits from automatic enrolment:

- Workers who earn more than £10,000 a year in a job are automatically enrolled, but because their contributions are calculated from the bottom of the qualifying earnings band (£5,876) in each job, they will miss out on a potentially significant contribution, and possibly more than once.
- Non-eligible jobholders 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.
- Entitled workers who earn at or below the Lower Earnings Limit (LEL) in each of their jobs are not necessarily entitled to an employer contribution even if they opt-in.
- Younger workers aged 18 to 21 currently miss out on automatic enrolment because the lower age limit of 22 was based on previous National Minimum Wage (NMW) criteria which were subsequently superseded in 2010.

[6] The Pensions Commission measured adequacy using replacement rates. Replacement rate is defined as someone’s income in retirement divided by their income in work based on average earnings for those years in work between age 50 and State Pension age. Analysis presented classifies someone’s income is inadequate if their replacement rate does not meet a set of benchmarks used by the Pensions Commission, the benchmarks are less than 100 per cent and different for those on different income levels.

[7] Analysis presented classifies someone is a mild under-saver if they are estimated to achieve between 80 and 99 per cent of their target replacement rate.

Going forward: Review response and conclusion

- We want pension saving to be the norm when people start work, and therefore want young people to benefit from automatic enrolment. Our proposal is to reduce the lower age limit from 22 to age 18. This change will simplify workforce assessment for employers: all eligible workers would benefit from automatic enrolment from age 18 whoever employs them.
- We want to help lower earners build their resilience for retirement; to support individuals, predominantly women, in multiple part-time jobs; and to further simplify automatic enrolment for employers. We propose to change the framework for automatic enrolment so that pension contributions would be calculated from the first pound earned, rather than from the lower earnings limit, currently set at £5,876.
- Removing the lower earnings limit simplifies messaging: everyone earning over £10,000 and under £45,000 a year (who meet the other eligibility rules) would be automatically enrolled by their employer and get pension contributions on 8 per cent of all their earnings. Those earning at or below £10,000 would not be automatically enrolled, however if they opt in they would also benefit from pensions contributions on 8 per cent of all their earnings. The change to how contributions are calculated would also improve the incentives for those in multiple jobs to opt-in to their workplace pension scheme, as they would benefit from an employer contribution for every pound they earn in every job, up to the upper earnings limit (currently set at £45,000).
- We estimate that together, these proposals would bring an extra £3.8 billion into pension saving annually, increasing the pension pot of the lowest earners by over 80 per cent and that of the median earner by over 40 per cent.
- Automatic enrolment is normalising saving precisely because it applies to all sectors of the labour market. We have examined the case to exclude certain sectors from automatic enrolment but do not propose to disturb the current arrangements which provide appropriate flexibility, for example by allowing employers with short term workers to postpone automatic enrolment for three months.
- Alongside monitoring the impact of the phased increases in statutory minimum contributions we will carry out further work on the adequacy of retirement income. We will use this evidence to look again at the level of contributions into workplace pensions and the balance between statutory and voluntary saving. In parallel we will also continue to monitor risks (including those related to growth in consumer credit) and the evidence base concerning financial resilience to identify whether or not interventions may be needed in future.

Consensus across stakeholders on automatic enrolment has been an important factor in its success to date and we believe that it is important to maintain this approach when considering further developments of the policy, such as the changes set out in this review.

Our ambition is to implement these changes to the automatic enrolment framework in the mid-2020s, subject to discussions with stakeholders on the implementation approach during 2018/19, finding ways to make these changes affordable, and evidence of the impact of the increases in statutory minimum contribution rates in April 2018 and April 2019.

We recognise that employers and other delivery partners need time to plan for these changes so that they can manage costs with certainty and will ensure that before any changes are made to automatic enrolment, we have full discussions with stakeholders, followed by formal consultation in due course. Our overall approach is intended to provide employers and delivery partners (including small and micro employers, payroll practitioners and others) with the necessary stability to continue to introduce automatic enrolment schemes for employees in the most effective way for all parties.

We will also ensure that there is sufficient time between legislation and implementation to allow employers and other delivery partners to plan for and manage change. We recognise in particular that employers need time to adjust to other costs over coming years, before the proposals in this Review are implemented. These include not only the phased increases in automatic enrolment contributions but also wider changes such as the increase to the National Living Wage.

For 2018/19, the earnings trigger at which a worker is automatically enrolled will continue to be set at £10,000. We will continue to review this threshold annually – while current evidence does not support change now, our approach ensures that a range of factors, including affordability for employers and whether or not it 'pays to save' for individuals, are kept under consideration.

This will enable employers to plan for and manage costs with more certainty. It will also ensure that for the vast majority of individuals it will pay to save. Maintaining the trigger at £10,000 in 2018/19 will provide employers and delivery partners (including small and micro employers, payroll practitioners and others) with the necessary stability, recognising that they also need to adjust to other costs including the phased increases in automatic enrolment contributions and changes such as the NLW through the current period. Our approach will mean a gradual increase in coverage in line with increases in earnings levels, subject to future decisions concerning the level of the earnings trigger.

Strategic problem 2: A large proportion of the self-employed population experience significant gaps in pension coverage and/or other savings for retirement.

The self-employed are a large and highly diverse group. The UK has seen self-employment increase so it is now around 4.8m (15 per cent of the workforce)[8]. Pension coverage among self-employed individuals varies significantly. For some groups it is low, while others have good levels of savings and preparation for later life. This Review has focussed on identifying the groups of self-employed people who would most benefit from being nudged into pension saving and the potential approaches that could achieve this.

Latest analysis suggests that there are around 2 million traditional self-employed individuals (including contractors in the construction sector and others) who would meet automatic enrolment age and income criteria if they were workers, but are at risk of under saving for retirement. More evidence needs to be gathered, including on who would likely benefit from a savings intervention[9]. We will therefore develop the evidence-base and test approaches in a number of areas to look at what works, and to improve understanding of the practicalities of delivery.

Going forward: Review response and conclusion

We will test targeted interventions with the aim of establishing what works to increase pension saving for the self-employed. We will use the evaluation of these to inform implementation options and will consult on specific proposals prior to any changes to legislation.

Our work during this Review has established that there is no single or simple and straightforward mechanism to bring self-employed people into workplace pension saving and that not all self-employed people need help to save. We have seen a range of helpful and well considered ideas that individuals and organisations have put forward, which we have carefully reflected on as part of the Review process. However, we do not know from the current evidence-base, including international experience, if any of these approaches would work in practice. Effective interventions must meet the needs of self-employed

8 ONS statistics using Labour Force Survey: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/summaryoflabourmarketstatistics

9 PPI (October 2017) – Policies for increasing long-term saving of the self-employed

people; they must work in practice; and they have to be affordable. These considerations are key to ensuring changes are durable and achieve their intended aims. This is important for self-employed people, so they can have the confidence to plan and save over the longer term.

There is no employer to automatically enrol the individual into saving so we have considered and rejected the idea that automatic enrolment could be extended in a straightforward way to act as the appropriate mechanism by which to bring the self-employed into pension saving. We will, however, use the lessons from the successful principles of automatic enrolment to find an equally effective alternative approach or approaches for self-employed people. As such we will be guided by the overarching objective of increasing pension participation for those self-employed people for whom it would make most economic sense to save. We will look to capitalise on touch points which provide prompts into saving in a way that is easy to understand and as simple as possible to implement. Our aim is to encourage pension savings at levels that are affordable to provide greater security in retirement. In the longer term, we want to achieve a behavioural shift amongst the self-employed where regular pension saving is seen as normal and affordable.

By robustly testing a number of approaches the government intends to identify options for self-employed people that can work at scale. Our objective is to legislate as necessary before the end of this Parliament, subject to learning from the tested interventions and consultation, so that these can be deployed at the earliest possible opportunity. As with the target audience for automatic enrolment we propose to initially try to focus on a target group of around 2 million self-employed people who broadly mirror the automatic enrolment eligibility criteria (in terms of earnings and age criteria) and are least likely to access saving through other routes. We recognise of course that self-employed people beyond this target group may also benefit from saving into a workplace pension, and our objective would be to design solutions that would be appealing and available to them as well.

The self-employed are a diverse group and their interactions with state and private sector systems differ to the employed population. One savings intervention alone may not meet their needs.

Support with retirement saving will be most successful if it reflects the diversity of self-employed people as well as the systems surrounding them.

We expect to test targeted, interventions from 2018, followed by consultation and any necessary legislative changes. Following feasibility work, the trials could include:

- using the opportunity of Making Tax Digital. For example, we are exploring whether commercial software providers could develop a routine process to facilitate pension saving for self-employed people who need to complete a tax return;
- working with organisations that use self-employed contracted labour to understand whether or not they can help to facilitate pension saving (for example through enhanced communications or a prompt); and
- working with other organisations who act as touch points for the self-employed, such as banks, to explore how technology could assist in facilitating pension saving.

A significant number of those working in atypical ways or in non-standard forms of employment already come within the automatic enrolment framework because they are classified as workers. We will explore whether current rules would benefit from greater clarity for them and those who engage them.

There is a group of around 1 million individuals according to some estimates – including agency workers and those on zero hours contracts – who are working in increasingly flexible or “atypical” ways in less standard forms of employment. In our view, a large number of these most likely come within the existing automatic enrolment framework. We will work with the Pensions Regulator to ensure there is sufficient clarity for them and those who engage them so that the system and its enforcement continues to operate effectively.

The government is continuing to develop its analysis in this area and has also recently announced its intention to consult as part of the response to Matthew Taylor's review of employment practices in the modern economy, exploring the cases and options for longer-term reform to make the employment status tests for both employer rights and tax clearer. If such changes are necessary we will ensure they are also considered in relation to automatic enrolment so that there is sufficient coherence and certainty for workers, businesses and the Pensions Regulator's enforcement of automatic enrolment duties.

Strategic problem 3: Whilst more individuals than ever before are saving, they are not necessarily engaged with saving nor looking to take greater personal responsibility to plan, and save more, for their retirement.

By defaulting millions of individuals into saving and harnessing their natural inertia, automatic enrolment is changing the way that millions of individuals behave: it has made them into pension savers and has normalised workplace pension saving. However, many individuals are not yet engaged with their saving. This raises the possibility that the savings habit will not be resilient, and that opportunities to encourage individuals to save above the minimum rates could be better used.

The Review has therefore examined the role that more effective engagement can play in helping individuals to better understand and maximise their pension savings; develop a stronger sense of long-term personal ownership of their pension savings; and to have greater trust and confidence in the system.

Our extensive review of the evidence-base, including international perspectives and discussions with stakeholders, tells us that actions aimed at improving engagement will not in themselves materially change savings behaviour.

We believe that better engagement can support the default approach underpinning automatic enrolment by reinforcing individuals' saving behaviour, especially where a choice exists to opt out, cease saving or save more. Engagement can reinforce positive attitudes towards workplace pension saving and the genuine benefits of continuing to save, and build on the development in pension saving behaviour that automatic enrolment has delivered.

Going forward: Review response and conclusion

We want to galvanise efforts to build a sense of personal ownership of workplace pension saving amongst individuals. Strong partnerships are a key part of that. We are setting out specific areas where there is scope for pension providers, the advisory community and employers, working with Government where necessary, to do more to support individuals' engagement with their savings and to deliver better value for their customers.

This Review has confirmed that by defaulting individuals into saving and requiring them to make a conscious decision to opt out, automatic enrolment cuts through the barriers that prevent individuals from saving and it harnesses inertia so that once enrolled to save they continue to do so. As a result, and in line with theory and evidence from other countries, automatic enrolment is working: the behaviour of millions of individuals has changed and they are now savers.

Additionally, there is also some evidence that the national automatic enrolment advertising campaign and communication and engagement by employers, providers and the advisory community have helped to reinforce inertia by providing the start of social norming – where people 'like me' were more likely to be 'in' than to 'opt out'.

As we look to evolve automatic enrolment for the future, we have the opportunity to build on the shift in savings behaviour that has been achieved, and the positive attitudes towards workplace pension saving that exist, through better, more effective, engagement. This will be particularly important as contribution rates increase in the next few years.

Driving up engagement is a complex challenge with a range of behaviours acting as powerful barriers that may stop individuals engaging with pension saving. We have considered the scope for behavioural tools, (such as 'Save More Tomorrow' and auto-escalation), to provide solutions. There is evidence that these techniques can be effective where implementation has involved bespoke intensive employer engagement and in the context of an overall employee benefits package.

However, there are significant delivery challenges associated with implementing these techniques at scale and the current evidence-base for intervention remains limited. While we do not therefore think that these behavioural tools are appropriate at this stage of automatic enrolment, they remain potential options for the future and the government will continue to consider new evidence and will keep this area under review over the longer term implementation of automatic enrolment.

It is internationally recognised that there is no single silver bullet to build better engagement. A combination of a number of different actions and communications are needed, delivered at the right time and in a way that meets an individual's preferences. The Review has concluded that the key priority for the short to medium term is to maximise opportunities to increase engagement through more effective, consistent and personalised approaches. Our aim is to focus on building awareness, understanding and curiosity about workplace pension saving within the context of developing social norming around retirement saving more generally.

The consensus is that key principles should be applied to engagement. Interventions should use positive, personal and inclusive language. They should be simple; personalised to the needs of the individual; and timed to be relevant at 'teachable moments'. Interventions should be framed to meet the needs of the individual saver through understanding what those needs are.

Effective engagement will require continued collaboration and strong partnerships between government employers, the pensions industry and advisory community, and we have identified the following areas for work:

- Simple language is at the heart of effective engagement. Despite areas of good practice, there is a consensus that there is still too much jargon and complicated, inconsistent, language across the industry which is difficult for pension savers to understand and which acts as a barrier to their interest and engagement. We welcome the work that has been done to simplify language and call upon industry partners to collaborate to use and build upon this, and to apply it consistently across all communication channels, both digital and traditional.
- The annual benefit statement offers an important opportunity to encourage individuals to engage but despite the significant resources that the pension industry has invested, statements remain complicated and overlong. They may be neglected or not understood. Individuals receiving statements from more than one provider may find them inconsistent, adding to confusion. There is an opportunity to provide a short, simple and consistent annual benefit statement that could be used by all providers making it easier for individuals to understand, and we welcome work to take forward a common approach.
- We recognise the crucial role that employers have played in the success of automatic enrolment, and the importance of the employer/worker relationship to engagement. We welcome the collaboration between pension scheme providers and employers that can support employers in providing information to their workers and call upon them to continue to work closely with employers as they develop new approaches to engagement and digital tools to support this.
- We welcome the investment made by the pensions industry in new technology and call upon it to continue to invest in new ways. The aim should be to match other financial and retail sectors and offer multiple ways for individuals to access their services alongside more traditional communication channels. It is important that this reflects the needs, accessibility requirements and preferences of all potential users so that no groups are left behind.

- The government is committed to working with pension providers on pension dashboards to enable individuals to see all their retirement income and savings information in one place in a simple and consistent way which will provide the most effective way to use teachable moments.
- We are committed to delivering a policy and regulatory framework that supports the evolution of automatic enrolment and recognises the needs of employers, providers and individuals, including the need for simple, consistent language, and the creation of the Single Financial Guidance Body.

Statutory reviews

This report also outlines findings from the statutory review on the operation of the regulations on ‘alternative quality requirements for defined benefit (DB) schemes’, and specific elements of ‘alternative quality requirements for defined contribution (DC) schemes’.

DWP carried out a call for evidence earlier in the year to obtain evidence to support the review of alternative quality requirements for DB schemes. Responses from interested parties confirmed the overall policy objective is being met for the vast majority of schemes to which the legislation was targeted. Several respondents have raised areas for further simplifications; our next step will be to consider some of those suggestions in more detail. The next statutory review will be in 2020.

The review requirements in respect of the alternative quality requirement for DC schemes requires the Secretary of State for Work and Pensions to carry out a review at least once every three years to ensure that, under the alternative quality requirement, contributions will not be less than the statutory minimum for at least 90 per cent of job holders. Commitments for a periodic review were introduced as a safeguard to minimise the risk of jobholders receiving less than the minimum level of contributions, as provided for under relevant quality requirement. Our assessment has confirmed the ‘90 per cent test’ continues to be met. The next statutory review will be carried out in 2020.

The Government’s next steps

This Review has confirmed that automatic enrolment into workplace pensions is transforming pension saving for millions of today’s workers. Workplace pension saving is now normal for millions of workers in the UK and by 2018, 10 million individuals will be saving for the first time, or saving more.

The Review has also confirmed that overall, the framework that has been established for the delivery of automatic enrolment remains the right foundation for workers, employers and delivery partners, and that automatic enrolment duties will continue to apply to all employers, regardless of sector and size.

The package the government proposes in response to the Review findings sets a clear direction to build a more robust and inclusive savings culture, specifically to support younger generations through the opportunity to build up assets to allow them to have a more secure retirement.

The government is proposing a comprehensive and balanced approach to build on the success of automatic enrolment to date and maintain momentum, whilst recognising that the costs will be shared between individuals, families, employers and taxpayers, and that all parties will need time to plan for change.

Our approach has a number of elements and to support this, the government intends to steward debate and develop consensus on the detailed design and implementation approach.

Going forward:

- Our ambition is to implement these changes to the automatic enrolment framework in the mid-2020s, subject to discussions with stakeholders on the implementation approach during 2018/19, finding ways to make these changes affordable, and evidence of the impact of the increases in statutory minimum contribution rates in April 2018 and April 2019. Our discussions with stakeholders during 2018/19 will allow us to build consensus on the future direction of travel and shape and develop more detailed plans and implementation timetable that can then form part of the formal consultation.

- Government will monitor the impact of the increases in minimum contribution rates in 2018 and 2019 to inform discussions with stakeholders about future contribution rates and also to better understand how costs from changes to automatic enrolment are shared between individuals, employers and taxpayers.
- We will begin testing targeted self-employment interventions in 2018 with a view to evaluating them in 2019 to inform implementation options and costs, and will examine whether current legislation and/or guidance requires clarification around the eligibility of workers in atypical ways or in non-standard forms of employment to be automatically enrolled.
- DWP will report on the feasibility study for the Pension Dashboard in spring 2018. The Single Financial Guidance Body will be in place after autumn 2018.

Summary of proposals

Government wants to continue to normalise pension saving among workers; help lower earners build resilience for retirement; support individuals, predominantly women, in multiple part-time jobs; and simplify automatic enrolment for employers. Therefore:

- **Automatic enrolment duties will continue to apply to all employers, regardless of sector and size.**
- **We want pension saving to be the norm when most individuals start work. We therefore want young people from age 18 to benefit from automatic enrolment and our ambition is to lower the age criteria from 22 to 18.** This would bring a further 900,000 young people into automatic enrolment. It also simplifies the workforce assessment for employers. All eligible workers will benefit from automatic enrolment from age 18 whoever employs them.
- **Our ambition is to change the framework for automatic enrolment so that pension contributions are calculated from the first pound earned, rather than from a lower earnings limit of £5,876 (in 2017/18). As part of the proposals in this review, we would also remove the 'entitled workers' category.** The removal of the lower earnings limit would bring an extra £2.6 billion into pension saving, improve incentives for individuals in multiple jobs to opt-in to pension saving because they would get an employer contribution for every pound they earn in every job. It would also help to simplify the way many employers assess their workforce and calculate contributions.
- As a result of these simplifications eligible workers would have access to a workplace pension with an employer contribution – with those eligible workers aged 18 to State Pension age being automatically enrolled.
- Recognising that these changes present significant additional costs, in particular for employers and the Exchequer and significant changes for individuals, we will seek to better understand the full impacts for all stakeholders as part of the consultation process and will explore cost mitigations and funding options. We plan to do a full impact assessment of the increased costs for businesses. For employers, we will explore cost mitigations as part of any relevant consultation.
- **We have reviewed the earnings trigger for automatic enrolment, and this will remain at £10,000 a year in 2018/19, subject to annual review.** Whilst current evidence does not support change now, our approach ensures factors, including affordability for employers and whether or not it 'pays to save' for individuals, are kept under consideration.
- **We will continue to monitor and evaluate the impact of increasing contributions and will carry out further analysis to inform a longer-term debate on the right balance between statutory contribution rates and voluntary additional retirement savings.**
- A proportion of the 4.8 million self-employed people are at risk of under-saving for their retirement. **We will work to implement the Government's manifesto commitment by testing targeted interventions – including through the opportunity of Making Tax Digital – to identify the most effective options to increase pension saving among self-employed people.** We will provide more information about the trial areas during 2018, following feasibility work.
- While many of those working in atypical ways or in non-standard forms of employment already come within the automatic enrolment framework, following the Taylor Review, we will explore whether there is a need for greater clarity to ensure that those workers who are eligible are automatically enrolled into a workplace pension scheme.

- Automatic enrolment has worked. The savings behaviour of millions of individuals has changed so they are now savers: workplace pension saving has become normal. Effective engagement can reinforce individual's saving behaviour, supporting the social normalisation, especially where a choice exists to opt out, stop saving or save more. **We want to support the ability of individuals to engage with, and have a sense of greater personal ownership for, their workplace pension saving so that they can plan for the future.**
- This report sets out specific areas where there is scope for pension providers, the advisory community, employers and government to build on existing and develop new initiatives that will support individuals' engagement with and personal ownership of their savings – while delivering better value for customers. We are calling on partners to take forward work in these areas.

Overall, this package will build on the success of automatic enrolment and create a fairer, more robust and sustainable system for the future which balances the needs of individuals, employers and tax-payers.

Chapter 1: Introduction

Summary

This chapter outlines how automatic enrolment is transforming retirement saving for millions of today's workers. It is a policy that is delivering. So far, 9 million workers on whom the policy was targeted – including younger people (aged 22 – 29), women and lower paid workers – are now building up savings for their future, many of them for the first time. This success has been based on widespread consensus about the need to revive workplace pension saving. Its successful delivery and implementation is based on a broad partnership between government, its delivery bodies and our stakeholders. Employers, together with their payroll providers, associated experts and the pensions industry, have made workplace pensions a reality for millions of today's workers.

This chapter also describes key elements of the current framework of automatic enrolment and the existing eligibility rules. This framework has evolved over the last decade, benefiting from the insight of a broad partnership of organisations in the public and private sector and from across the delivery chain – including the Pensions Regulator; NEST; the pensions and payroll industries; countless intermediaries and many other experts who freely contributed their time to helping improve the delivery of automatic enrolment. Together, we have designed and implemented a policy that works well in practice, taking opportunities to streamline and improve the framework and the delivery approach wherever possible. Employers have played a particularly crucial role in delivering automatic enrolment for their workers.

This chapter then outlines the background and scope of the 2017 review of the policy and operation of automatic enrolment and how the government has carried out the review process. It sets out the structure for this review report, focussing on the three strategic challenges (outlined in the executive summary); the statutory review requirements; and the technical operation of automatic enrolment.

Automatic enrolment – increasing security in later life

The roll-out of automatic enrolment since 2012 has been a huge success. The previous decade long decline in workplace pension participation has been reversed. Automatic enrolment is improving pension participation among all age groups, particularly for younger workers (those aged 22 – 29). It is equalising workplace pension saving among men and women. Many individuals who historically did not have access to good quality pension provision or who had no access to a pension whatsoever are now building an asset for their future. The headline statistics are impressive.

Since 2012 9 million individuals have been automatically enrolled, with over 900,000 employers having met their automatic enrolment duties. By 2018, we estimate that around 10 million workers will be newly saving or saving more as a result of automatic enrolment, of these 3.6 million are women[10].

In 2016, the proportion of eligible employees participating in a workplace pension increased to 78 per cent, an increase of 23 percentage points from 2012.[11]

In 2016, the total amount saved annually in workplace pensions by eligible savers was £87.1 billion:

- £26.2 billion from employee contributions,

[10] [6]DWP (2016) Workplace pensions: Update of analysis on Automatic Enrolment 2016 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

[11] DWP (2017) Official statistic on workplace pension participation and savings trends of eligible employees: 2006-2016: https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2006-to-2016

- £52.1 billion employer contributions, and
- £8.8 billion from tax relief on individual contributions[12].

Following implementation of the reforms, under the government's current estimates a further £20 billion will go into workplace pension savings every year by 2019/20.

Background – what is automatic enrolment?

Automatic enrolment into a qualifying workplace pension was one of the key recommendations of the Pensions Commission, which reported in October 2004 and November 2005. The Pensions Commission looked at the future of retirement saving in the context of declining workplace pension participation and increasing longevity. The Commission identified that between 9.6 and 12 million individuals were under-saving, and recommended the creation of a vehicle – automatic enrolment – for saving for workers who did not have access to a workplace pension. This would be one part of an overall approach to retirement income, with the State Pension and voluntary savings making up the rest.

The policy intent was to increase the number of workers participating in workplace pensions and to increase the total amount saved into them. This was to be achieved by enabling individuals who did not have access to a workplace pension to start saving, and for their contributions to be supplemented by employer contributions, and usually tax relief.

The approach was informed by behavioural analysis which showed the beneficial effects of defaulting individuals into pension saving and harnessing the power of inertia. In this way the barriers to pension saving presented by individual's behaviours, in the face of the complexities of pension saving, could be overcome.

Automatic enrolment has been targeted at individuals on low to moderate incomes who did not have ready access to the existing private pensions market, but it has been framed in a way that recognises workplace pensions may not make economic sense for some low-paid workers.

The core design of automatic enrolment was established under the Pensions Act 2008. An independent Review in 2010 – Making Automatic Enrolment Work (MAEW) - confirmed the design in a number of important areas, and made refinements to the original policy. In particular, the reviewers recommended that all employers should provide a pension for eligible workers and that NEST would continue to be needed to address the provision gap in the pensions' market; in addition they proposed the introduction of postponement to allow employers to more effectively manage the process of enrolling new workers. The Pensions Act 2011 and subsequent secondary legislation implemented MAEW's recommendations. The design of automatic enrolment is underpinned by key pieces of secondary legislation[13]. We have revisited some of these conclusions during the course of this Review (this is set out at Chapters 2 and 3).

While designed using a default approach, which means that eligible workers are automatically enrolled, automatic enrolment recognises the principle of personal choice and stops short of compulsion, by enabling workers to opt-out if they consider that pension saving is not right for them.

The current automatic enrolment framework

The Pensions Act 2008 specifies that every employer in the UK must make arrangements whereby their eligible workers become active members of a qualifying pension scheme and pay certain minimum contributions into the scheme. This is the core automatic enrolment duty placed on employers. A

[12] DWP (2017) Official statistic on workplace pension participation and savings trends of eligible employees: 2006-2016. https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2006-to-2016

[13] The Employers' Duties (Implementation) Regulation 2010 (S.I. 2010/4); The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (S.I. 2010/772); and The Employers' Duties (Registration and Compliance) Regulation 2010 (S.I. 2010/5).

comprehensive explanation of the process is set out in the automatic enrolment guidance for employers on the Pension Regulator's website.[14]

Automatic enrolment has been gradually rolled out in 'stages' since October 2012, starting with the largest employers[15]. Employers' staging dates determine when they must have enrolled their eligible workers, and require them to submit a Declaration of Compliance, to the Pensions Regulator, to confirm that they have met their legal duties. Employers have an ongoing duty to monitor the age and earnings of their workers and to enrol them at the point they meet the eligibility criteria. The planned ending of the staging profile means that, since October 2017, newly created PAYE employers have had near instantaneous automatic enrolment duties from the point at which they take on a qualifying worker. This was a design feature of the reforms in the expectation that understanding and complying with automatic enrolment duties would, over time, become part of the normal process of setting up a business; in the same way that new employers are expected to deal with tax and national insurance from the outset.

Workers meet the eligibility criteria and must be automatically enrolled by their employer if they are:

- not already an active member of a qualifying workplace pension scheme on the automatic enrolment date;
- at least 22-years-old;
- below State Pension age;
- earning more than £10,000 (2017/18) a year (or £833 per month or £192 per week); and
- working or ordinarily working in GB (under their contract).

Workers earning £10,000 or less can choose to 'opt-in' to a qualifying scheme and will be entitled to an employer contribution if they earn more than £5,876 (the LEL). Automatically enrolled workers can choose to opt-out but employers must not seek to persuade people to do so. If workers choose to opt-out within the first month of being enrolled, they are entitled to a refund of their contributions. Every three years employers have to automatically re-enrol their eligible workers.

An employer can delay the date they must automatically enrol an eligible worker into a qualifying workplace pension scheme by up to 3 months. In some cases they may have been able to delay application of the automatic enrolment duties for longer if they have either:

- a 'defined benefit' pension scheme; or
- a 'hybrid' pension scheme (a mixed benefit scheme) that allows a worker to take a defined benefit pension

An employer must inform workers:

- about the delay in writing; and
- that in the meantime they may by notice require the employer to enroll them in a pension scheme.

There are several categories of workers – Table 1.1 refers.

[14] http://www.thepensionsregulator.gov.uk/en/employers

[15] Employers had the option to opt-in to automatic enrolment duties before the start of staging.

Table 1.1: Categories of worker

	Age		
Earnings	**16-21**	**22-SPa**	**SPA-74**
Lower earnings threshold (£5,876 in 2017/18) or below	Entitled worker		
More than lower earnings threshold up to and including the earnings trigger for automatic enrolment (£10,000)	Non-eligible jobholder		
Over earnings trigger for automatic enrolment	Non-eligible jobholder	Eligible jobholder	Non-eligible Jobholder

Contribution rates

Statutory minimum contributions for automatic enrolment are currently 1 per cent of a band of qualifying earnings for both employees and employers (total 2 per cent). Most people will receive tax relief from Government on their contributions. The automatic enrolment earnings band is annually reviewed – it is currently aligned with the upper and lower limits for National Insurance contributions (which are £5,876 to £45,000 for 2017/18). From April 2018, the next significant phase of automatic enrolment commences, with the gradual increase in statutory minimum contribution rates. The legislated changes to contribution rates to 8 per cent in April 2019 are shown in table 1.2 below.

A key focus is retention, in terms of the continuing coverage of the policy and contribution increases, so that individuals keep saving into their pension and save more. We will be working hard to ensure that both employers and individuals respond positively to these steps which will complete the delivery of the original design of automatic enrolment.

Table 1.2 Contribution rates

Phasing Period	Minimum employer contribution % of qualifying earnings	Worker contribution % of qualifying earnings (including employee tax relief)	Total Contribution % of qualifying earnings
Oct 2012 to March 2018	1	1	2
April 2018 to March 2019	2	3	5
April 2019 onwards	3	5	8

Details of eligibility criteria and framework are provided on gov.uk[16] and full guidance is available for employers on the Pension Regulator's website.[17]

Consensus

Automatic enrolment was developed with broad support and consensus across the political spectrum, employers, the pension industry and trade unions amongst others. This Review, and the engagement with stakeholders that has underpinned it, has been part of renewing the consensus going forward, in recognition that the successful evolution of automatic enrolment requires a continued partnership approach.

People are saving, but they are not yet saving enough to ensure that they will have the retirement they may want. This review has focussed on how to build on the success so far, confirm the approach, and setting out how the policy will continue to evolve over the next decade so that we can continue to enable people to save and plan towards security in retirement.

Why review now?

The government's objective with this Review is to set out the medium term direction for automatic enrolment in order to build on the success of the policy into the 2020s. In doing this, we recognise the need to provide employers and others with certainty on the intended direction so that they have sufficient time to plan and so that there is opportunity to develop consensus on the approach and its implementation. A common objective shared by many delivery partners is to enable individuals to save and save more: this review provides opportunity to do that, mindful of the multiple changes in the operating environment and the need to ensure the UK system remains affordable and resilient for the longer term.

We have revisited the challenge of under-saving that automatic enrolment was designed to address, reflecting on what has been achieved to date, considering whether the target population remains the right one and looking at how to evolve automatic enrolment for the future. This is explored in chapter 2.

As noted in the Executive Summary, since 2012, there have been a variety of changes to the context in which automatic enrolment is being rolled-out. We recognise also that automatic enrolment is still rolling-out. The full implementation of the current framework of automatic enrolment to small and micro employers will be completed in 2018. The scheduled phasing of increases means that minimum contribution rates will not increase to 8 per cent until April 2019. Our approach to developing the evidence base for future of automatic enrolment recognises that we will not have complete evidence about the impact of the increases to 5 per cent and 8 per cent until 2019/2020.

There are statutory requirements to review at this point: the alternative quality requirements for defined benefit schemes (section 23A of the 2008 Act), and the test in relation to alternative quality requirements for defined contribution schemes (section 28 of the 2008 Act).

Section 74 of the 2008 Act also provides for a review of the NEST annual contribution limit and the transfer restrictions on or after 2017. Secondary legislation passed in 2015 has effectively removed the need for this element of the review as it substantively dealt with both matters.

[16] https://www.gov.uk/workplace-pensions/joining-a-workplace-pension
[17] http://www.thepensionsregulator.gov.uk/en/employers

Scope of the Review

This Review was announced by the then Minister for Pensions, Richard Harrington, in a written statement to the House of Commons on 12 December 2016, see Annex 4, which confirmed the scope and proposed automatic enrolment thresholds for the 2017/18 financial year.

The Minister announced that the main focus of the Review would be to ensure that automatic enrolment continues to meet the needs of individual savers, looking at the existing coverage of the policy, and considering the needs of those not currently benefiting from automatic enrolment, including the self-employed.

The Minister also announced that the Review would be an opportunity to strengthen the evidence around appropriate future contributions into workplace pensions, and would consider how engagement with individuals can be improved so that savers have a stronger sense of personal ownership and are better enabled to maximise savings.

Finally, the Statement confirmed that the Review would consider whether the technical operation of the policy is working as intended and whether there may be any policies which disproportionately affect different categories of employers or could be further simplified.

How the government has carried out the Review

The Review has been carried out by the Department for Work and Pensions (DWP), working closely with HM Treasury, and with support from an external advisory group of experts appointed to provide advice, insight and a challenge function.

This advisory group was asked to consider three themes:

- Strengthening the engagement of individuals with workplace pensions so that they have a stronger sense of long-term personal ownership and are better enabled to understand and maximise savings.
- The existing coverage of automatic enrolment and the balance between enabling as many people as possible to save in a workplace pension whilst ensuring that it should make economic sense for them to be included.
- Strengthening the evidence base around appropriate contributions into workplace pensions.

The group comprised three co-chairs each leading on a key theme within the review, with supporting membership from a range of experts: Ruston Smith (Chair of the Tesco Pension Fund and Tesco Pension Investment Ltd.) – strengthening personal engagement; Jamie Jenkins (Head of Pensions Strategy, Standard Life) – coverage of automatic enrolment; and Chris Curry (Director, Pensions Policy Institute) – evidence base on future contributions.

The group met 8 times between February and November 2017. In addition to meetings of the full advisory group, the three co-chairs worked closely with the DWP team on the gathering of stakeholder views, and to define the work programme and report conclusions.

The work of the group was put on hold during the purdah period preceding the general Election on 8 June 2017. The membership and terms of reference for the group (Annex 3) were confirmed by the new Minister for Pensions and Financial Inclusion, Guy Opperman MP.

The work of the Review was informed by extensive engagement by DWP and the advisory group co-chairs with stakeholders from interest groups including: employer representatives; consumer representatives; pension providers; professional advisors; the Pension Regulator; other government departments including HM Treasury, the Department for Business, Energy and Industrial Strategy and the Department for Environment, Food and Rural Affairs.

DWP carried out the engagement work in two stages. First it published an initial set of questions on 8 February 2017, with a deadline for responses on 22 March 2017. Comments were invited and received from a spectrum of interests including workers, employers, and employee representatives, pension industry professionals, including occupational workplace pension scheme administrators, payroll administrators, accountants, payroll bureaux, independent financial advisors, employee benefit consultants, and the general public (Annex 6). Following this initial review of evidence, DWP undertook a deeper examination of the issues raised through discussion with stakeholders between April and November 2017.

The principles underpinning the review

Our analysis, conclusions and direction have been underpinned by a set of core principles[18], alongside due regard to section149 of the Equality Act (the Public Sector Equality Duty) and the broader principles set out by the Pensions Commission of fairness, affordability and sustainability. As we develop and consult on our proposals going forward, they will (as appropriate) be subject to more detailed equality impact analysis, the findings of which will be published.

This report should be read in conjunction with the Automatic Enrolment 2017 Review: Analytical Report [19]which sets out in more detail the analysis conducted to inform the review, including methodology.

Automatic enrolment review: focus and priorities

This Review has confirmed that automatic enrolment has transformed participation in pension saving in the UK and that overall, the framework that has been established remains the right foundation for individuals, employers and delivery partners.

In line with its published scope, the Review examined three main areas: the existing coverage of automatic enrolment and whether or not this remains appropriate; the evidence base concerning future contributions and how this can be strengthened; and how engagement can be improved so that individuals have a stronger sense of ownership and are better enabled to maximise pension saving. In the process of examining these areas and assessing the success of automatic enrolment to date and the challenges that remain, we have identified and considered three significant and complex strategic problems:

- Saving levels provided through automatic enrolment will not meet retirement expectations of a significant proportion of the working-age population, and its current structure means there are gaps in coverage – notably for those in low-paid multiple part-time jobs and younger workers.
- A large proportion of the self-employed experience significant gaps in pension coverage and other savings for retirement – however, most self-employed people cannot be covered by the current design of automatic enrolment.
- Individuals are beginning to save but do not actively engage with their pensions for multiple reasons. The barriers to engagement that led to the introduction of automatic enrolment remain and engagement alone will not address pension participation and savings challenges. However, improving awareness and understanding complements the role of automatic enrolment, provides a better platform for voluntary saving and helps to build trust and confidence in the system.

The government's examination of these issues and the conclusions set out in this Report set the direction for the evolution of automatic enrolment. Looking to the longer term, the government is keen to

[18] DWP Review of automatic enrolment (February 2017) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590220/initial-questions-automatic-enrolment-review.pdf
[19] Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

steward a national conversation about the level of savings levels needed to deliver greater security in retirement for future generations.

Structure of the report

This report is structured in the following chapters:

Chapter 2 - Impact of automatic enrolment: getting millions more saving

Reviews the role and impact of automatic enrolment, including what has been achieved so far in terms of coverage and savings levels. This chapter also examines where there is more to do on both coverage (including for low to moderate earners and younger workers), and to start to address under-saving levels (for low to moderate earners, and those with interrupted working lives).

Chapter 3 - Normalising and strengthening workplace pension saving

This sets out the government's intended next steps to address key coverage gaps, improve savings resilience and simplify the automatic enrolment framework to deliver improved outcomes for employers.

Chapter 4 - Self-employed and pension saving

Examines the challenge of self-employed individuals and pension saving. This includes an analysis of the self-employed population and an appraisal of which groups of the self-employed are at greatest risk of under-saving for retirement. It also sets out proposals to test a number of interventions aimed at improving workplace pension saving among the self-employed.

Chapter 5 – Engagement

Examines the barriers to pension saving and where more effective engagement can complement the role of automatic enrolment to develop greater personal ownership of pension saving, provide a better platform for voluntary saving and help build trust and confidence in the system.

Chapter 6 – Automatic enrolment statutory reviews: confirming the framework

The government is required to review certain alternative requirements related to defined benefit and money purchase schemes that are used for automatic enrolment. This chapter sets out the conclusions of this review, and proposed next steps.

Annexes

Annex 1 – Technical operation of automatic enrolment

Annex 2 – Review of automatic enrolment – initial questions

Annex 3 – Review of automatic enrolment – Advisory group Terms of Reference

Annex 4 – Automatic Enrolment Review Scope

Annex 5 – Annual Benefit Statement

Annex 6 – Respondents List

Annex 7 – List of respondents to the call for evidence on: 'Alternative Quality Requirements for Defined Benefit Schemes'

Annex 8 – List of respondents to the call for evidence on 'Seafarers an Offshore Workers

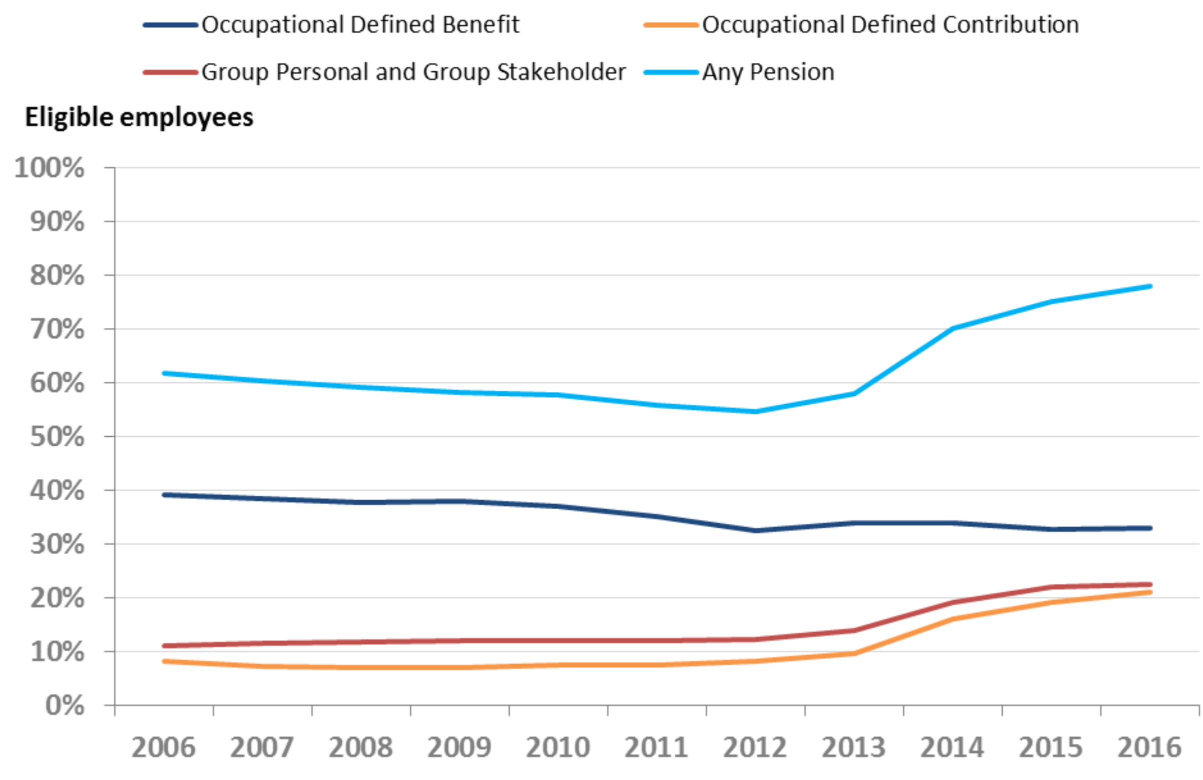
Annex 9 - Post Implementation Review of Alternative Quality Requirements for Defined Benefit schemes

Chapter 2: Automatic enrolment: getting millions more saving

Summary

Automatic enrolment has transformed savings habits with employers and private sector delivery partners playing a central role in helping millions of people to save for retirement, many for the first time. Workplace pension participation in the public and private sectors has increased from a low of 55 per cent in 2012 to 78 per cent in 2016[20] (Figure 2.1). Total annual contributions into workplace pensions made by eligible savers are at a ten-year high at £87 billion[21].

Figure 2.1 – Workplace pension participation rates in the public and private sectors have reached 78 per cent in 2016



During the Review, we have identified the positive impact of automatic enrolment on different groups, but have identified the following where more needs to be done:

- Improving savings outcomes among young people;
- How to support part-time workers, particularly those with more than one job; and

[20] Many of the findings in this chapter are based on analysis of the Annual Survey of Hours and Earnings 2016 (the data will include those employers that have automatically enrolled staff by April 2016).
[21] Including employer and employee contributions as well as tax relief.

- How best to improve savings outcomes for low to moderate earners.

The impact of automatic enrolment

Success among all age groups, but particularly for younger people

Automatic enrolment has had the greatest impact on workplace pension saving for eligible jobholders in the private sector, for younger cohorts and for lower earners. The largest increase in workplace pension participation rates in the private sector has been for younger age groups (those aged 22 to 29), who have seen participation rates increase by 44 percentage points (from 24 per cent in 2012 to 68 per cent in 2016)[22]. The oldest age group (from 50 to SPa) has seen a smaller increase in participation as a result of automatic enrolment (an increase of 25 percentage points from 50 per cent to 75 per cent) although their participation remains higher overall.

Despite success across all age groups, there is still more to do to get more people saving, in particular to support younger cohorts in building up the savings that they will need to achieve the retirement they would like.

Equalising workplace pension participation among men and women

Automatic enrolment has helped more men and women save into a pension, with participation rates for women catching up with those for men. In 2012, 40 per cent of eligible women in the private sector saved into a workplace pension, rising to 73 per cent in 2016, with an increase from 43 per cent to 73 per cent for eligible men in the private sector over the same period[23].

Improvements among part-time workers but more to do

While there has been a slightly larger increase in participation among eligible part-time workers in the private sector (up 33 percentage points) than their full-time counterparts (up 31 percentage points), part-time workers are still less likely to save into a workplace pension. Participation among part-time workers stood at 64 per cent in 2016, compared with 75 per cent for full-time workers[24].

The eligibility conditions for automatic enrolment are described in Chapter 1. Because of these, workers with multiple jobs currently only see limited benefits from automatic enrolment:

- Workers who earn more than £10,000 in a job are automatically enrolled, but because their contributions are calculated from the Lower Earnings Limit in each job (£5,876 in 2017/18), they may miss out on a potentially significant contribution, in each employment.
- Non-eligible jobholders who earn £10,000 or less in each of their jobs do not qualify for automatic enrolment, even if their combined earnings exceed £10,000.
- Entitled workers who earn at or less than the Lower Earnings Limit in any of their jobs are not entitled to an employer contribution even if they opt-in to a work place pension in that job.

The Review has therefore looked specifically at how to support part-time workers, particularly those with more than one job, to build up their pension saving.

22 https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2006-to-2016
23 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/618843/workplace-pension-participation-and-saving-trends 2006-2016.pdf
24 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/618843/workplace-pension-participation-and-saving-trends-2006-2016.pdf

Improving outcomes for low to moderate earners

Automatic enrolment has helped increase participation for all earners but has particularly targeted increasing the proportion of low to moderate earners who are saving. This has been effective. The largest increase in participation has been among those eligible low earners in the private sector earning between £10,000 and £19,999, with 63 per cent of this group now saving into a workplace pension[25]. For those earning over £40,000, 86 per cent are saving into a workplace pension. So there is still more to do to increase the proportion of low to moderate earners saving.

Chapter 2 of the accompanying analytical report[26] provides further breakdowns of changes in workplace participation in.

The impact of automatic enrolment beyond the eligible group

Individuals who are not eligible for automatic enrolment can choose to opt-in to workplace pension saving whatever their earnings. However, employer contributions for those earning at or below the Lower Earnings Limit (LEL) are not mandatory. Opt-in rates for automatic enrolment differ by employer size ranging from 3 to 7 per cent[27].

The introduction of automatic enrolment has also increased saving into workplace pensions for non-eligible jobholders more widely, as some employers are going beyond the minimum requirements by contractually enrolling workers. Just under a quarter of employers (23 per cent) who have enrolled employees who do not meet the eligibility conditions for automatic enrolment report that it was the company policy to enrol everyone into the pension scheme. Overall, this has resulted in around 700,000 non-eligible employees now saving into workplace pensions.

Persistency in saving

Estimated average opt-out[28] rates for automatic enrolment have remained stable and low at 9 per cent[29]. The smallest employers reported slightly higher than average opt-out rates: 10 per cent for micro and 12 percent for small employers.

A separate DWP survey with small and micro employers who had recently introduced automatic enrolment, to be published in 2018, found a higher opt-out rate (23 per cent) among micro employers. While we cannot say definitively why a higher opt-out rate was seen in this survey, it may reflect an aspect of opt-out rates whereby levels of opt-out are higher immediately following the introduction of the policy, but then drop as it becomes more of a 'business as usual' practice within organisations.

We also monitor cessation rates – the number of people who stop saving after the formal opt-out period has ended. Cessation rates[30] for employees who stop saving within 12 months of being automatically enrolled differ by size of employer: medium and large employers reported higher cessation rates (14 and 23 per cent respectively), than small and micro employers (who reported 7 per cent and 6 per cent respectively). Some information is also available on individual's reasons for stopping saving after the ending of the formal opt-out period. Employers reported that, on average, around two-thirds (67 per cent) of employees who had stopped saving did so due to moving job.

25 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/618843/workplace-pension-participation-and-saving-trends-2006-2016.pdf

26 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

27 Opt-in rates are: 5 per cent for Micro employers; 7 per cent for small employers, 6 per cent for medium employers and 3 per cent for large employers – EPP 2017, forthcoming

28 An individual who stops saving within 6 weeks of being automatically enrolled is deemed to have opted-out of automatic enrolment –The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulation 2010 (SI 2010/772)

29 EPP 2017 forthcoming

30 An individual who stops saving into a pension scheme after the opt-out period is deemed to have ceased active membership. The cessation rate is calculated as the total number of employees who were automatically enrolled in the last 12 months and have left the scheme after the 1 month opt out period, as a percentage of the total number of employees automatically enrolled into a scheme in the last 12 months.

Employers have to automatically re-enrol eligible workers who have opted-out or stopped saving into a qualifying workplace pension every three years[31]. The largest employers who became subject to the automatic enrolment duties by February 2014 have already automatically re-enrolled their workers. The early results of this feature of the policy design are promising. So far emerging findings show that around six in ten employees working for medium employers and 45 per cent of employees who work for large employers (who originally stopped saving into a workplace pension scheme and have been automatically re-enrolled) are saving into a workplace pension, adding to overall increased participation rates[32]. The government will continue to monitor the effectiveness of automatic re-enrolment as medium, small and micro employers start to re-enrol workers over the next few years.

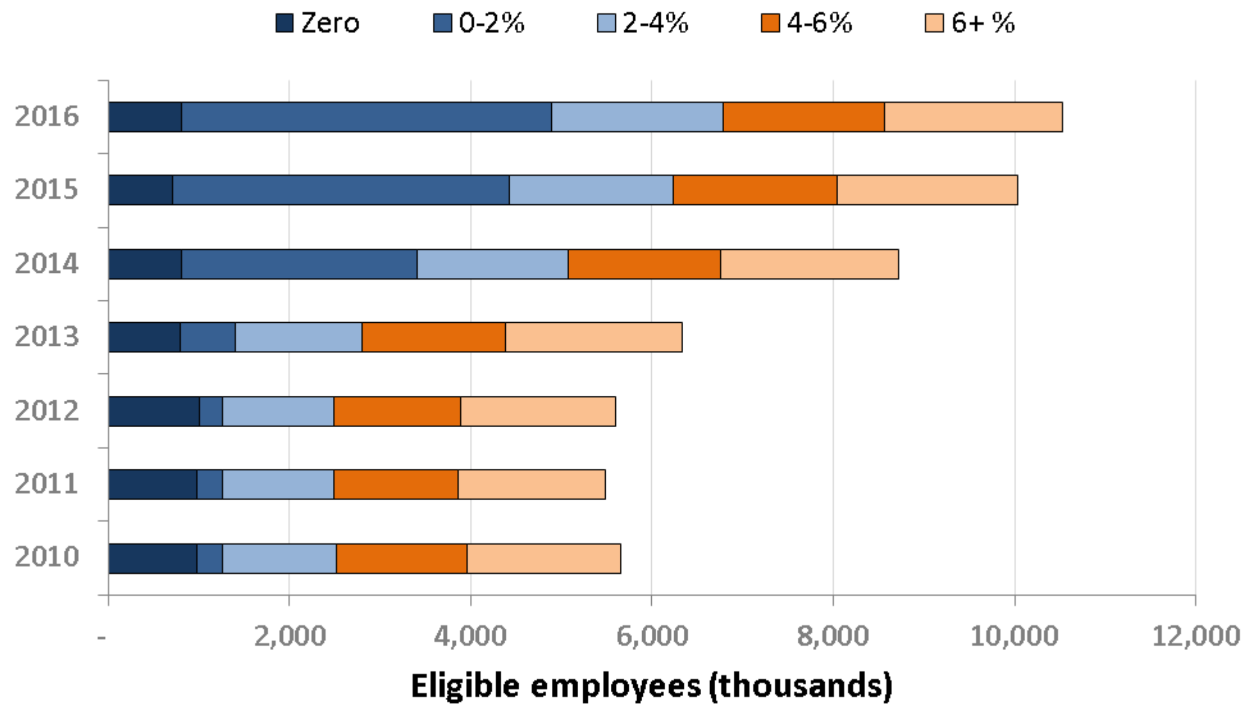
Recent evidence on attitudes to saving show that 78 per cent of employees agree 'It is normal for someone like me to save into a workplace pension'[33]. Overall, these findings provide strong evidence that saving into a workplace pension is becoming the new norm.

Contributions into pensions

Chapter 1 set out how the minimum contribution rate for automatic enrolment is scheduled to increase from the current rate of two per cent from 2018. The impact of automatic enrolment on the level at which individuals are saving can be clearly seen in Figure 2.2. There has been a large increase in the number of eligible employees saving in the 0 to 2 per cent band between 2012 and 2016, suggesting that the majority of this group have been automatically enrolled and are saving at the current default contribution rates. The Figure also shows that there has not been a fall in the numbers of individuals saving at higher contribution rates, evidencing that pre-existing contribution rates have not been reduced (or 'levelled down') as a result of automatic enrolment. Chapter 2 of the accompanying analytical report[34] provides further information on levelling down.

31 See http://www.thepensionsregulator.gov.uk/the-essential-guide-to-re-enrolment-and-re-declaration.pdf for the guidance that sets out full details of who is to be assessed for auto-re-enrolment and who must be automatically re-enrolled
32 EPP 2017 forthcoming
33 British Social Attitudes Survey 2016
34 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

Figure 2.2: The number of eligible employees paying contributions at the automatic enrolment default rates has increased considerably since 2012.



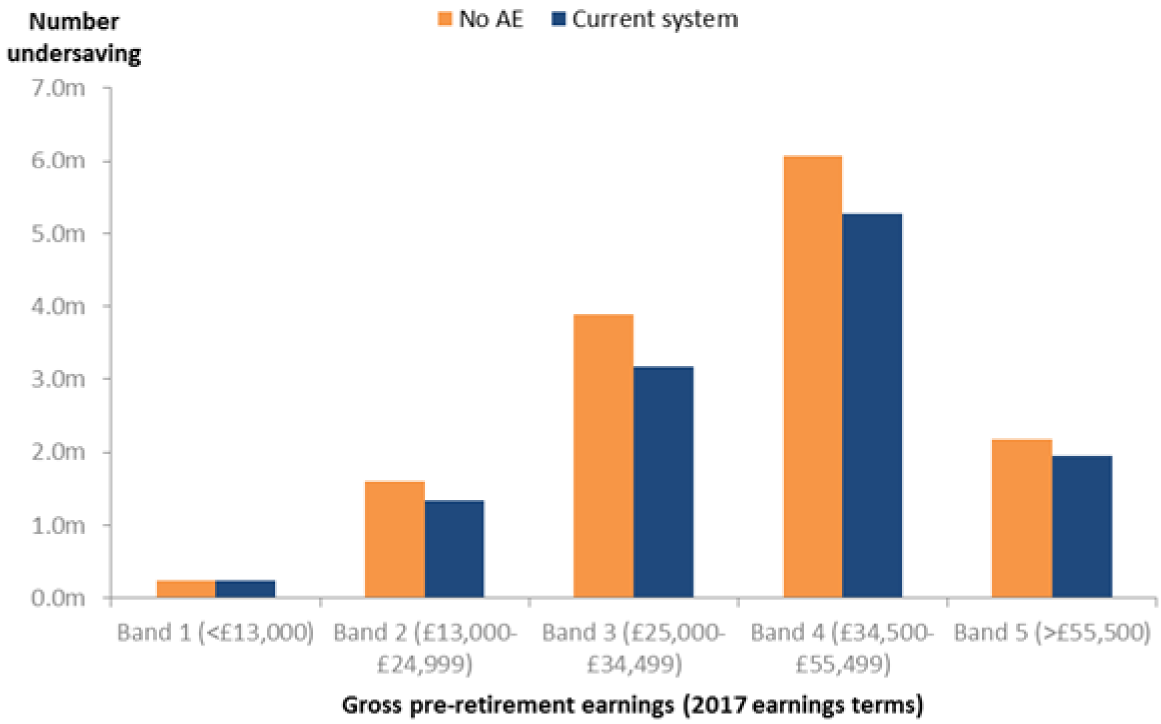
The Employers Pension Provision Survey 2017 found that in around a quarter (24 per cent) of schemes used for automatic enrolment employers were contributing at least 3 per cent to worker pensions from the start of automatic enrolment. Both large and micro employers were more likely to report paying at least three per cent (35 per cent and 30 per cent respectively) compared with small and medium employers (17 and 26 per cent respectively).

The impact of automatic enrolment on under-saving

Despite the success of automatic enrolment, using the savings adequacy measure used by the Pensions Commission, the Review has found that under current policies there are still estimated to be around 12 million individuals under-saving for their retirement (i.e. not projected to be saving enough for an adequate retirement income[35]), who make up 38 per cent of the working age population.

If automatic enrolment had not been introduced, an additional 2 million individuals i.e. a total of 14 million individuals, would now be under-saving. Figure 2.3 shows the number of individuals under-saving by earnings band in the immediate run up to State Pension age with and without automatic enrolment. The Figure shows that the impact of automatic enrolment on the number of individuals under-saving has been evenly spread across the income distribution. Chapter 4 of the accompanying analytical[36] report includes further breakdowns of the impact of automatic enrolment on under-saving.

Figure 2.3: Number of individuals projected to under-save without automatic enrolment and under the current system by pre-retirement earnings band



Individuals at the lower end of the earnings distribution tend to have lower rates of under-saving; as the State Pension makes up a larger proportion of their retirement income. The Cridland Review found that for the lowest income quintile, the State Pension makes up the vast majority of a person's total pension income (over 80 per cent) for all generations, although reliance is decreasing with each successive

[35] The Pensions Commission measured adequacy using replacement rates. Replacement rate is defined as someone's income in retirement divided by their income in work based on average earnings for those years in work between age 50 and State Pension age. Analysis presented classifies someone's income as inadequate if their replacement rate does not meet a set of benchmarks used by the Pensions Commission, the benchmarks are less than 100 per cent and different for those on different income levels.

[36] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

generation (due to automatic enrolment)[37]. On existing levels of State Pension provision alone the vast majority of lower earning individuals are close to their target level of retirement income. These individuals are also less likely to be eligible for automatic enrolment.

It is estimated that the introduction of automatic enrolment will have increased pension contributions by around £20 billion a year by 2019/20. The increase in contributions can be split as £7.4 billion of employer contributions, £9.4 billion of employee contributions and £2.9 billion of tax relief.

We have also considered how close the estimated 12 million individuals who are currently under-saving are to achieving an adequate income. Almost half (5.7 million) are 'mild' under-savers[38]. There are estimated to be around 1.5 million 'substantial' under-savers and 4.8 million 'modest' under-savers. The vast majority of under-savers (87 per cent) earn more than £25,000.

Table 2.1 provides a fuller breakdown of the 1.6 million individuals who are under-saving and earn less than £25,000. The government continues to prioritise action to improve savings outcomes and increase resilience among this group. Around half of this 1.6 million people are 'mild' under-savers and so are relatively close to achieving an adequate retirement income. A greater proportion of men who are under-saving are likely to be 'substantial' under-savers than women.

Table 2.1 – Depth of under-saving amongst lower earners

	Substantial under-savers	Modest under-savers	Mild under-savers	Total under-savers
Men	0.2m	0.2m	0.3m	0.7m
Women	0.2m	0.3m	0.5m	0.9m
Total	0.3m	0.5m	0.8m	1.6m

This chapter has described how automatic enrolment has transformed saving into workplace pensions. Chapter 3 sets out the proposed policy response and describes the options considered in the Review.

[37] Independent Review of the State Pension Age- Smoothing the Transition: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf

[38] Analysis presented classifies someone as a 'mild' under-saver if they are estimated to achieve over 80 per cent of their target replacement rate but do not reach 100 per cent. A 'modest' under-saver is someone who is estimated to achieve between 50 and 80 per cent of their target replacement income and a 'substantial' under-saver is estimated to achieve less than 50 per cent of their target replacement rate. The concept of depth of under-saving was introduced in 2014: http://webarchive.nationalarchives.gov.uk/20150206144141/https:/www.gov.uk/government/uploads/system/uploads/attachment_data/file/3416 5/Scenario_analysis_of_future_pension_incomes.pdf

Chapter 3: Normalising and strengthening workplace pension saving

Strategic problem 1: Current saving levels present a substantial risk that the retirement expectations for a significant proportion of the working-age population will not be supported. In addition the current structure of automatic enrolment means there are gaps in coverage – notably for those in low-paid multiple part-time jobs and younger workers.

Summary

Chapter 2 set out the ground gained in getting more young people and lower earners saving and in equalising pension participation rates among eligible men and women. It also highlighted that, while, by 2019/20 around an extra £20 billion a year will be saved into workplace pensions as a result of automatic enrolment, around 12 million individuals are still estimated to be under-saving for their retirement. Employers and delivery partners, including pension providers, intermediaries and payroll providers have made a huge success of the roll out of automatic enrolment since 2012. The current legal framework and delivery is working well, but the Review has considered whether further simplification would benefit employers and providers and how to best support individuals to save.

This chapter sets policy direction on key aspects of two of the Review's themes – coverage and contributions. It focusses on the first strategic problem set out in the Executive Summary: that current saving levels present a substantial risk that the retirement expectations for a significant proportion of the working-age population will not be supported. In addition the current structure of automatic enrolment means there are gaps in coverage – notably for those in low-paid multiple part-time jobs and younger workers. The chapter sets out our policy direction, describes the options considered in the Review, presents stakeholder views and impacts on individuals and employers. Lastly, it signposts next steps.

Policy direction

The government wants pension saving to be the norm from the earliest appropriate opportunity, and therefore our ambition is to change the age criteria so that **young people from age 18 can benefit from automatic enrolment**. This will bring an estimated further 910,000 young people into automatic enrolment putting an estimated extra £0.8 billion into pension saving. It also simplifies workforce assessment for employers. All eligible workers will benefit from automatic enrolment from age 18 whoever employs them. The policy should continue to apply to all employers, regardless of sector and size. Stakeholders were broadly supportive of lowering the age threshold during our consultations with them throughout the course of this review.

The government also wants to help lower earners build their resilience for retirement, to support individuals, predominantly women, in multiple part-time jobs and to simplify automatic enrolment for employers. We will consult on our proposed changes to the framework for automatic enrolment so that **pension contributions are calculated from the first pound earned**, rather than from a lower earnings limit of £5,876 in 2017/18 terms. We will also consult on removing the ‘entitled workers’ category. This would bring an estimated extra £2.6 billion annually into pension saving, improve incentives for individuals in multiple jobs to opt-in to pension saving because they would get an employer contribution for every pound they earn in every job, and simplify the way employers assess their workforce and calculate contributions.

As a result of these simplifications all eligible workers will have access to a workplace pension with an employer contribution – with those eligible workers aged 18 to State Pension age being automatically enrolled.

We have reviewed the earnings trigger for automatic enrolment, and this will remain at £10,000 a year in 2018/19. We will continue to review the level of the trigger annually.

Recognising that these proposals present significant additional costs we will seek to better understand the full impacts for all stakeholders as part of the consultation process and plan to do a full impact assessment of the increased costs to businesses. For employers, we will explore the potential for cost mitigation as part of the consultation process. We recognise that an estimated 12 million individuals will be under-saving for their retirement even when we reach the 8 per cent contribution rate in 2019. We will continue to monitor and evaluate the impact of the legislated increases in contributions and will carry out further analysis to inform a longer-term debate on the right balance between statutory and voluntary pension contributions, and the optional overall savings rate.

Age Criteria

Lower age limit - current policy and proposal

Currently to be eligible for automatic enrolment a worker must be aged between 22 years and State Pension age and earn more than £10,000 per year. The lower age limit of 22 was originally based on National Minimum Wage (NMW) age criteria that applied prior to 2010, but these have since been superseded. This means that the lower age limit for automatic enrolment is now outdated and not meaningful in the context of the current minimum wage framework.

This Review proposes that the lower age limit should be reduced to 18. Automatic enrolment is normalising workplace pension saving for many workers in the UK, but younger workers are excluded unless they elect to opt-in. By lowering the eligible age criteria to 18, it will normalise workplace pension saving for more young people as they start work for the first time. This will help embed good savings habits earlier and allow more time to build up a meaningful workplace pension over an individual’s lifetime, while they balance work and other responsibilities. In addition, it will simplify the workforce assessment system for employers, advisers and intermediaries who already consider age 18 for NMW eligibility. For individuals it also improves alignment with many other areas of life, including leaving full-time education and universal access to benefits and mainstream services.

Rationale for change / impact of change

We have carefully considered what the most appropriate lower age limit for automatic enrolment should be, including assessing the relative merits of starting at age 16 or age 18. We have heard from a wide range of stakeholders including from across the pensions industry, and from employer and consumer representatives, about whether 22 remains an appropriate age for a worker to start contributing to a workplace pension through automatic enrolment. Almost all of the written responses to the published initial questions (see Annex 2) mentioned age in some way. While there was no consensus on what the precise lower age limit should be, there was a strong view shared by almost all groups that the lower age limit should be reduced. Employer representatives, in particular, expressed the view that any changes should take place after the phased increases in contribution levels have been completed.

Fidelity: *We consider that lowering the age limit to 18 or below would ensure that individuals who do not pursue higher education are enrolled as soon as they enter employment. In support of this approach we note that the earlier an individual starts saving, the better able they are to achieve their retirement goals. Also, making automatic enrolment a universal feature of adult employment would reinforce contributing to retirement as normative behaviour*

TUC: *The review should consider whether the minimum age of 22 for automatic enrolment is appropriate…. starting saving earlier makes it more likely that an individual has sufficient pension for retirement. A lower starting age for auto-enrolment could simplify administration for employers.*

GMB: *The lower age threshold stops those entering the workplace before that age from immediately entering into pension saving. It also creates a barrier for these workers to find the available money to match contributions when they are auto-enrolled after what could be many years.*

Prospect *: The age criteria tends to act as a barrier to saving as it can result in many younger workers establishing a level of take home pay that they are not willing to see reduced when they become eligible for Automatic Enrolment. It is important to establish a savings culture from day one of employment".*

TISA: *It would be sensible to align automatic entry age to one of the current minimum age bandings for the national minimum wage – we would suggest 16……… It seems appropriate for AE savings to start as soon as possible. Not only to allow for the greatest impact of compound interest but to instil a savings culture amongst this group. If one of their first pay packets has a pension deduction, they may not even be aware and become accustomed almost straight away for this to be a standard deduction.*

During discussions with employers' representatives, payroll and software providers, it was consistently recognised that any changes introduced to automatic enrolment should, in addition to considering the financial burden on employers, simplify the process where possible. There was a strong view that any changes should be introduced once automatic enrolment had been rolled out to all employers and after the phased increases in contributions had been implemented.

CBI: When AE legislation was introduced, 22 was a sensible age limit as it aligned with the National Minimum Wage (NMW). But, following changes to the NMW age limit in 2010 and the advent of the NLW [National Living Wage], 22 no longer aligns with the different minimum wage bands. This adds an additional level of administrative and payroll burden for businesses.

Widening the age criteria would increase the total cost of pension contributions, alongside the additional costs that employers are already meeting following the introduction of the apprenticeship levy[39] and

[39] Apprenticeship funding: how will it work: https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work

NLW. The levy, introduced in April 2017, applies to employers with an annual pay bill of more than £3 million (around 2 per cent of UK businesses) and is less likely to apply to small and micro employers.

While noting the increased costs associated with widening the age criteria, employers and their representatives recognised that lowering the lower age limit, would reduce the administrative burden and costs. Some employer representatives favoured a reduction to 16, citing simplification in removing the need to assess automatic enrolment eligibility based on lower age. However, employers already assess their workforce by age when considering the National Minimum Wage (NMW) criteria. Reducing the age to 18 would re-align the lower age with the NMW age brackets (18 to 20) thereby providing consistency, removing the arbitrary age 22 assessment and simplifying processes for most employers who would not have 16 to 17 year olds as part of their workforce.

Lowering the age to 18 would bring an estimated additional 910,000 individuals into the framework of automatic enrolment. The evidence suggests that young people are already taking an active interest in saving into a workplace pension with 160,000 18-21 year olds already contributing to a workplace pension either because they have actively opted-in or their employer has contractually enrolled them. The opt-out rate is lowest among younger people (2014 qualitative research with medium and large employers found opt out rates of only 7 per cent among those aged under 30 compared with 9 per cent for those aged 30 to 49, and 23 per cent for those aged 50 or over). Analysis undertaken by the Institute for Fiscal Studies[40] in 2016 estimates that automatic enrolment has increased pension membership among those under 22 by around 6 percentage points since 2012.

Table 3.1 shows the proportion of 16-17 year olds and 18-21 year olds in full-time education and employment. It should be noted that education participation rates vary across the UK, given different requirement in the devolved nations in relation to staying in full time education between the ages of 16-18. It also provides a breakdown of the proportion earning through employment and the proportion earning above the earnings trigger.

Table 3.1 – Employment and earnings status of those aged 16-21[41]

Age	Total	FT education only	Employment only	Both	Neither	Earning	Earning over trigger
16-17	1.5m	69%	6%	19%	7%	25%	2%
18-21	3.2m	32%	36%	16%	16%	52%	25%

Source: ONS mid-year population estimates and the Labour Force Survey

Of the 16/17 year olds in employment, we estimate that, in practice, only around 30,000 16 and 17 year olds earn over £10,000 with those earning the NMW[42] on average, earning around £7,644 per year and therefore would fall below the current earnings trigger of £10,000, compared to 18 year olds who would earn, on average, £10,738 based on a full time (35 hour) working week.

40 Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge?* Automatic enrolment and pension saving in the UK. Institute for Fiscal Studies.: https://www.ifs.org.uk/publications/8733

41 Numbers of individuals are based on ONS mid-year population estimates for 2016. Those in full-time education and employment are derived from the Labour Force Survey. They were calculated as the average over the period April 2014 to September 2017 to smooth out peaks in employment during Summer holidays. Those in 'neither' category may be unemployed or currently inactive.

42 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf

Table 3.2 National Minimum Wage rates 2018

AGE	NMW in 2018*	UK AVERAGE FULL-TIME HOURS (35)	UK AVERAGE PART-TIME HOURS (21)
16	£4.20	£7,644	£4,586
18	£5.90	£10,738	£6,443

*Subject to parliamentary approval

In part, this is because of the government's commitment for young people in England and Wales to remain in education, training or in full-time employment, and adequate training until the age of 18 which was introduced in September 2015 as a result of the Education and Skills Act 2008[43]. This has led to a drop in the number of 16 and 17 year olds who are active in the labour market[44].

Overall we propose that reducing the automatic enrolment eligibility criteria to age 18 is the right approach. This reinforces the norm that the majority of young people will start to pay into a pension from their first pay cheque. This will also reduce the risk of an individual making a conscious decision not to save for retirement. As pension contributions become a part of an individual's remuneration package from an early age, the less likely they are to feel the loss of money later in their working life. Introducing consistent savings behaviour for the majority of young people will also support more people to build up a meaningful level of retirement income.

Upper age limit – current policy and proposal

We have also considered the upper age limit for automatic enrolment. We propose that this should remain aligned to State Pension age (SPa) at this time, with individuals who were contributing to a workplace pension at the point they reached retirement age, having to opt-in to continue contributing to a pension. Evidence shows that many employers are already contractually enrolling their workers beyond SPa. Analysis undertaken by the Institute for Fiscal Studies (IFS) showed that participation in workplace pensions for those outside of the eligible target group for automatic enrolment has increased since 2012. For those over SPa, this has shown a 9 percentage point increase on the pre-automatic enrolment participation rate

Data from the Fuller Working Lives Evidence Base[45] shows that the age at which individuals are most likely to leave the labour force is 65.2 years for men and 63.7 years for women[46]. With the planned increases in SPa, maintaining the upper age limit for SPa will naturally lead to a rise in the ages of those eligible to be automatically enrolled. SPa is the milestone most individuals use to plan for retirement. John Cridland's review[47] of SPa recommended the introduction of a mid-life MOT and the Department is considering the policy implications of this, with the potential for pilots in 2018. Introducing a financial stock-take for older workers would enable individuals to make informed choices around retirement and their pension together. Considerations for older workers will include matters such as the Money Purchase Annual Allowance, the Lifetime Allowance, pension freedoms and how each can impact the financial viability of continuing to contribute to a workplace pension post-SPa, or when they are already drawing down funds from a private pension.

[43] http://www.legislation.gov.uk/ukpga/2008/25
[44] p.18 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf
[45] Fuller Working Lives- Evidence Base 2017: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/648979/fuller-working-lives-evidence-base-2017.pdf
[46] Source: Labour Force Survey Quarter 2 (Q2) April – June 2016.
[47] Independent Review of the State Pension Age- Smoothing the Transition: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf

There was a range of views on the upper age limit from stakeholders. Maintaining the alignment to SPa was supported by some who felt that the need to contribute into a workplace pension after the individual has already started receiving their State Pension could be considered counter-intuitive.

ICEAW: *On balance, we believe that state pension age should be retained as the upper age limit in the interests of simplicity, although, again, experience as regards opt-out rates will be relevant in assessing this.*

Hargreaves Lansdown*: We do not believe there is a need to change the age criteria for auto-enrolment. ….a viable mechanism for helping to reduce the burden on employers where they have transient workforces.*

AON Hewitt - *age criteria seem reasonable……. We are not aware of any pressing need for change.*

Some stakeholders, including some pension providers and consumer representatives, felt that extending the upper age limit for automatic enrolment would support the wider government priority of Fuller Working Lives and also facilitate continued pension saving up to the point that pension tax relief is no longer administered.

TISA*: As evidence shows people are now working longer in line with the Government framework of 'Fuller Working Lives', automatic eligibility should continue until the age of 75, which aligns to the age at which tax relief on personal contributions ceases.*

Age UK*: 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.*

Aviva*: current upper ceiling for AE should be abolished and replaced with 75 when the tax benefits of pension savings stop.*

The number of over-65s in work is increasing with the employment rate of those aged over 65 doubling from 5 per cent in 1997 to 10 per cent in 2017[48]. Recent research[49] shows that just under half of those polled who were not currently retired (and were under age 65) said that they would like to still be in work between the ages of 65 and 70. This Review recognises that increasing the upper age limit to the eve of an individual's 75th birthday (the point at which pension tax relief ceases) would increase the number of individuals eligible to be enrolled by 400,000 and would ensure that workers post SPa are treated the same as those below SPa who are contributing to a workplace pension. However the present opt-out rate is currently higher for older age groups: 23 per cent for those aged over 50, compared with 9 per cent for those aged between 30 and 40 and 7 per cent for those under 30.

Research with large and medium employers[50] found a range of reasons for older workers having higher opt-out rates than younger workers. Some had other provision in place either through workplace pension or other saving vehicles whilst others lacked existing provision but felt because they had a limited number of years left before retirement and were on a low income that it would not be worth them saving. Similar reasons for higher opt-out rates for older workers were found from recent qualitative research with small and micro employers[51].

These research findings have provided an indication of opt-out rates for current cohorts of workers. We do not know if the higher levels of opt-out for older workers will continue, particularly as saving into a

[48] Economic labour market status of individuals aged 50 and over, trends over time: September 2017", https://www.gov.uk/government/statistics/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2017

[49] DWP (2015a) *Attitudes of the over 50s to Fuller Working Lives, Ad hoc research report no. 15.*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/394642/attitudes-over-50s-fuller-working-lives.pdf; Overall sample size: 2,235 respondents aged 50 and over; 1,087 not currently retired is the sample for this specific question, 1,148 were retired

[50] DWP, 2015.: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-employers-staging-in-2014

[51] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643581/automatic-enrolment-qualitative-research-with-small-and-micro-employers.pdf

workplace pension through automatic enrolment becomes embedded as a social norm, and with the changes recommended in this Review, saving starts at an earlier age.

Alongside the increased contribution costs for employers, the Review recognises the administrative burden of enrolling members of staff who would then be more likely to opt-out. Increasing the upper age limit could simplify the process of assessing eligibility on the basis of age in the same way as reducing the age limit to 18, however, we have not heard any strong views from employers advocating an increase to the upper age limit in terms of simplification.

Continuing to align the upper age limit to SPa will: reflect current working age behaviours; support the government's first priority in the Fuller Working Lives strategy, which is to provide support to individuals aged between 50 and SPa to remain in, and return to, the labour market; and take account of higher opt-out rates among older age groups and balance administrative burden for employers.

Overall conclusion on age

Automatic enrolment aims to support a lifetime of pension savings. The policy enables individuals to build pension savings for the future, whilst at the same time recognising different considerations for those who are close to reaching retirement now. Normalising pension saving from the earliest opportunity will promote good savings habits for young people and ensure that 18 to 21 year olds who were not previously eligible to be automatically enrolled are treated in the same way as those aged 22 and above.

In continuing to align the upper age limit to SPa, it remains an important element of the current policy that those above SPa are able to continue contributing to a pension should they choose to opt-in, and with the proposed changes to remove the LEL, everyone will be entitled to receive an employer contribution. However, there is still more we need to understand about the post SPa cohort of workers. While we have some data around opt-outs for below SPa we need to have a greater understanding of why older workers opt-out and monitor any change to this behaviour as automatic enrolment becomes more embedded as a social norm. The potential introduction of a mid-life MOT could improve engagement in pensions and DWP will continue to consider the policy implications of the Cridland Review in relation to this. As SPa rises, we will continue to monitor opt-out behaviour and broader changes to participation in the labour market among older cohorts, and consider when would be the right point to review the upper age limit for automatic enrolment again.

Pension contributions from the first pound earned

Current policy and proposal – band earnings

As set out in Chapter 1, currently, statutory minimum contributions for automatic enrolment are calculated as a percentage of a band of qualifying earnings. The lower and upper limits of the automatic enrolment earnings band are reviewed each year alongside the statutory review of the level of the earnings trigger, as required under the Pensions Act 2008. The band is currently aligned with the upper and lower limits for National Insurance contributions and is currently set at £5,876 to £45,000 at 2017/18 rates.

The Pensions Commission recommended that automatic enrolment contributions should be required on 8 per cent of gross earnings above the Primary Threshold, which was £4,888 in 2005, up to the Upper Earnings Limit (UEL) of £32,850. This recommendation reflected the Commission's view on two key points. Firstly that there was a level of income above which a purely voluntary approach to saving was more appropriate. And secondly that for individuals on very low incomes it was important to increase the likelihood that for everyone who was automatically enrolled it would 'pay to save'. By recommending the use of the UEL to set an upper eligibility limit, 80 per cent of the workforce were covered by the 2005 proposals.

The current eligibility conditions for automatic enrolment were developed following the 2010 Making Automatic Enrolment Work (MAEW) Review[52]. This recommended changes, subsequently adopted by the government, to reinforce the principle that the automatic enrolment thresholds should be set in such a way that it would pay for lower earners to save. In particular, MAEW considered the value of saving through automatic enrolment for those on low incomes who in retirement who would be likely to have access to means tested benefits. The introduction of the new State Pension, announced after MAEW will have improved the pay to save calculation for many low earners.

MAEW proposed the introduction of an earnings trigger for automatic enrolment, initially set at the income tax threshold of £7,500 in 2010/11 tax year. As part of this the review also proposed that automatic enrolment contributions should be paid on earnings in excess of the National Insurance Lower Earnings Limit (LEL) rather than the Primary Threshold. This meant that the band of earnings over which automatic enrolment accrued was wider than that proposed by the Pensions Commission and gives lower earners the opportunity to build higher savings.

This Review has looked again at the automatic enrolment thresholds. We propose that the LEL should be removed, so that contributions are calculated from the first pound of earnings. This would bring an estimated extra £2.6 billion into pension saving annually with lower earners seeing the biggest proportionate benefit. It would improve incentives for people in multiple jobs to opt-in to pension saving because they would get an employer contribution for every pound they earn in every job, and simplify the way employers assess their workforce and calculate contributions. This change would effectively remove the category of entitled worker as individuals earning less than the LEL would be entitled to an employer contribution. Primary legislation would be required to remove the category of entitled worker altogether.

Rationale for change / impact of change

The Review's terms of reference confirmed that it would be used as an opportunity to strengthen the evidence around appropriate future contributions and that the government would not expect to make policy decisions on the headline contribution rate of 8 per cent during 2017, in advance of the contribution rate increases that will be implemented in 2018 and 2019. However, in considering how to achieve simplification we have also considered the scope for taking steps now to support the original goal of supporting low to medium earners to save more for their retirement. Removing the lower limit of the qualifying earnings band, so that contributions are calculated from the first pound of earnings supports these objectives.

The Review's initial questions published in February 2017 (see Annex 2) sought views on the coverage of automatic enrolment and in particular on the appropriateness of the current eligibility conditions, including the categories of non-eligible jobholders and entitled workers.

Some responses to these questions suggested that the removal of the LEL would by default remove the entitled worker category, making the automatic enrolment process simpler to administer.

***Hargreaves Lansdown** - Abolishing the lower contribution limit will also allow the 'entitled workers' definition to be scrapped so that anyone who asks to join their workplace pension will benefit from employer contributions.*

***Legal & General -** The review should look to simplify this [categories of worker]. The current requirements place additional complexity upon the employer in having to assess different categories of employee and determine whether they do or don't have to pay an employer contribution.*

***Peoples Pension -** Simplifying the rules and making automatic enrolment automatic for most people would benefit both employers and employees.*

52 Making Automatic Enrolment Work Review (2010): https://www.gov.uk/government/publications/making-automatic-enrolment-work-a-review-for-the-department-for-work-and-pensions

Standard Life - *No. The ambiguity of the terminology itself indicates the complexity employers and individuals are faced with.*

Making contributions payable from the first pound of earnings will help to build financial resilience particularly for lower earners through generating more meaningful retirement savings. Everyone, whether they are enrolled or opt-in to pension saving, will benefit from an employer contribution.

The proposed change means that contributions will be paid from the first pound of earnings rather than on any earnings in excess of the lower limit of the qualifying earnings band, which is £5,876 in 2017/18. This change means that contributions for all those who are automatically enrolled will be paid on an additional £5,876 of earnings (based on the current annual LEL). Tables 3.3 and 3.4 illustrates the impact on two individuals working full-time: the first earning NMW and the second on median earnings.

Table 3.3 - Removing the LEL for a NMW earner (£ per year)

	Current system	Proposal	Change
Gross earnings	£13,564	£13,564	
LEL	£5,876	£0	
Qualifying earnings	£7,688	£13,564	
Employee contribution	£384	£678	+£294
Employer contribution	£231	£407	+£176
Take-home pay	£12,196	£11,961	-£235
Total pension contributions	£615	£1,085	+£470

If the NMW earner is currently contributing from the LEL their take-home pay would be £12,196 per year with annual pension contributions of £615. Removing the LEL would increase pension contributions by £470 (76 per cent) per year but their take home pay would reduce by £235 (2 per cent).

Table 3.4 - Removing the LEL for a median earner (£ per year)

	Current system	Proposal	Change
Gross earnings	£28,213	£28,213	
LEL	£5,876	£0	
Qualifying earnings	£22,337	£28,213	
Employee contribution	£1,117	£1,411	+£294
Employer contribution	£670	£846	+£176
Take-home pay	£21,571	£21,336	-£235
Total pension contributions	£1,787	£2,257	+£470

For a median earner, employee contributions would increase by £470 per year (27 per cent) but their take home pay would reduce by £235 (1 per cent). Comparing the two examples we can see that removing the LEL increases pension contributions by £470 for both cases; a larger proportional increase in pension contributions for the lower earner. Chapter 5 of the analytical report[53] contains further case studies.

Removing the LEL would generate an estimated further £2.6 billion into pension savings in addition to the £20 billion a year going into pension saving as a result of automatic enrolment by 2019/20.

Removing the LEL also simplifies messages, particularly for those earning under £45,000 (in 2017/18 terms) for whom every pound they earn will be pensionable. Within the current system, even when contribution increases have reached the scheduled 8 per cent, savers will only be receiving contributions on between 3.3 per cent and 7 per cent[54] of their total earnings.

Multiple jobholders

The Review committed to look at the issue of multiple jobholders, including those who earn more than £10,000 in aggregate, but who do not qualify for automatic enrolment as they do not earn more than £10,000 in any single job. Because of the current mechanism, people with multiple jobs only see limited benefits from automatic enrolment.

Chapter 6 of the analytical report[55] accompanying this review has published new analysis that shows the size and nature of the multiple jobholder (MJH) population using HMRC Real Time Data. At March 2017, there were 975,000 MJHs aged between 22 and SPa and for the purposes of this report we have categorised the type of MJH as follows:

Type A - Earn less than the LEL when all jobs are combined

This person may have two jobs earning £1,000 per year in each. They are currently ineligible for automatic enrolment and, if they choose to opt-in, are not entitled to employer contributions but this would be the case even if there were a single jobholder with earnings of £2,000 per year.

Type B – Earn more than the LEL when all jobs are combined

This person may earn £4,000 in one job and £2,500 in another. Under the current policy, they are ineligible for automatic enrolment and not entitled to employer contributions if they choose to opt in. However, if they were a single jobholder with earnings of £6,500 they would be entitled to employer contributions.

Type C – Earn less than the earnings trigger when all jobs are combined and earn over the LEL from one job

This person may earn £6,000 from one job and £2,000 from another. Combined earning are less than £10,000 therefore they would not be eligible for automatic enrolment even if they had a single job. Under the current policy, they are entitled to opt in with employer contributions in the higher earning job as earnings in that are more than the LEL.

Type D – Earn more than the earnings trigger only when jobs are combined and earn over the LEL in at least one job

This person may earn £8,000 in one job and £3,000 in another. They are not eligible for automatic enrolment but would be if their combined earnings of £11,000 were earned in a single job. Despite this, they can still opt in with entitlement to employer contributions in the higher earning job as earnings are more than the LEL.

53 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

54 An individual earning 10,001, will after phasing pay contributions of £330 (equivalent to 3.3 per cent of gross earnings). An individual earning £45,000, will after the phased increases in contribution levels pay £3,130 (equivalent to 7 per cent of gross earnings).

55 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

Type E – Earn more than the earnings trigger in at least one but not all jobs

This person may earn £12,000 in one job and £6,000 in another so will be eligible for automatic enrolment in the higher earning job and able to opt in with employer contributions in the lower earning job.

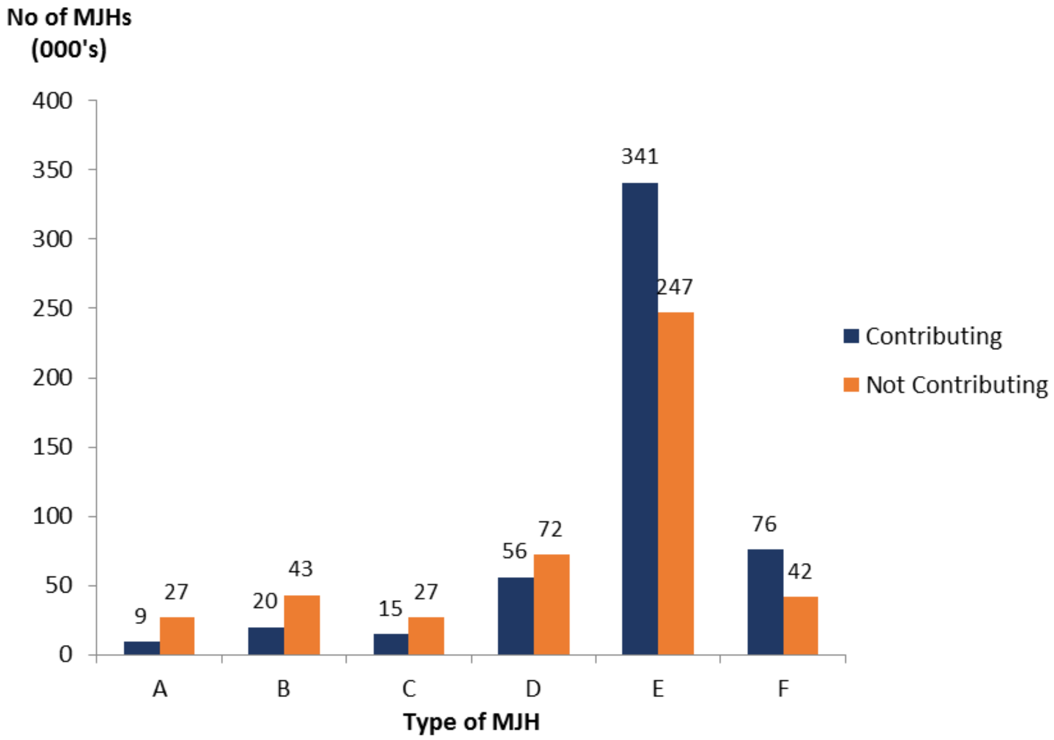
Alternatively they may earn £12,000 in one job and £4,000 in another in which case they would be eligible for automatic enrolment in the higher earning job but would not be entitled to opt in with employer contributions in the lower earning job as earnings in that job are below the LEL.

Type F – Earn more than the earnings trigger in each job

This person may earn £15,000 from one job and £13,000 from another. As both jobs exceed the earnings trigger, they will be eligible for automatic enrolment in all of their employments.

Figure 3.1 shows how many MJHs are in each type under the current policy and the number already contributing to a work place pension. Overall, there were approximately 517,000 (53%) MJHs, aged between 22 and SPa, paying employee pension contributions. Chapter 6 of the analytical report[56] provides breakdown of gender for each type of MJH. Overall, around 632,000 (65%) MJHs were women. Around 421,000 (67%) of these were already eligible for automatic enrolment in at least one job (type E&F).

Figure 3.1: Types of MJH by whether employee contributions were being made or not, at March 2017



Rationale for change / impact of change

Removal of the LEL will ensure that multiple jobholders will qualify for employer contributions in all jobs and will be able to pay their own contributions from the first pound on all earnings. Anyone who earns

56 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

under the earnings trigger in any of their employments could choose to opt in and would automatically be entitled to the employer contribution, giving them the opportunity to build the same retirement savings as individuals who have only one job. See table 3.5.

Table 3.5 – Impact of the proposed package on each type of MJH

	Earnings		Qualifying earnings	
Person	Job 1	Job 2	Under the current system[57] (£)	Under proposed package (£)
A	1,000	1,000	0	2,000
B	4,000	2,500	624	6,500
C	6,000	2,000	124	8,000
D	8,000	3,000	2,124	11,000
E	12,000	6,000	6,248	18,000
F	15,000	13,000	16,248	28,000

Removal of the LEL will not resolve the “automatic” element of automatic enrolment for those earning at or below the earnings trigger but who have a combined income of more than £10,000. However, it will ensure that everyone will be entitled to an employer contribution should they choose to opt-in.

However, relying on individuals to opt-in still presents challenges due to historically low opt-in rates. While the incentive to opt-in will increase by the addition of the employer contribution we know that this may not be enough in isolation to encourage opt-in and more targeted engagement may be needed.

Therefore, this Review has also considered whether there were alternative mechanisms for facilitating automatic enrolment for MJHs who earn at or below the earnings trigger but have an aggregate income of more than £10,000. The Review heard from a range of stakeholders around the potential role of DWP and HMRC, employers and individuals.

Aviva: *“We would propose that DWP and HMRC work together to investigate whether Real Time Information (RTI) data could be used to identify employees with multiple jobs and advise employers that these individuals should be automatically enrolled or eligible for employer contributions”*

Fidelity*: The complexities with this group lie around how to obtain data to assess whether workers with multiple employments are above the earnings threshold and then how to determine which employer should be liable for contributions and into which pension scheme. The removal of the earnings threshold and band earnings would remove this complexity and each employment would be subject to AE and employer contributions at a level that would be the same as if all earnings were derived from a single employment.*

Others felt that the impacts of practical implementation of aggregating income with employers and the costs to business made this issue particularly challenging.

CBI : *Employers cannot, and should not, know an employee’s total earnings, and any form of notification system run by HMRC would be retrospective and therefore extremely unwieldy and out of kilter with the current Real Time Information (RTI) system. Further, it is difficult and costly for businesses to amend their payroll systems and accurately predicting the costs of AE in any retrospective system would be hard…..*

We have worked closely with HMRC to establish whether there is scope to develop a system that could aggregate earnings from different employers to resolve the issue. We know that many individuals

[57] Qualifying earnings under the current system are calculated based on the LEL of £5876 at 2017/18

already choose not to disclose to their employers that they have other employment(s) and any solution would require the individual making a conscious decision to provide consent to HMRC in order to share data with their employer(s). Any solution would also require either one employer being identified as a lead employer to be responsible for automatically enrolling the individual and collecting and paying over contributions on behalf of both employers, or all employers being responsible to enrol their workers into a scheme. In considering these options there are significant administrative and legal constraints which impact on the feasibility of this course of action.

In conclusion, we have not been able to identify a straightforward, proportionate administrative or automatic route for combining earnings or assigning which of several employers should then become liable for paying contributions. Removing the LEL to make contributions payable from the first pound of earnings, will help to build financial resilience through generating more meaningful retirement savings for lower earners and remains the most viable option for MJHs at this stage.

Earnings trigger

Current policy and proposal

The automatic enrolment earnings trigger determines who is eligible to be automatically enrolled by their employer into a workplace pension. The trigger is currently set at £10,000 of gross annual earnings for 2017/18. As noted earlier in this chapter, the Pensions Act 2008 requires a statutory annual review of the earnings trigger and band of earnings levels. The outcome of this Automatic Enrolment Earnings Thresholds Review 2018/19[58] has been published alongside this Review.

The government is required to assess a range of options as set out in statute when considering the level of the earnings trigger and these are analysed in depth in the Automatic Enrolment Earnings Thresholds Review 2018/19 publication.

The government has conducted this year's statutory annual review of the automatic enrolment thresholds alongside the wider work of the 2017 Review. It has concluded for 2018/19, the earnings trigger should be frozen at £10,000. This will continue to ensure that for the vast majority of individuals it will pay to save and will help employers to plan for and manage costs.

Rationale for change / impact of change

There was no clear consensus from stakeholders on the level at which the earnings trigger should be set in 2018/19. Some supported retaining the current trigger both to manage employer costs as well as to ensure only those who can afford to save would be caught via automatic enrolment. Others argued against a reduction in the trigger, noting that the new State Pension would provide the replacement rate needed for those earning £10,000 or below.

ICAEW: *We cannot see a compelling reason to change the earnings trigger in a period of low inflation and wage growth.*

CBI: *.while businesses agree that we need to support as many people as possible to save into a workplace pension, the earnings trigger plays an important role in ensuring it is financially viable for staff to do so and does not make day-to-day living unaffordable …*

PLSA: *There is limited value in someone with earnings below £10,000 saving in order to augment a full state pension which is worth not much less than the value of the earnings trigger*

FSB*: An earnings trigger for auto enrolment is necessary and we support the existing £10,000 threshold.*

58 https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-201819

Analysis carried out for the 2018/19 Annual Thresholds Review has indicated that freezing the trigger, combined with assumed wage increases, would bring in an additional 0.10 million people in 2018/19 of which 74 per cent are women. Retaining the earnings trigger at £10,000 will result in an increase in the number of savers eligible to be automatically enrolled as this would amount to a real terms decrease in the value of the trigger combined with wage growth. This is compared to uprating the trigger in line with wage growth which would result in no real terms change.

As women are more likely to work part-time, or earn less than men, there will be a higher proportion of women newly included in automatic enrolment. Employer contributions would increase by £19 million, with total pension savings increasing by £48 million. The Thresholds Review has concluded there is unlikely to be any disproportionate impact on disabled or black and minority ethnic individuals as the proportion affected remains unchanged. It is important to recognise variations by ethnicity will depend on labour market participation – so activity that supports labour market participation will therefore support private pension saving.

The Thresholds Review considered alternative options including raising the earnings trigger to align with the Personal Income Tax Allowance (this is set at £11,850 for 18/19). This would reduce the numbers eligible for automatic enrolment, removing 0.4 million individuals from the target group, and have a disproportionate impact on women who would account for 70 per cent of those no longer eligible.

Many stakeholders have raised the issue of the anomaly that currently arises between schemes that use Net Pay Arrangements (NPA) and Relief at Source (RAS)[59] to administer pension tax relief. Savers in NPA schemes have their pension contributions taken before tax, no further payment is "relieved" into their pension [pot]. In RAS schemes, savers earning below the personal allowance are automatically credited with an additional payment (equivalent to basic rate tax relief) directly into their pension pot as all pension contributions in RAS schemes are made from post-tax pay. Aligning the trigger with the Personal Income Tax Allowance would address this inconsistency to some extent [60] but would also remove a significant number of savers from automatic enrolment.

The proposals in this report would see a significant increase in contributions below the Personal Allowance. The government recognises the different impacts on pension contributions for workers earning below the personal allowance. To date, it has not been possible to identify any straightforward or proportionate means to align the effects of the net pay and relief at source mechanisms more closely for this population. The government is currently increasing the data provided directly to HMRC as part of our ambition for HMRC to become one of the most digitally advanced tax administrations in the world. The government is already committed to ensuring we can deliver a modern digital tax system to make it more effective, more efficient and easier for customers to comply and reduce the amount of tax lost through avoidable error. This may present opportunities to look afresh at the two systems of paying pension tax relief. Alongside further work on the automatic enrolment changes in this report, the government will examine the processes for payment of pensions tax relief for individuals to explore the current difference in treatment and ensure that we can make the most of any new opportunities, balancing simplicity, fairness, and practicality. We will also engage with stakeholders to seek their views.

> ***NFU:*** *the earnings trigger… should be aligned with the threshold for income tax personal allowance. Aligning the threshold with a recognisable tax threshold will simplify the system and ensure that employers have compatibility with existing payroll system*

Some stakeholders suggested lowering the trigger to the point at which someone is required to pay national insurance contributions, while others have suggested that it should be removed altogether.

59 There are two ways to administer tax relief on pension contributions: Net Pay takes pension contributions before tax has been paid, so people automatically receive tax relief at their correct marginal rate, and there is no need for higher rate taxpayers to make a claim to HMRC; RAS where contributions are deemed to have had tax at the basic rate deducted and the pension scheme then claims the relief from HMRC.

60 The issue will still persist through contractual enrolment and opt-ins, though at a much reduced level.

***Age UK**: The earnings trigger should be brought in line with the National Insurance Primary Earnings threshold – the same threshold at which people start to pay contributions to towards their state pension*

***GMB:** The criteria is a barrier to a group of mainly vulnerable workers to save for their retirement and on those grounds should be abolished. The £10,000 earnings threshold is blocking part-time workers and seasonal workers, who may have total earnings above that level and the lower paid from participating in workplace retirement saving*

***Scottish Widows:** Remove or drastically reduce the earnings trigger…..This will include lower earners and is likely to 'catch' more multiple job holders*

***TISA:** The low earners and part-timers that were excluded by Pensions Act 2011 should now be brought in as the second wave. This could be achieved through a phased reduction of the £10,000 threshold for auto-enrolment and the £5,824 Qualifying Earnings deduction until they are ultimately removed……By removing the £10,000 trigger you increase the number of employees who will be automatically enrolled*

Lowering the trigger to align with the current LEL would bring in an estimated additional 1.5 million savers in 2018/19 of which 73 per cent are women. The Review has considered reducing the trigger which would have a significant impact on increasing participation in workplace pensions. It would also enable more individuals with multiple jobs to be automatically enrolled. However, it would clearly 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. For those lower earners who are in a position to contribute, the option remains to opt-in.

Conclusion

The earnings trigger ultimately governs who gets automatically enrolled into a workplace pension scheme and there are of course trade-offs to be made. If the trigger is too high then low to moderate earners, the main target group of the policy, may be removed from the catchment. Set it too low and the predominant impact will be upon people for whom it makes little sense to save for their retirement, potentially resulting in individuals making a conscious decision to opt-out. In striking an appropriate balance, we need to assess affordability for both the individual and the employer; and consider the impact on the low-paid, of whom the majority are women.

At this point in time, the Review concludes that the approach of having an earnings trigger remains correct and, following the outcome of this year's separate thresholds review, that freezing the trigger at £10,000 is the appropriate level for an individual to be automatically enrolled. This review bases its analysis on the data utilised in the 2018/19 Thresholds Review and it is important to note the earnings trigger (alongside the qualifying earnings band) continues to remain subject to annual review. Government is mindful not to pre-empt future decisions of the statutory review by recommending changes for the trigger beyond 2018/19.

In concluding that the trigger should be retained at £10,000 the annual thresholds review has considered the need for stability for employers, and enabling them to manage costs at a time when contributions will increase, and achieving the right balance between affordability and participation. Freezing the trigger results in an increase in the number of individuals eligible to be automatically enrolled as this would amount to a real terms decrease in the value of the trigger.

Overall Impact of proposed changes.

Overall, the measures proposed in this chapter will increase the eligible target group by 910,000 people and increase annual pension contributions by an estimated £3.8 billion a year. These estimates are based on a range of assumptions around the proportion of employers / individuals who are already paying contributions above the minimum statutory contribution (see Chapter 5 of the accompanying analytical report[61] for more details).

Table 3.6 summarises the estimated additional pension contributions for the proposed package. These estimates are illustrative and DWP expects to consult from 2018/19 on the design of the proposals with employers and others and plan to do a full impact assessment of the increased costs to business and explore the scope for potential cost mitigation measures. The package leads to estimated additional annual pension contributions of around £1.4 billion for employers compared with the current baseline. The additional contributions would also lead to around £0.6 billion in annual tax relief on individual contributions. At this stage, our goal would be to introduce legislation to make the proposed changes, following consultation, in the mid-2020s.

Table 3.6[62]: Additional annual pension contributions of proposed changes[63]

	Employer costs	**Individual contributions**	**Tax relief**	**Total**
Total package	**£1.4bn**	**£1.8bn**	**£0.6bn**	**£3.8bn**
of which:				
Remove LEL	£1.0bn	£1.2bn	£0.4bn	£2.6bn
Lower age from 22 to 18	£0.3bn	£0.4bn	£0.1bn	£0.8bn
Interaction costs	£0.2bn	£0.2bn	£0.1bn	£0.4bn
‘Interaction costs’ are the additional impacts of combining the LEL and age changes i.e. the additional contributions made by an 18 year old due to the reduction in LEL				

Source: DWP modelling

Note: Numbers may not add up due to rounding

There is a great deal of uncertainty as to how employers might go about managing the costs of additional contributions and thus the total cost of the package to government. We will also need to understand the further consequences of requiring individuals to put more of their earnings into a pension and how this may impact on, for example, consumer spending.

We will monitor and review how the costs of the contribution rate increases in 2018 and 2019 are shared between individuals, business and government. This should provide an opportunity to fully understand not only the initial incidence of costs, but how those costs are then subsequently transferred throughout the economy. We will also pay careful attention to the behavioural response by individuals to contribution increases. This will enable us to ensure that any future changes we make are well targeted, well timed, and can be implemented in the most effective way for individuals, employers and the taxpayer.

The proposed package has a modest impact on the estimated number of individuals’ under-saving, resulting in a reduction of 200,000, to 11.8 million, using the Pensions Commission adequacy measure. While the package does not move significant numbers of individuals out of under-saving; it will, more

61 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

62 Currently, some employers use contractual enrolment to enrol everyone into a workplace pension, regardless of eligibility criteria. Others are already paying above the minimum statutory contribution levels. Both these factors will lead to slightly over-estimated costs.

63. Illustrative estimates based on 2020/21 projections

broadly, increase the resilience of those who are under-saving. For example, we estimate that around a further 100,000 individuals would be moved from being 'modest' under-savers to 'mild' under-savers. Chapter 5 of the analytical report[64] accompanying this Review sets out in more detail the impact of the package on the different categories of under-savers.

It is also possible to look at the impact of the proposed package on the estimated pot size at retirement and the net weekly pension income. (Tables 3.7 and 3.8). The tables show illustrative examples of the impact on the estimated size of the pension pot of increases in contributions for theoretical individuals: a NMW earner with a full work history; a NMW earner with a 5-year career break; and a NMW earner with a 10-year career break[65]; and a median earner with a full work history; a median earner with a 5-year career break; and a median earner with a 10-year career break. Net pension income is also illustrated, which includes income from the individual's pension pot plus the state pension.

Table 3.7: National Minimum Wage Earner impact on pot size at retirement and net pension income.

	Pot size at retirement		
	Full work history	**10 year career break**	**5 year career break**
Current Policy	£49,200	£36,500	£42,500
Proposed Package	£89,500	£68,500	£78,500
Difference	***£40,400***	***£32,000***	***£36,000***
%	*82%*	*88%*	*85%*
	Total net pension income including state pension		
	Full work history	**10 year career break**	**5 year career break**
Current Policy	£12,500	£11,800	£12,100
Proposed Package	£14,800	£13,600	£14,100
Difference	***£2,300***	***£1,800***	***£2,000***
%	*18%*	*15%*	*17%*

For a NMW earner the pot size approximately doubles for each of the three illustrative case studies. This increase in pot size leads to an increase of roughly one-fifth of the net weekly pension income.

Table 3.8: Median Earner impact on pot size at retirement and net pension income.

	Pot size at retirement		
	Full work history	**10 year career break**	**5 year career break**
Current Policy	£129,500	£96,600	£112,200
Proposed Package	£185,400	£144,300	£163,800
Difference	***£55,900***	***£47,700***	***£51,600***
%	*43%*	*49%*	*46%*

[64] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

[65] Full working history – assumes saving from aged 22 to SPA with constant earnings 10 year career break – assumes a 10 year gap in employment from aged 30 (average age to have children), 5 year career break – assumes a 5 year gap in employment from aged 30 (average age to have children)

	Total net pension income including state pension		
	Full work history	**10 year career break**	**5 year career break**
Current Policy	£16,800	£14,900	£15,800
Proposed Package	£19,900	£17,600	£18,700
Difference	***£3,100***	***£2,700***	***£2,900***
%	*18%*	*18%*	*18%*

For a median earner, the proposed package results in the pot size at retirement increasing between 43 and 49 per cent for each of the illustrative case studies. Net pension income increases for a median earner are in the order of 18 per cent.

There is a larger proportionate increase in the pot size for a NMW earner compared with a median earner; of between 82 per cent and 84 per cent as there is a larger relative increase in the amount saved. The net pension income for all the illustrative case study examples increase by around 17 per cent. Chapter 5 of the analytical report[66] includes further illustrative case studies.

Normalising pension saving

The government has concluded that automatic enrolment should continue to apply to all employers and that no eligible worker should be excluded by virtue of the sector in which they work, or the work they undertake. This review does not propose to disturb that. Automatic enrolment is normalising saving precisely because it applies to all sectors of the labour market and it is right that workers, in small or industry specific employers, have the opportunity to build a pension in the same way as others. We have examined the case to exclude certain sectors from automatic enrolment, but do not propose to change the current arrangements at this time which provide appropriate flexibility, for example by allowing employers with short-term workers to postpone automatic enrolment for up to three months. In addition, government is of the view that individual workers should be able to opt-out of pension saving should they feel it is not right in their particular circumstances, rather than be automatically excluded by virtue of the work they undertake or who they work for.

The case for exclusions by labour market sector was considered previously as part of the independent MAEW in 2010. We have revisited this issue.

The vast majority of respondents to the initial Review questions agreed that no groups of either workers or employers should be excluded from automatic enrolment. Responses cited concerns around such action undermining the policy intent and being discriminatory, as well as disadvantaging workers who were excluded from the opportunity to build retirement savings for their later life. The government agrees that there is no legitimate aim in treating certain sectors of the workforce differently from others and that therefore there is no legal basis to do so.

We also considered the case for extending the postponement period but have concluded that the current three-month period strikes the right balance between avoiding longer-term detriment to an individual's saving ability, and the need to exempt workers employed for very short temporary periods.

In asking about excluded groups, we also heard from a small number of stakeholders in relation to groups who are currently outside the framework of automatic enrolment and who they feel should be brought in. In particular, we received representation that carers providing informal care should be brought into automatic enrolment, with the government paying their contributions. By informal care, we

66 DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

mean those who are not in paid employment as carers, but have caring responsibilities for family members or friends, for which they receive carers' benefits.

This Review has concluded that there should be no change to the way that carers are currently treated through automatic enrolment. Bringing in individuals who are not subject to a contract of employment would be a fundamental change to the framework of automatic enrolment which works through the employer/worker relationship. Those who provide care informally are therefore not subject to automatic enrolment, as they have no employer to enrol them.

Data from the Family Resources Survey 2015/16[67] indicates there are approximately 400,000 adults (200,000 men and 200,000 women) who provide informal care for between 20 and 34 hours per week. Around half of this total number also undertake paid employment in addition to their care duties, the majority of which is with an employer, as opposed to being self-employed. As such, most of those in additional paid employment are either likely to be eligible for automatic enrolment, or they can choose to opt-in if they earn at or below the earnings trigger, and under the proposed changes would be entitled to receive an employer's contribution. In addition, individuals who provide informal care for 20 hours per week are able to apply for Carers Credit[68] which helps protect future entitlement to State Pension.

Carers who are employed as personal care assistants, either through a care agency, local authority or being directly paid by an individual who employs them, will already have the opportunity to save through automatic enrolment if they meet the age and earnings criteria. DWP continues to work with Department of Health and local authorities to ensure that local authorities fully understand the ongoing automatic enrolment duties and their impact, including the planned increases to contributions, will have on those people who receive direct payments for their care needs.

Alongside the wider work to address the challenges of social care for our ageing population, government is considering how to further support families and individuals who provide invaluable informal care.

Flexibility in pension saving

This chapter has so far focussed on a package of proposals to increase resilience for low to moderate earners and to make a start with meeting the considerable under-savings challenge that remains at the current time.

In our published initial questions we asked for evidence about different approaches to increasing and sustaining saving in workplace pensions, and about views on flexibility. Analysis of responses to the questions about contribution levels shows that there is a variety of views about the adequacy of current (and future) contribution levels: whether they should increase and what the balance of contributions should be between individuals, employers and the tax relief element. Government welcomes these responses and our medium-term approach will be to look at the evidence base once automatic enrolment has been rolled-out to all employers, and the scheduled increases of contribution rates is complete.

A number of responses to our published initial questions (Annex 2) highlighted that completing the roll-out of automatic enrolment to employers and waiting for the phased increases to contribution levels should be the priority before considering whether headline contribution rates need increasing. We agree this is the right approach and will closely monitor the impact of the legislated increases to contribution rates before considering the case for increasing headline contribution rates further.

Two initiatives, which have been predominantly tested in the US, for increasing saving rates were cited by a number of respondents: 'Save More Tomorrow' and auto-escalation.

67 These are rounded to the nearest 10,000 https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201516

68 A National Insurance Class 1 credit is generally awarded for each week that Carer's Allowance is paid to a working age carer providing 35 hours or more a week care. Class 1 credits can help towards the conditions of entitlement to all contributory benefits, including the new State Pension. Credits are not awarded after a person has reached pension age as they would not be of any benefit to the contributor.

In ‘Save More Tomorrow’ schemes people commit in advance to allocating a portion of their future salary increases to retirement saving[69]. Evidence from the US suggests that these schemes may be successful in encouraging a high proportion of employees to join the scheme, for large numbers to stay enrolled and for average savings rates to increase. The authors conclude that the schemes work well due to procrastination and inertia. Respondents felt that this approach could be explored further to understand how it might translate to the UK market.

Auto-escalation approaches link any increases in retirement saving to other factors such as age, time to retirement etc. Findings indicate that default contribution rates and matching are concepts that can work well to encourage individuals to save and also determine what rates individual save at. Default rates can contribute to increased retirement saving due to the effect of inertia.

While a number of respondents favoured exploring different approaches to increasing retirement saving, views were mixed on whether a more flexible approach to automatic enrolment was appropriate. Some respondents felt that introducing more flexibility into retirement saving would lead to increased complexity. Others felt that greater flexibility would avoid individuals facing a binary choice in terms of whether to save or not, and that some saving is always a better outcome than not saving (particularly where an individual opts-out due to temporary financial pressures).

Stakeholders also suggested some specific approaches that would ensure that individuals do not stop saving completely when they face a temporary financial pressure. For example, US savers into 401(K) plans are able to access their retirement funds early[70] through hardship loans and some stakeholders have suggested that this may be a way of increasing flexibility within automatic enrolment. PPI and Step Change have published research about building a debt prevention measure into automatic enrolment which would enable workers to divert some of their contributions into an accessible pot[71]. NEST Insight Unit is currently designing a trial, for low to moderate earners, enabling them to build up financial resilience through having access to a ‘liquid’ element of their account[72].

These initiatives form an important part of the wider workplace pensions’ landscape which we will continue to monitor as we look to evolve automatic enrolment for the future.

Next steps

The package the government proposes in response to the Review findings sets a clear direction in building a more robust and inclusive savings culture and specifically in supporting younger generations with the opportunity to build up assets to allow them to have a more secure retirement.

The government intends to steward debate and to develop consensus including among employers, employee representatives, and the pension industry, in support of the package proposed in this report. The aim is to consult on the details of the proposed package in 2018 and to consider ways to make these changes affordable with a view to legislating in due course.

In parallel to this, we will closely monitor the impact of the legislated contribution increases in April 2018 and 2019. Once the evidence on this is available, the Government will take this into account in considering the case for moving beyond the 8 per cent headline contribution rate, and the balance between statutory and voluntary contributions. Part of this work will involve exploring adequacy measures taking into account the significant changes to the pensions landscape (for example, the introduction of pensions freedom and choice) and the current economic environment. This work will be another important factor to consider in forming the longer term direction for automatic enrolment. A

[69] Save More Tomorrow: Using Behavioural Economics to Increase Employee Saving http://faculty.chicagobooth.edu/richard.thaler/research/pdf/smartjpe.pdf

[70] Although there are restrictions and in some cases a penalty may be payable

[71] http://www.pensionspolicyinstitute.org.uk/briefing-notes/briefing-note-101---using-accessible-pension-savings-to-provide-a-financial-safety-net-

[72] http://www.nestinsight.org.uk/liquidity/

number of responses to our published questions advocated examining what an adequate retirement income looks like now and for future cohorts.

Chapter 4: Self-employment

Strategic problem 2: A large proportion of the self-employed population experience significant gaps in pension coverage and/or other savings for retirement.

Summary

The self-employed represent a large and highly diverse group, which having seen significant growth now represents around 15 per cent of the UK workforce. Pension coverage among self-employed individuals varies significantly. For some groups it is low, while others have good levels of savings and preparation for later life. This Review has focussed on identifying the groups of self-employed people who would most benefit from a prompt into pension saving and the potential approaches that could achieve this. This chapter sets out who amongst the 4.8 million self-employed population in the UK would benefit most from savings interventions. It also sets out our intention to test interventions targeted at those who are at most at risk of not achieving their expectations in retirement. In this chapter we examine:

- Who are the “self-employed”?
- What are the savings habits of the self-employed and what do we know about what they want in terms of savings options?
- What products are already available to the self-employed for retirement saving?
- The Taylor Report and atypical workers.
- Can the automatic enrolment framework be extended to include the self-employed?
- Defining a target group.
- Stakeholder feedback.

Policy Direction

Whilst commonly referred to under the blanket term the ‘self-employed’, the 4.8 million people in this group are very diverse, and will have very different needs in terms of pension saving. We recognise that some have good levels of saving and preparation for later life, but many are under-saving for their retirement.

The automatic enrolment framework cannot be straightforwardly extended to act as an appropriate mechanism to bring self-employed people within pension saving, however, in line with our manifesto commitment to increase pension saving amongst the self-employed, we will look to build on the successful principles underpinning automatic enrolment including the use of ‘nudges’ or prompts at key touch points and encouragement of saving at affordable levels to help more self-employed people recognise the value of pension saving and achieve a shift, over time, in saving behaviour. To do this, the government will seek to test targeted interventions – including through the opportunity of Making Tax Digital – to identify the most effective options to increase pension saving among self-employed people. We will provide more information about the areas in which we intend to test during 2018, following feasibility work.

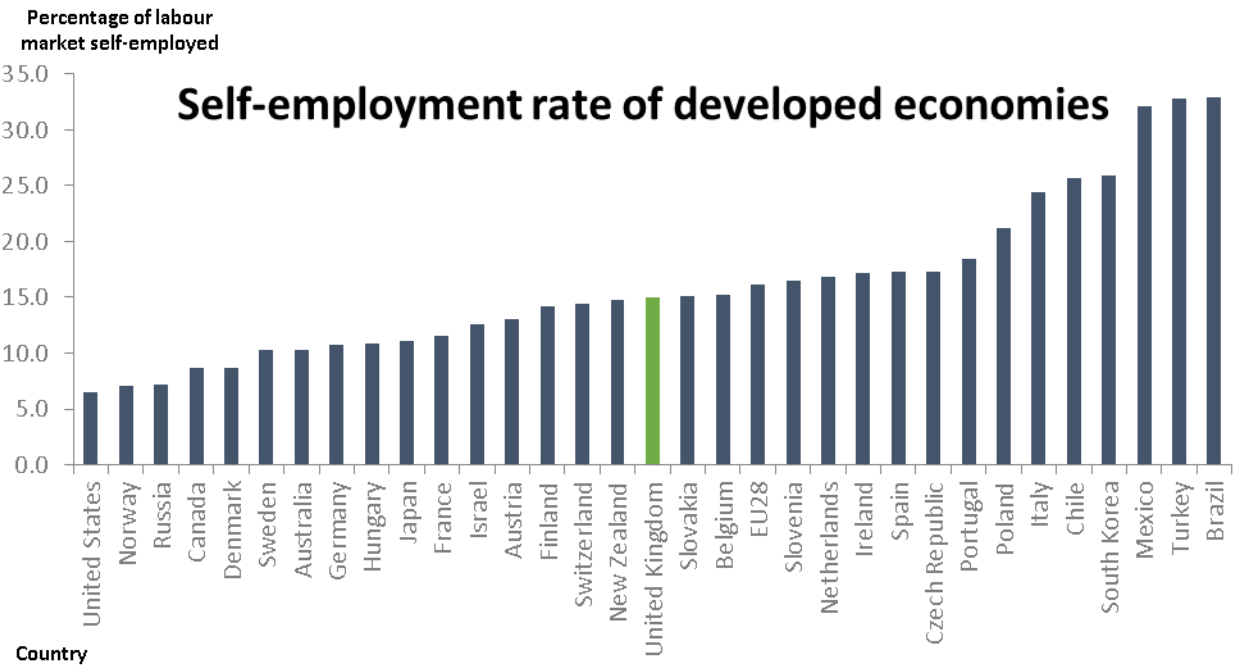
While a large percentage of those working in the ‘gig economy’ already come within the automatic enrolment framework, following Matthew Taylor’s Review of Modern Working Practices DWP will explore in conjunction with other departments across government whether current legislation and/or guidance would benefit from greater clarity to ensure that those workers who are so eligible are automatically enrolled into a workplace pension scheme.

Overview

Self-employment in the UK is growing. Around 4.8 million individuals, or 15 per cent of the UK workforce, currently classify themselves as being self-employed, up from around 3.2 million at the turn of the century.[73] In international terms, the UK ranks above the USA, Canada, Australia and Germany in terms of self-employment as a proportion of the overall workforce, though the UK rate is below the EU average of 16.1 per cent (Figure 4.1).[74]

There is not a single, agreed definition of the self-employed. The three main approaches use the definitions of employment law, tax law and self-definition. As part of the feasibility work that will follow the publication of this review, we will work to better understand the demographics of the self-employed and implications of these different definitions for design of potential interventions.

Figure 4.1: A comparison of self-employment rates for developed economies



Source: OECD, Self-employment rate data, 2015

However, while self-employment rates have increased self-employed people lag behind on pension saving. Around 17 per cent of self-employed people were saving into a pension in 2015-16, down from around 23 per cent in 2009-10[75]. This is in contrast to significantly higher participation rates for their

73 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015
74 https://data.oecd.org/emp/self-employment-rate.htm
75 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/600465/family-resources-survey-2015-16.pdf

employed counterparts who are eligible for automatic enrolment at 78 per cent, and at 68 per cent for the total employed population in 2016[76] (Figure 4.3).

Figure 4.2 Self-employment as a share of total labour force over time

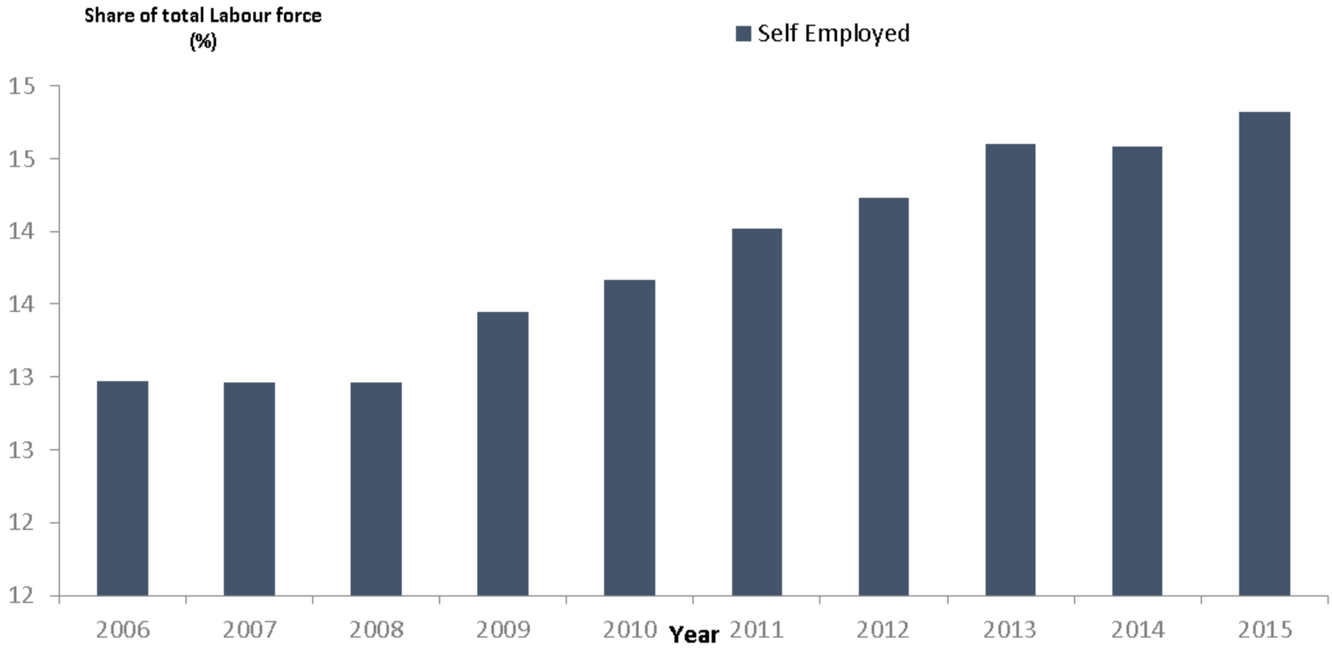


Figure 4.3 Pension participation rates of eligible employees and the self-employed over time

76 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2016provisionaland2015revisedresults

Those self-employed individuals who are saving into a personal pension, appear to be saving greater amounts than before. HMRC tax data shows that the average individual contribution for self-employed individuals was £5,310 in 2015-16, up from £3,030 in 2009-10.[77]

The self-employed population is also hugely diverse as highlighted by recent reports by Matthew Taylor[78] and the PPI[79].

- Recent research by the Pensions Policy Institute (PPI) has identified that 86,000 self-employed people also have a second job in employment, and 350,000 employed people also have a second job in some other form of self-employment.[80]
- While there remains a core of traditional trades typically associated with self-employment (e.g.joinery/plumbing and construction, which remain the largest sectors), much of the recent growth in self-employment has been in sectors such as advertising and IT.[81]
- In addition there has been a development of the so called “gig-economy” over the past five years in the UK with the rise of digital platforms allowing people to offer their skills and services directly to clients increasing the capability for individuals to earn self-employed income in flexible ways. Current estimates put the number of people working in the “gig-economy” at around 1 million.[82][83].
- While still in the minority, we have seen recent growth in the whole self-employed sector amongst women and those over 50 years old.[84]

The Review has looked at how to learn from what has worked in automatic enrolment to support self-employed individuals to save for their retirement. However, solutions will need to recognise the diversity of the self-employed population, the multiplicity of systems around them and an understanding of how their touch-points with relevant channels may differ.

There is considerable variability in pension coverage among different groups of self-employed individuals. Some – mostly older – groups have reasonably good provision for later life. For other self-employed individuals, pension provision is low and there are higher levels of risk of under-saving for retirement. In addition, it is important to consider access to other resources beyond pension saving. Some emerging evidence shows that some groups of the self-employed have comparable levels of wealth as their employed counterparts, but their assets are distributed differently[85].

The retirement savings needs of the self-employed were considered previously by the Pensions Commission. We have also considered more recent studies and proposals put forward in relation to the self-employed and pensions.

We know that the motivating factors reported by individuals deciding to enter self-employment are overwhelmingly positive, with individuals asserting they have more flexibility, independence and job satisfaction than they would have working for an employer. Financial motivation scores lower on the list of priorities.[86] This Review therefore has focussed on identifying the groups of self-employed individuals who would most benefit from a prompt into saving to support them with long-term financial planning.

We have also carefully considered possible interventions, recognising that we need to explore options around the role of government to potentially facilitate pension saving solutions for the self-employed. Low levels of pension take-up amongst the self-employed, particularly those in receipt of low to moderate incomes, suggests that they are not engaging well with the current offer which relies on them

77 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/647545/September_2017_Pensions_publication.pdf
78 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf
79 http://www.pensionspolicyinstitute.org.uk/publications/reports/policies-for-increasing-long-term-saving-of-the-self-employed
80 http://www.pensionspolicyinstitute.org.uk/publications/reports/policies-for-increasing-long-term-saving-of-the-self-employed
81 http://www.resolutionfoundation.org/app/uploads/2017/02/Self-employment-presentation.pdf
82 https://www.thersa.org/discover/publications-and-articles/reports/good-gigs-a-fairer-future-for-the-uks-gig-economy
83 https://www.cipd.co.uk/knowledge/work/trends/gig-economy-report
84 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/529702/ind-16-2-self-employment-review.pdf
85 http://www.pensionspolicyinstitute.org.uk/publications/reports/policies-for-increasing-long-term-saving-of-the-self-employed
86 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500305/understanding-self-employment.pdf

making active choices to save – something we know goes against the grain of behaviour. There is also a demand-side challenge in that some groups are at risk of significantly under-saving with concerns cited around the unaffordability of saving due to income volatility and the rigidity of current products. Consistent with the wider review principles of fairness, affordability and sustainability, our view is that some level of targeted intervention is required.

There is increasing consensus among interested stakeholders that action is needed to increase pension participation among the self-employed. However, there is a distinct lack of consensus as to what the most effective approach could be.

The challenge therefore is to apply the learning from automatic enrolment to find the most effective behavioural prompts for the self-employed – recognising that multiple solutions may be required given the diverse characteristics of this group. The timing of any prompts will be crucial as will harnessing the most appropriate touch-points for any potential interventions. We have determined that the current framework of automatic enrolment is not the appropriate mechanism for the self-employed as there is no employer. The singular mechanism used in the current framework contrasts with the more bespoke approach the highly diverse self-employed seem likely to require.

As no major intervention specifically targeting the self-employed has yet been tried in the UK, and there is very limited international evidence available on the effectiveness of pension saving interventions for the self-employed, the Review proposes that the best next step is to test a small number of targeted solutions to establish what works and ensure resources are targeted in the most effective way. As part of this chapter we have also therefore set out a forward work plan which provides an overview of this "test and learn" approach. This is focussed on addressing remaining analytical gaps and trialling some interventions to test what is likely to be most effective, and to explore how implementation at scale could best be achieved.

Who are the self-employed?

We need to understand more precisely who the self-employed are and how this is changing in order to assess and prioritise the appropriate policy response(s). This remains a developing area not least because some of the definitional challenges around self-employment with differing interpretations based on self-definition, employment law and tax law. A number of studies have attempted to define more clearly who "the self-employed" are and conclusions are emerging around the huge diversity of this group. The recent report by the Centre for Research on Self-Employment, The True Diversity of Self-Employment, is one such interesting contribution to this debate.[87] The following section gives an overview of some of the recent evidence.

Sector

Historically, self-employment has been concentrated in construction and skilled trades such as plumbing, joinery and hairdressing, with around 60 per cent of self-employment still centred in these areas. However, growth in "knowledge professional" occupations, such as education, communication sectors and technical information has driven the recent swell in self-employed numbers, accounting for 57 per cent of all growth in self-employment since 2009.[88]

Age

The self-employed population is older overall than the "employed" workforce and older workers are a key demographic of the self-employed. Citizens Advice and New Policy Institute (2015) found that 81 per cent of the 740,000 increase in those self-employed since 2004/5 came from those aged 45 and above with Royal London and Aviva calculating the modal age of the self-employed at 49.[89] Indeed, around 40

87 http://www.crse.co.uk/news/crse-releases-new-report-uncovering-different-segments-uks-self-employed-workforce
88 http://www.resolutionfoundation.org/app/uploads/2017/02/Self-employment-presentation.pdf
89 https://www.royallondon.com/Documents/PDFs/2017/AvivaRoyalLondon%20Report%2030Jun17.pdf/

per cent of those over 65who work are self-employed[90] and ONS figures show that there has been almost a 10 percentage point increase in self-employment in the over 70 cohort between 2001 and 2015. The split between employment and self-employment for the over 70s is now nearly 50/50.[91]

From this we can begin to surmise that some individuals are bridging the gap into retirement with some form of self-employment as part of a fuller working life. It is likely that a proportion of these older self-employed individuals would already have at least some retirement provision and are supplementing it – or delaying it – with income from new or continued self-employment and are therefore less in need of pension saving interventions.

ONS (2016) findings also support the position that self-employment is an active choice. They state that "among older part-time self-employed workers in particular, there is little evidence of workers wanting a full-time position… Analysis also suggests that those moving from employee positions to self-employment tend to have somewhat higher pre-transition hourly earnings than workers moving to new employee positions: trends which are more consistent with workers making a positive choice, rather than being forced to be self-employed". These findings also hold for younger and middle-aged self-employed women.

For younger part-time self-employed men, the picture is less certain with greater numbers of these workers displaying dissatisfaction with their part-time status. Many also appear to have moved to self-employment from unemployment, which is more consistent with a decision made in response to economic hardship.

Amongst older workers, ONS (2016) suggest that self-employment could reflect a new transition to retirement because older workers tend to transition from full-time to part-time self-employment without a change of industry or occupation. These individuals could be choosing to manage their retirement in a different way. Similarly, a larger number of older workers are choosing to become part-time self-employed, rather than retiring directly.

Gender

While two-thirds of the self-employed population are male, significant recent growth in self-employment has been driven by women. PPI research shows that between 2016 and 2017 of the total net growth in self-employment of 83,000 people, 81,000 were female. This shows that while the net increase in females in self-employment (i.e., those entering less those leaving) was 81,000, for men the number of new self-employed was very similar to those leaving resulting in only a small net increase. However, the self-employed are still more likely to be male across all generational groups.

As outlined in Chapter 2, we know that multiple jobholders (MJHs) are more likely than not to be women, who are themselves more likely to work part-time and have caring responsibilities. The rise of women as a key sector of the self-employed population could be a reflection of increasing demand for more flexible ways of working to fit in with changing lifestyles and multiple demands on their time.

Working Patterns and wages

The National Minimum Wage (NMW) does not apply to the self-employed who generally have more flexibility and control over setting their own rates for services or products offered than the employed population.

Research undertaken by the Department for Business, Energy and Industrial Strategy (then the Department for Business Innovation and Skills) in 2015 highlighted that flexibility over financial ambition

90 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500305/understanding-self-employment.pdf
91 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015

is a strong motivation for those who are self-employed,[92] and that people are self-employed through positive choice, a finding which has been echoed in many other reports exploring this population.

However, data from the Resolution Foundation suggest that average wages of the self-employed have fallen compared to pre-recession rates. This is attributed, in part, to the changing nature of the self-employed workforce with far fewer self-employed business owners with staff.[93] There is also a rise in short-hour, short-term “gig” work which may have also contributed to the depreciation of average incomes amongst the self-employed more generally. This should also be seen in the context of a general slowdown in wage growth, driven by lower productivity growth.

Reinforcement of this point may also be found in analysis from the ONS whose study, *Trends in self-employment in the UK: 2001 to 2015*, identified that while full-time and part-time workers each account for around half of the rise in the absolute number of self-employed workers, the growth rate of part time self-employment has been much stronger. They found that part time self-employment grew by 88 per cent between 2001 and 2015, compared with 25 per cent for full-time self-employment. “As a result, part-time self-employment accounts for 1.2 percentage points of the 1.6 percentage point increase in the self-employment share of all employment between 2008 and 2015.”[94]

Figure 4.4 Share of self-employed workers in total employment and self-employed hours in total hours, Q1 2000 to Q1 2016

Source: ONS Trends in self-employment in the UK: 2001 to 2015

However, we also know that the earnings potential for some self-employed people is significant – especially those “knowledge professionals” who have accounted for much of the growth in self-employment and for whom saving may be more straightforward. This raises questions around the issue of how and when to target those for whom it would make economic sense to save, and at what point of earnings a prompt regarding saving would be most appropriate and effective.

Transitions

New analysis by DWP[95] also sheds light on the trends in the length of time people are in self-employment and in what point of their career. This work also confirms that self-employed individuals are generally older when they first become self-employed at a mean age of 32. Of those individuals with at least 10 years of tax records, the majority (nearly 75 per cent), who had at least one year of self-

[92] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500305/understanding-self-employment.pdf
[93] http://www.resolutionfoundation.org/media/press-releases/typical-earnings-of-the-self-employed-lower-than-20-years-ago/
[94] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015
[95] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

employment, had spent less than half of their working age years with self-employment denoted as their main activity. Around a third (35 per cent) had spent 15 per cent or less of their working age years in self-employment. And only a small proportion (4 per cent) had remained self-employed across all years.

In addition, the vast majority (around 88 per cent) of individuals who have had at least one year of self-employment have also had at least one year where employment was the main activity. Over 47 per cent had more than half of their years with employment as the main activity. Further analysis of these individuals who have had periods both of employment and self-employment, suggests that in the majority of cases (around 90 per cent) the periods of employment occurred before the first self-employment spell.

This illustrates a high-level of dynamism in terms of the flow in and out of self-employment within an evolving labour market. It is also interesting to consider these findings in terms of generational trends, with transition between employment and self-employment appearing to be more likely for more recent generations. This suggests that the nature of self-employment has, and is, changing. Indeed it appears true that the flows have increased with each successive generation. Table 4.1shows the rate of yearly flow between employment and self-employment, and vice versa.

Table 4.1: Estimated average yearly flows from employment to self-employment and vice versa

United Kingdom *Percentages*

Generation	**Proportion of the cohort flowing from employment to self-employment each year**	**Proportion of the cohort flowing from self-employment to employment each year**
Silent generation	≈ 3%	≈ 0.5%
Baby boomer	≈ 6%	≈ 1%
Generation X	≈ 10%	≈ 1%
Millennial	≈ 12%	≈ 1.5%

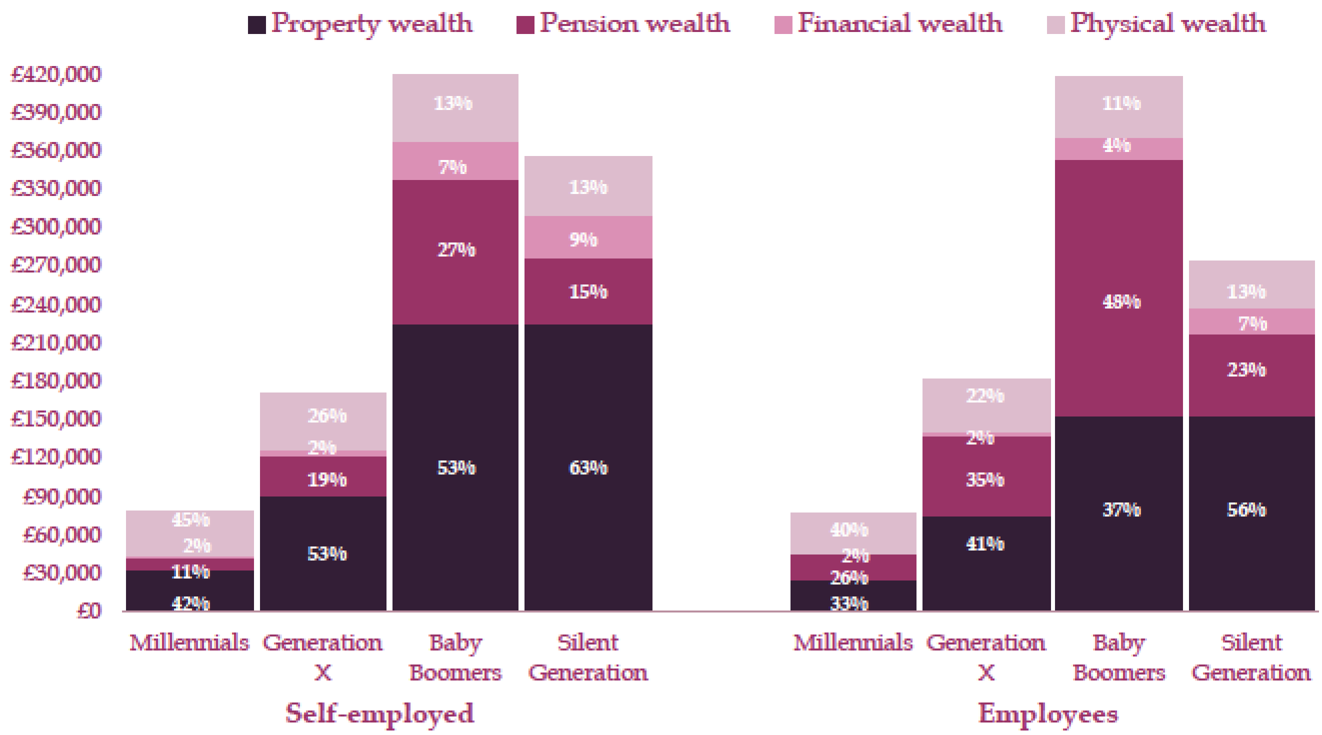
Source: DWP estimates derived from Lifetime Labour Market Database (L2)

It would appear that transition rates are somewhere in the region of 3 to 4 times higher for more recent entrants to the labour market.

Given the high-level of transition into and out of self-employment, it is reasonable to conclude that many individuals working in such a fluid way are likely to have contact with workplace pensions through automatic enrolment when in periods of employment. There is a challenge here to consider how best to support continued pension saving in periods of self-employment to build on positive social norms being achieved through automatic enrolment.

What are the savings habits of the self-employed and what do we know about what they want in terms of savings options?

Figure 4.5 Total wealth by generation for self-employed and employees



Source: Policies for increasing long-term saving of the self-employed, Pensions Policy Institute, 2017

One of the increasing concerns around the growth in self-employment and a catalyst for their inclusion in this review is that some individuals in this population are not making adequate provision for their later lives. While there is general confidence that housing wealth will provide for the retirement needs of some, few self-employed people are actively saving into a pension and only a small number intend to sell their businesses to fund their retirement[96]. Many have no plans beyond what the State Pension will provide. However, we now know from PPI research that the self-employed are just as able to save as those in employment and are doing so, amassing comparable assets as their employed counterparts, albeit distributed differently and with pensions being much less likely to be the savings vehicle of choice.

The independent 'Self-Employment Review' undertaken by Julie Deane OBE and published in 2016 explores some of the attitudes of the self-employed towards pension saving. A key concern was the issue of income volatility affecting the affordability of pension saving. It outlines that "not being able to predict income or outgoings causes problems in being able to save or invest money especially in ways that mean it might not be readily accessible if needed". This is especially true for pensions given there is generally no access to funds held before retirement without a punitive tax charge.

Research from the PPI also outlines that there is a strong belief across all generational cohorts that property is a safer way to invest than pensions (though the older cohorts have greater confidence in pensions than their younger counterparts). However, as noted at the start of this chapter, those self-employed who are saving into personal pensions are saving in greater amounts than they were a decade ago. While this is encouraging, there is still a significant challenge here, especially amongst the younger

96 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/500305/understanding-self-employment.pdf p.30

cohorts of today who are tomorrow's retirees, in regards to overall asset accumulation and financial resilience for the longer term and a strong case for government to explore interventions which may help address this issue.

What products are already available to the self-employed for retirement saving?

While pension saving amongst the self-employed has been declining, it is not necessarily due to a lack of pension products offered. The following products are already available to the self-employed and are offered by a wide range of insurers, pension providers and high-street banks offering a reasonably high level of accessibility for those who would wish to open them.

Personal pensions

Personal pensions are a type of defined contribution pension and the vehicle that most self-employed people use to make their pension savings. There are three main types of personal pension:

- Ordinary Personal Pensions
- Stakeholder Personal Pensions
- Self-Invested Personal Pensions (SIPPs)

Ordinary Personal Pensions

Ordinary Personal Pensions are a type of defined contribution scheme and again are available from a wide range of pension providers, insurers and high-street banks. What a person may get in retirement will depend on the contributions they have made, tax relief and any investment growth. They are usually invested in stocks and shares and charges will vary according to provider.

Stakeholder pensions

Stakeholder pensions must meet minimum standards set by the government.[97] While charges are higher than for workplace pensions, these are capped at 1.5 per cent, transfers are charge-free and they allow flexible contributions – there is a low de-minimis and contributions can start and stop without penalty. They also offer a default investment fund for individuals who do not want to choose the fund themselves and most investments are into stocks and shares. Funds can be accessed at 55 offering some flexibility ahead of State Pension age.

Self-invested Personal Pensions (SIPPs)

Self-invested Personal Pensions are a more active form of investment and are designed for people who want to manage their own fund, or are happy to pay an authorised investment manager to help make investment decisions on their behalf. Because of this, SIPPs usually have a wider range of investment options than ordinary personal pensions. While schemes offered by providers will vary, there are usually higher charges for these than ordinary personal pensions and stakeholder pensions, thought they can usually still be accessed at 55.

NEST

From March 2018, the National Employment Savings Trust (NEST) has a public service obligation to accept any self-employed person who wishes to use the scheme. NEST is the workplace pension

[97] Reference needed

provider established by government to support the roll out of automatic enrolment and it also has a pension investment option for the self-employed. Individuals register online and can make contributions as frequently, or infrequently, as they choose subject to a £10 minimum contribution at each deposit.[98] As at July 2017, NEST had around 3,700 self-employed members who have set up their own pensions on a voluntary basis.

Lifetime ISA

The Lifetime ISA was launched in April 2017 with the aim of supporting younger people to save. While not specifically set up as a savings product for the self-employed, some may find this vehicle a helpful option to support their retirement savings.

Adults under 40 are able to open a Lifetime ISA and can contribute up to £4,000 a year until the age of 50, receiving a 25 per cent bonus from the government on contributions (equivalent to the basic rate of tax relief gained in a personal pension). As with all ISAs, investment growth is tax-free.

Savers can access their funds without a charge (including the bonus) in order to buy a first home worth up to £450,000 nationwide from age 60, or if terminally ill. There is a 25% government charge on all other withdrawals. 20% recoups the government bonus and any interest on it. The rest is a small additional charge on the individual’s own savings and reflects the long-term nature of the account.[99]

Given the modal age of the self-employed worker is 49, the age restrictions on these accounts would mean that a significant proportion of this population would not be able to access the Lifetime ISA. However, it could be an attractive option for younger self-employed individuals.

The Taylor Review and atypical workers

Over the past decade a key feature of the evolution of the labour market has been the rise of the “gig-economy”. There are many interpretations of this but one definition of the “gig-economy” is that it involves exchange of labour for money between individuals or companies via digital platforms that actively facilitate matching between providers and customers, on a short-term and payment by task basis.

In his report Matthew Taylor outlines that there are around 1million individuals in the gig-economy, undertaking a wide range of employment activities and it is important that we clarify who we mean when we consider the “gig-economy self-employed” in the context of this Review.

Research by the Chartered Institute of Personnel and Development (CIPD) suggests that a high proportion of “gig-economy workers” (58 per cent of their total estimate of around 1.3million) are working elsewhere as permanent employees and undertake “gig” work on top of their more traditional form of employment. Further to this around 8 percent are temporary employees, 2 per cent are agency workers and those on zero-hours contracts, and 3 per cent are on fixed-term contracts who could easily be eligible for automatic enrolment should their age and earnings allow. Only 20 per cent consider themselves as self-employed.[100] This equates to around 260,000 who would not necessarily have access to workplace pensions on the basis of their employment status being “self-employed”. It is important to make this distinction on employment status alone as this number could be further reduced on the basis of age and earnings – i.e. either those below 22 or over State Pension age or earning at or below £10,000 per year (£192 per week/£833 per month) should the parameters of automatic enrolment be applied here.

Based on the findings above, our view is that a large proportion of those to undertake less standard forms of employment or “atypical workers” will already be included in automatic enrolment should they

98 https://www.nestpensions.org.uk/schemeweb/nest/members/joining-nest/self-employed.html
99 https://www.gov.uk/lifetime-isa
100 https://www.cipd.co.uk/Images/to-gig-or-not-to-gig_2017-stories-from-the-modern-economy_tcm18-18955.pdf

meet the age, earnings and other eligibility criteria. It is important to note here that automatic enrolment employer duties extend to engagers of agency workers and those workers on temporary, fixed-term and zero-hours contracts, with automatic enrolment as a legal requirement if a person's age and earnings mean they are eligible[101].

The Pensions Regulator (TPR) is responsible for enforcing employer compliance with automatic enrolment and it is important that the message is clear to all engagers of "gig economy" workers that they are eligible for automatic enrolment if there is a contract of employment (whether written or verbal) and their employment law status is that of a worker.

A particular area of interest for the Regulator has always been employers who incorrectly classify workers as self-employed, thereby avoiding automatic enrolment duties. We will continue to work with the Regulator and other government bodies to share data, where appropriate, to ensure that employers are meeting their duties and workers have access to the automatic enrolment rights to which they are entitled. The Regulator offers guidance to employers to assess whether the people they engage are workers and therefore eligible for automatic enrolment if they meet the eligibility criteria or are self-employed. The factors in guidance are based around the same factors used by HMRC and have been influenced by past case law.[102]

Government is also aware of a number of high profile tribunal cases regarding the gig-economy in the area of employment law which we continue to follow and note with interest to ensure we are aligned with legal rulings.

Pertinent to this is a central recommendation of the Taylor Review regarding the clarification of employment status. In recognition of the complexity of this issue the government has announced the commitment to publish a consultation as part of the response to Matthew Taylor's review, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer. Government is giving Matthew Taylor's Review the careful consideration it deserves, along with the joint Work and Pensions and Business, Energy and Industrial Strategy Select Committee's recommendations regarding a draft Bill and will respond shortly. DWP will continue to work closely with the Department for Business Energy and Industrial Strategy (BEIS), HMRC and HM Treasury to ensure that any impacts of potential changes resulting from this consultation are considered carefully and any consequential changes to automatic enrolment are made in good time to ensure clarity and alignment is achieved between these policies.

Can the automatic enrolment framework be extended to include the self-employed?

As outlined earlier in this chapter, we already know that there are at least some good value and low cost pension products available to the self-employed, as indeed there were good quality products on the market for the employed before automatic enrolment. What the roll-out of automatic enrolment has proved over the past 5 years however, is the power of default. The key to the success of automatic enrolment has been harnessing people's inertia and prompting them into saving.

Given the success of automatic enrolment, many commentators have seen this review as an opportunity to replicate the framework for the self-employed. While the automatic enrolment framework cannot apply to individuals who are self-employed, the government's aim is to utilise the principles and learning of automatic enrolment to improve pension participation and retirement outcomes among self-employed people. As the government outlined in its written evidence to the Work and Pensions Select Committee on Self-Employment,[103] the framework in place for automatic enrolment is not suitable for the self-

[101] To be eligible for automatic enrolment under current rules, a person must be at least 22 and below State Pension age and earn more than £10,000 per year (equivalent to £192 per week or £833 per month)
[102] http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-1.pdf
[103] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/selfemployment-and-the-gig-economy/written/46282.html

employed as by definition the employer and the worker are the same person. Our view on this has not changed. Automatic enrolment is predicated on this relationship. It is built around the mechanism of the employer defaulting their eligible jobholders into retirement saving through a workplace pension. It would be unlikely to be effective if a self-employed person is required to take action to enrol themselves and only to then have to opt-out if they do not want to participate in pension saving. Designing an effective opt-out system for the self-employed is therefore particularly challenging.

The Pensions Commission examined the issue of self-employment in 2002, finding that they were a non-homogenous group that were increasingly under-pensioned when compared to their employed counterparts, even before the introduction of automatic enrolment. The Commission's report also determined that automatic enrolment for the self-employed was not a solution to support this group adequately due to the difficulties in designing a system for them. In particular the Commission identified that the market could not deliver pensions at annual management charges low enough to deliver good value to savers or high enough to make them a profitable segment to the financial services industry.[104] Our view is that it is important to consider what principles of automatic enrolment could and should be replicated when designing potential interventions for the self-employed population.

Another key factor in the inability to replicate automatic enrolment as we know it for the self-employed is the lack of a single route through which all aspects of saving into a workplace pension could be arranged. Reflecting the diversity of the self-employed as a population, there are a number of different points (and for some, this contact is highly infrequent) at which individuals may engage with specified channels. Potential touch-points that could be used range from government checkpoints (i.e., annual self-assessment tax return, registration with Companies House, application for Universal Credit) membership of trade bodies and the banking system for example. However, interaction with these touch-points vary considerably, again adding to the design challenge around an automatic enrolment solution for the self-employed.

Defining a target group

The Pensions Commission set out in their report that not all "self-employed non-pension savers should be a cause for concern".[105] This Review has confirmed this conclusion, finding that the government should focus on developing retirement savings interventions for those self-employed people who are most at risk of under-saving and for whom it would be most economically beneficial to save. This is consistent with the government's approach to those who are employed.

For those self-employed people on very low incomes (i.e., below the automatic enrolment earnings trigger of £10,000), we would expect the State Pension to provide roughly the replacement rate as set out by the Pensions Commission, particularly given the changes to the State Pension in April 2016.

Under the previous rules, the maximum State Pension someone who had paid Class 2 National Insurance Contributions as a self-employed person over a whole working life could receive was £122.30 a week (full basic State Pension 2017/18 rates).

The government has now made a start on equalising outcomes for employed and self-employed people under the new State Pension in two ways. First, Class 1, 2 and 3 National Insurance Contributions (NICs) and NI credits made after 6 April 2016 all count towards a qualifying year of equal value for the new State Pension. For individuals who start to build a NI record after 6 April 2016 NICs and NI credits can help build a State Pension qualifying year worth 1/35th of the full rate, around £4.55 a week at today's rates[106]. Secondly, transitional rules apply to individuals with an NI record before that date. In

[104] http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf p.126
[105] http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf p.278
[106] Under the 'old' State Pension scheme Class 2 NICs paid by self-employed people provided access to the basic State Pension only. Class 2 NICs did not count towards the additional State Pension. A person would need to pay or be credited with NICs equivalent to 52 x Lower Earnings Limit in a tax year to gain a State Pension qualifying year. Each qualifying year was worth 1/30th of the full basic State Pension, around £3.98 a week in 2017/18 prices. From April 2016, a person needs 10 qualifying years to receive any State Pension entitlement. The

such cases we take account of a person's NI record as of 6 April 2016, valuing it under the old and new scheme rules in turn. The higher of the two calculations forms their starting amount under the new State Pension. So if an individual had been paying Class 2 NICs for 35 years at 6 April 2016 (or earning at the lower earnings limit or paying voluntary NICs to increase their State Pension amount), their Starting Amount would be £155.65 a week (consistent with the full rate of new State Pension in 2016/17). This is because that is the higher of the old and new scheme calculation outcomes. Under the old system, the maximum they would have received at that date would have been £119.30 a week (full basic State Pension in 2016/17)

Evidence shows that higher earning self-employed professionals are likely to be more active regarding their financial arrangements than those in lower earning 'precarious' forms of occupation. For example this sub-set of self-employed people tend to take advantage of the generous tax and NI arrangements that are available[107]. We are also mindful of the tax advantages and cash flow movements that can be managed through being an incorporated businesses and the opportunities this brings for flexibility in terms of assets and savings. Consequently, the Review's recommendation is that any government-led intervention focus on a "target group" of those lower to middle income, self-employed that would mirror current automatic enrolment eligibility criteria, which has served to increase greatly the financial inclusion of lower to median earners, providing them access to a pension, often for the first time.

What would this target eligible population look like? Looking again to the recent PPI report, we would estimate that of those self-employed people declaring an income, around 1.8 million would be eligible for automatic enrolment if they were employed (38 per cent of the total self-employed population); 1.6 million would be ineligible for automatic enrolment (one third of the total self-employed population); and it is unknown whether a further 1.6 million would be eligible (as they have not declared an income) based on the current design of the policy.

Of those who PPI have identified would be eligible for automatic enrolment if they were employed (1.8m), the majority (60.5 per cent) earn between £10k and £25k.

Of those that would be ineligible and identifiable from the data (1.6 million) 1 per cent are ineligible due to being under the lower age limit (under 20 in this data set); 87 per cent are ineligible due to earning below the £10K trigger; and 21 per cent are ineligible due to being over the upper age limit (over 64 in this data set), again based on the current design of automatic enrolment.

We acknowledge that this would mean that a portion of self-employed people would continue to be left un-catered for who arguably would disproportionately be low paid, part-time women. However, as the following sections describe, we propose to investigate the feasibility of a number of different interventions which could serve different sections of the self-employed population. These would aim to encourage those most at risk of under-saving to begin saving, or save more for their retirement.

Stakeholder feedback

We have received a range of responses on this questions and have held extensive stakeholder meetings on the issue of self-employment.

ABI and many others: *"This behavioural 'nudge' could best be delivered* ***via the self-assessment system.*** *However, it is important to recognise that if such a system were to be established that timing could be a potential problem as the self-assessed often save enough money to pay tax, but may not feel they have additional funds to contribute towards a pension."*

Age UK: *"Alternatively, a contribution could be collected through the* ***National Insurance*** *system and paid into a personal account, alongside any tax relief."*

exception to this is the time limited State Pension top-up scheme (12 October 2015 to 5 April 2017) which allowed people to add up to £25 a week to their State Pension by making a lump sum Class 3A voluntary National Insurance contribution.

[107] Resolution Foundation http://www.resolutionfoundation.org/app/uploads/2017/02/Self-employment-presentation.pdf

Prospect: *"It is **difficult to envisage what can be done** to encourage automatic enrolment amongst those who are genuinely self-employed…Government should seek to encourage [a TU across all of the self-employed] and promotion of negotiations that seek to include pension saving in such standard terms".*

Salvus Master Trust*: "This is **not the remit of AE"***

ACA and Black Rock: ***"The self-employed are a diverse group and different methods should be used** to encourage and enable them to save more for retirement."*

First Actuarial: *"We believe that, with the tax advantages of pension saving there is **already encouragement in place**. What needs to be **extended is education** and a simple solution for self-employed workers".*

ICEAW: *"The self-employed **already benefit from tax relief on contributions** and are free to set levels of contributions as they see fit, up to or exceeding the aggregate amount of employee and employer contributions applicable to employees under auto-enrolment (subject to annual and lifetime allowances etc).It is also **easy for a self-employed person to set up a personal pension** and there are a range of funds available, with aggregate costs below the default fund charge cap readily available in the ordinary course. The choice of available saving funds can be daunting for some of the self-employed. It may be, therefore, that government could signpost some of the options, including NEST, particularly for the low earning self-employed".*

IFoA: "*one initiative could be a **reframing of tax relief as a tax bonus"***.

KPMG: ***"Remodel LISA** as a retirement savings vehicle and remove upper age limit (40)"*

The following sections explore some of the proposals mentioned above in more detail.

National Insurance Contributions proposal

The report from Royal London, Britain's Forgotten Army, published in early 2017[108] outlined a proposal for an increase in National Insurance contributions (NICs) from 9 per cent to 12 per cent with the increase invested into an individual's pension. The individual would then also pay a further 5 per cent from their earnings to make up the equivalent of the statutory minimum contributions in automatic enrolment. Should an individual opt-out, they would no longer have to make the 5 per cent contribution, but the 3 per cent increase in NICs would be kept by the Exchequer, providing a strong incentive to the individual to continue to save into a pension. A similar proposal has also been outlined by The People's Pension.

We have also heard calls for other incentives for the self-employed to save, primarily focussed around Government's matching of self-employed pension contributions.

Many of the issues around the differences in treatment in the tax system between employed and self-employed individuals were usefully summarised by Matthew Taylor. As his Review notes, the benefits that the self-employed receive are now much more closely aligned with those of employees than has historically been the case, despite the disparity in tax and NICs paid.

Under the current system of NICs, the self-employed will pay lower amounts of NICs on the same level of income than an employed worker. This gap widens when the employer NICs are taken into account as well, as there is no equivalent of these for the self-employed.

Additionally, the self-employed will have significantly more flexibility to offset business costs than a worker, thereby potentially reducing their income tax and NICs bill further. Providing the self-employed with additional tax relief would exacerbate this discrepancy.

[108] https://www.royallondon.com/Documents/PDFs/2016/Royal%20London%20Policy%20Paper%204%20-%20Britain%27s%20Forgotten%20Army.pdf

There are also design and operational limitations with such an approach. Designing a system that might require individuals to reclaim amounts, which will otherwise accrue to the Exchequer is likely to be problematic. It is likely that those who do not reclaim the additional NICs paid under this system would be those who are less able to make the additional payments or are less able to obtain professional advice. A system that effectively penalises these people with a higher rate of NICs on their business profits would seem inequitable.

Several commentators have highlighted that the self-employed will not receive any employer contributions into their pensions and have suggested that the government could step in to provide some additional ‘employer-type’ contribution. Employer pension contributions are a cost of the employer doing business and ultimately form part of the overall remuneration package received by a worker. It is our view that self-employed individuals running their own businesses should be encouraged to consider pension contributions as one of their core business costs and consequently, build this into their charging structure.

Furthermore, tax relief on pension contributions already represents a financial incentive for the self-employed to save. It is not clear that further extending the financial incentive would benefit anyone other than those already saving. The issues of inertia and present-bias that automatic enrolment addresses are a more suitable target for government intervention.

This system, in so far as individuals have to pay increased NICs, represents a very significant change to the basis for NICs and would impact on all of the self-employed.

Prompted Opt in Via Tax Return proposal

Several commentators, including Zurich in their recent report ‘Restless Life: Protecting the Gig Worker’, have suggested that a prompted opt-in via the tax self-assessment process would be an effective way to move the self-employed towards more active consideration of their retirement savings needs. Perhaps the most formed proposal is that of the joint Aviva and Royal London policy paper launched in July this year, supported by Matthew Taylor in his review. While the Aviva/Royal London paper outlined several options, the favoured approach[109] involves HMRC acting as the aggregator of pension contributions and a payment mechanism out to a third party provider.

The idea of harnessing a point in time at which individuals are typically engaging with their finances - is a positive one. However, there are a number of design and implementation challenges regarding the current self-assessment process which on balance, have led us to conclude that this is unlikely to be an effective approach, certainly for all self-employed individuals.

Firstly, the tax self-assessment return is an annual process with calculations based on amounts in arrears and may not reflect an individual’s current situation or ability to save. In short, this comes late in the lifecycle of the self-employed individual’s interaction with their money which is likely to already be apportioned to other priorities (i.e. already spent on businesses costs/daily living needs, or set aside for tax payments). This is further compounded by the typically “lumpy” and variable contributions for the self-employed which may make apportioning regular savings at this point challenging. A key advantage of automatic enrolment is that the income is taken from gross pay before being paid out so is ‘unseen’. By taking the money before it is ever received, this mitigates against feelings of loss which people are very sensitive to.

In addition, it may be unlikely in behavioural terms that individuals would want to pay out extra into a pension within the context of paying out potentially significant tax bills and at a time when they may be feeling less well off than usual, especially as this suggestion does not involve a clear default. There are several facets of the return that individuals do not have, or want, to engage with increasing the likelihood a pension saving prompt would be dismissed out of hand – that is if they engage at all as many self-employed individuals engage third party agents to complete this process on their behalf, therefore

[109] https://www.royallondon.com/Documents/PDFs/2017/AvivaRoyalLondon%20Report%2030Jun17.pdf/

bypassing the opportunity to prompt. As outlined earlier, part of the design challenge here is that without a default, rather than opting-out, individuals may well simply choose not to engage or opt-in in the first place.

The tax system as a mechanism to support the self-employed to save for their retirement was also dismissed by the Turner Commission who concluded that it would not be an effective way to increase saving due to the fact that the main beneficiaries would be those who are already saving (so already recognising the benefits of tax incentives) rather than acting as a point of encouragement for new savers.

Furthermore there are clear operational challenges with such an approach for businesses, pension providers, HMRC, software developers for example from adopting such an approach. These include linking the registration, collection, accounting processes that will be required to enable the self-employed to join and contribute to a new pension scheme. However, the move towards a more digital tax administration process may provide opportunities for DWP, HMRC, software developers and pension providers to consider different options that best support private pension provision for the self-employed.

While tax-related matters are outside the scope of this Review, and the current tax assessment process does not present the most effective way to address the issue of pension saving for the self-employed, the principle that the tax process could be a good point at which to deduct contributions is a potentially highly productive area for further examination. The progress of HMRC's Making Tax Digital agenda and the software development opportunities this presents opens up new possibilities, in particular concerning the use and integration of software that many self-employed individuals will use, or in the future to complete their tax returns or accounts. The government wants to ensure that any solutions exploits these developments.

Amend the terms of the Lifetime ISA

Some commentators have suggested that the Lifetime ISA could be reformed to allow greater flexibility for the self-employed to use this as a savings vehicle. Suggestions have been made to scrap the penalty for withdrawing money early to enable individuals to withdraw small amounts while keeping their bonus, on condition the money is repaid within a short time period. Removal of the upper age limit for self-employed savers has also been suggested.

The government's consultation on pension tax relief in 2014 showed that younger individuals were in particular need of alternative support to save because they felt they had to choose between saving for their first home or saving for retirement. As such, the Lifetime ISA was designed primarily to enable younger individuals to save flexibly for the long term, for both a home and later in life, with government support. Any developments of the product would need to align with the core objectives of the policy.

If greater flexibility over access to savings is the goal there are other options that could be considered. The following section provides further detail.

Roadmap for the future – self-employment pension saving: exploring and testing interventions

Our work through this Review has established that there is no straightforward single mechanism supported by evidence from trials or operation in other jurisdictions to bring self-employed individuals into pension saving. Furthermore, evidence shows that not all self-employed individuals need help to save.

In addition, we have received a range of constructive suggestions through which the issue could be addressed, but none of the suggested interventions have been trialled and shown to work (or not work) at increasing pension saving among the self-employed – either in the UK or in other countries. Choosing one – untested – and apportioning all resource to its implementation, brings with it the risk that if does not work the opportunity to make positive and meaningful progress will stall and momentum will be lost.

We will therefore take forward work to develop and test solutions for those self-employed individuals who are at risk of under-saving to establish what works at scale to normalise pension saving amongst this group and can be implemented in due course. We propose to mirror this approach for potential interventions for the self-employed and aim to focus on a target group of almost 2 million self-employed individuals whose characteristics broadly mirror the automatic enrolment eligibility criteria and are least likely to access saving through other routes, subject to feasibility testing.

There are three broad areas that the government expects to explore:

- Whether it is possible to introduce a behavioural prompt to the self-employed into the accounting process for self-employed individuals either through Making Tax Digital or other routes. Currently, there can be a significant delay between the end of an unincorporated business's financial year end and the filing of a tax return disclosing the profits for that year. This would also enable the exploration of contributions being deducted from turnover, rather than net profits. Contributions could be set at a lower rate, which may have behavioural advantages.
- As the touch-points that self-employed people have are different and arguably more varied than those of employees/workers, we also wish to consider roles for other providers. Many self-employed individuals will have business bank accounts. We will explore the role technology, such as that used in the banking sector, could have in this area. This may then enable banks and/or other third parties to become more involved in assisting their customers with facilitating pension saving.
- Interventions focussed on organisations that *use self-employed contracted labour*. This would involve creating a communications intervention either through the "employer" or umbrella company, or working with the organisation directly to identify self-employed contractors. This approach would use learnings from automatic enrolment, with the 'engager' of self-employed labour acting as the mechanism to default individuals into a workplace pension.

DWP will work closely with HMT and HMRC on the proposed interventions above in relation to developing the necessary feasibility work that will precede testing in 2018. However, such interventions are not just for government to deliver alone. DWP will also continue the important conversations needed with potential industry partners including pension providers, commercial software developers, accountants and members of the banking community – along with self-employed individuals themselves – to encourage and develop further innovative thinking and to design effective interventions in this space.

As part of the commitment to innovative thinking, the government will be working with the Association of British Insurers (ABI) early in the new year on a self-employment "hackathon", much like the digital industry workshop held as part of the development work for the Pensions Dashboard.

A further example of work in this area is being undertaken by the NEST Insight Unit which is working with the Royal Society for the Arts (RSA) and Britain Thinks to bring together and add to the evidence base around barriers to long-term saving among the self-employed. The NEST Insight Unit is also considering the shape and scope of potential field trials of solutions for this group, in partnership with the academic community, to begin sometime in 2018. The government will continue to keep closely in touch with these and other developments to inform the design and implementation of solutions.

In addition, we will continue to work on filling important evidence gaps in relation to our understanding of the diversity of self-employment and, as part of this, will look forward to the outcomes of research in the field from HMRC and the Association of Independent Professionals and the Self-Employed (IPSE) in the near future as further important contributions to this debate and input into design thinking for future solutions.

Chapter 5: Better engagement to reinforce savings behaviour

Strategic problem 3: Whilst more individuals than ever before are saving, they are not necessarily engaged with saving nor looking to take greater personal responsibility to plan, and save more, for their retirement.

Summary

By defaulting individuals into saving and harnessing their natural inertia, automatic enrolment is changing the behaviour of millions of people and is turning them into savers. However, many individuals are not yet engaged with their pension saving.

This Review has found that better engagement can reinforce individual’s saving behaviour, especially where a choice exists to opt out, stop saving or save more. Engagement can help individuals to better understand and maximise their pension savings, develop a stronger sense of long-term personal ownership of their pension saving, and have greater trust and confidence in the system. We have explored how better engagement can support the ongoing default approach, which will continue to play the key role in ensuring that individuals save into their workplace pensions.

The reality of individual’s lives and behaviour, and the many, competing priorities and calls on their time, means that engendering more active ownership of pension saving remains challenging. Of the many things that demand or attract individual’s time and attention, pension saving is unlikely to be near the top of the list, particularly for those farthest from retirement.

UK and international evidence is consistent in suggesting that there is no single tool or form of communication that will change this. Nonetheless, we have concluded that there is potential to build upon the development in savings behaviour that automatic enrolment has delivered, and the positive attitudes now expressed towards pension saving, to develop a greater sense of ownership through a range of engagement activities. Evidence suggests that the key for the success of engagement is for it to reflect a small number of key principles. Approaches should be simple, personalised, and accessible. They should be timed to relevant points in people’s lives when they are receptive. The approaches should be tested and evaluated to assess the difference they could make but also to protect against unintended or negative consequences.

Ownership of engagement does not exist in one place. This chapter sets out areas where evidence suggests that there is scope for pension providers, employers, the advisory community and Government to develop and improve the way that they engage with people to support personal ownership of their workplace pension savings. It covers:

- what we mean by ‘engagement’ in the context of this Review;
- the behavioural insights behind the success of automatic enrolment;
- language as a barrier to pension saving;
- key points in an individual’s savings journey when personalised interventions and communications to encourage engagement may be most relevant;
- the annual benefit statement;

- the role that employers can play to support their employees to understand the benefits of pension saving;
- new technology as an enabler of engagement, including the Pensions Dashboard;
- the role of the Single Finance Guidance Body; communicating the benefits of pension saving at national level.

Policy direction

Automatic enrolment has changed the savings behaviour of millions of individuals. The Government wants to support the ability of individuals to engage with and have a sense of greater personal ownership for their pension saving so that they can plan for the future.

This report sets out specific areas where there is scope for pension providers, the advisory community, employers and government to build on existing and develop new initiatives that will support individuals' engagement with and personal ownership of their savings – while delivering better value for customers.

Government is committed to working with pension providers on pension dashboards to enable individuals to see all their pensions-related information in one place and to the creation of the Single Financial Guidance Body in 2018

We are calling on industry partners to continue to work in these areas, putting the needs of individual savers at the heart of their work; including greater collaboration on consistent use of simple, engaging language; continued investment in new technology to match that used in other sectors; collaborate on adoption of a consistent and simplified approach to annual benefit statements;

We recognise the crucial role that employers have played in the success of automatic enrolment, and the importance of the employer/worker relationship to engagement. We welcome the collaboration between pension scheme providers and employers that supports employers in providing information to their workers and call upon them to continue to work closely with employers as they develop new approaches to engagement and digital tools to support this.

Our engagement focus

The Review has focussed on exploring how engagement with individuals can be improved so that they have a stronger sense of personal ownership of their workplace pension and are better enabled to maximise their savings. We have looked at initiatives designed to change how individuals think and feel about their workplace pensions, for example, by increasing their knowledge or emphasising social norms – but we have also considered the barriers and challenges.

We recognise that prompting individuals to think actively about their pension saving carries risk as well as opportunity. One stakeholder noted that automatic enrolment "has essentially been designed to avoid touch points and that there is a need to avoid undermining the success of inertia". Engagement activity needs to be designed to ensure that by raising awareness and nurturing ownership, individuals are not dissuaded from continuing to save, but instead continue to save at the same rate or are motivated to choose to save more and to act upon that motivation.

We also recognise that whilst automatic enrolment has changed behaviour so that saving has become normal for millions of individuals, it is unrealistic to expect a rapid and wholesale shift towards active ownership for those who are far from retirement, particularly as total savings levels remain low at this early stage.

The People's Pension *"Mechanisms for engagement will help a minority. The right engagement, at the right level, at the right time can help people achieve better outcomes. However, engagement is incredibly difficult to achieve in pensions for all the reasons that led to the government to introduce automatic enrolment".*

Nonetheless engagement can be optimised through more effective and consistent approaches which support individual savers and reinforce social norming of pension saving.

Revisiting the behavioural evidence behind automatic enrolment

Despite the changes in the pension landscape in the UK over the past decade, we have found no evidence to suggest that the behavioural analysis that informed the automatic enrolment approach has changed.

Automatic enrolment was designed as a behavioural intervention that recognised the complex nature of pensions. It aims to maximise participation through understanding and working with the grain of human behaviour. In adopting automatic enrolment, the Government recognised that 'informed choice' interventions had not changed people's pension saving behaviour, and that an intention to save did not usually translate into actual savings.

The Pensions Commission concluded that pension saving behaviour cannot be driven through change to attitudes, knowledge and intention alone but also requires structural factors such as the presence of defaults. The Commission also recognised the variety of barriers that prevent individuals from saving.

Crucially, any engagement has to recognise that individuals have many competing priorities and demands on their time, and it is important to understand the reality of individual's s lives in order to understand how, and when, to try to get them to engage with pension saving.

The overall impact of the barriers is neatly reflected in a quote from ***Aviva****: "the British Public would rather vacuum or change their bed-sheets than review their pension"*

Behavioural analysis tells us that when faced with decisions around pensions, individuals procrastinate. They focus on short term priorities that offer more immediate rewards. Individuals can find it hard to think about the future and their future selves and needs.

The real or perceived complexity of pensions, including choice overload[110], can deter individuals from making decisions. This challenge of complexity may be further exacerbated by low levels of literacy and numeracy and by the fragmentation of individual's s savings into more than one pension pot.

Other factors may also have an impact. Some responses to the Review have suggested that individuals may be distrustful of pensions and financial services. Mistrust may combine with misconceptions that discourage saving. For example, a belief that the workplace pension belongs to the employer not the person saving. Personal experience of pensions may be limited. The 'invisibility' of pension savings and their long-term growth may also have an effect: individuals need a tangible pension pot before they engage.

Pension saving does not take place in isolation: individual's financial circumstances, and their perceptions of them, will have a significant impact. Individuals may approach their finances through mental accounting, causing them to believe they cannot afford pension contributions nor to increase them. Individuals may also believe that alternative savings and retirement options are more affordable or reliable.

Automatic enrolment recognises the behavioural barriers that stop individuals saving and harnesses the behaviours that support it. By defaulting them into saving it has made a fundamental switch in the behaviour of millions of individuals from 'not saving' to 'saving'. Inertia also means that the majority of people who start to save usually continue to do so.

[110] PPI 2017 Consumer Engagement: barriers and biases

Increased pension saving may not, however, mean greater engagement. PPI research suggested that automatic enrolment has not increased engagement levels and that this is due to those who defaulted into savings engaging passively and having lower engagement than those who opted out. [111]

Prudential *"Whilst harnessing inertia has been successful, it discourages engagement and may lead to under saving as people rely on the default minimum"*

There is evidence that attitudes towards workplace pension saving are positive, and this, coupled with the established savings behaviour, offers a platform on which we can build. Overall evidence from the British Social Attitudes Survey 2016 suggests that employees have positive attitudes towards workplace pension saving:

80 per cent of employees agree that 'Overall, it is worthwhile for me to save into a workplace pension'

Only 22 per cent of employees agree that 'I have more important things to spend my money on than saving into a workplace pension'.

75 per cent of employees say that their family is in favour of them saving into a workplace pension, with only 2 per cent saying their family is against (with the rest saying that their family are neither in favour nor against).

78 per cent of employees agree 'It is normal for someone like me to save into a workplace pension'.

Younger employees are more likely to agree with positive attitudes such as 'I believe a workplace pension is a good thing for me', and are less likely to opt out, than over 50s.[112]

As more individuals are enrolled, social and personal norms are helping to establish a savings dynamic so that individuals have a sense that it is normal for 'people like them' to save, and that they have a responsibility to save for themselves and their families. DWP's workplace pension campaigns have aimed to support this social norming of saving. Chapter 7 of the analytical report[113] that accompanies the Review highlights that behaviour is influenced by multiple factors that can be grouped into three main elements: capability, opportunity and motivation, and that initiatives that are aimed at changing behaviour need to influence all three. Any approach used needs to be robustly tested for impact.

USDAW *"We feel that engagement is key to the success of auto enrolment but there is no single approach that will make a difference – it's about looking at all communications and approaches and making sure they only provide the information that members need in a jargon-free short and simple way".*

The barriers to individuals' engagement with workplace pension saving that led to the adoption of automatic enrolment remain. However there is opportunity to support automatic enrolment by building on established saving behaviours and to harness positive attitudes towards workplace pension saving through better engagement.

There is no 'one size fits all' solution. To have impact, research suggests that interventions and communications need to be framed in the context of a number of key principles so that they speak to the individual saver. They should be simple, clear, personalised to the needs of the individual; timed to be relevant; and framed in positive and inclusive language.

[111] PPI 2017 Consumer Engagement
[112] Employer Pension Provision 2017
[113] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

Engagement and equality

A key theme in effective engagement is personalisation and responding to the preferences, and needs of individual pension savers. For businesses who provide services to the public or a section of the public (for payment or not) this must include ensuring that the needs of all protected groups are considered by having regard to the Equality Act 2010.

The Act protects individuals from discrimination resulting from ‘protected characteristics’. The protected characteristics are: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

Broadly, the Equality Act protects individuals from: direct discrimination; indirect discrimination; harassment; victimisation. In relation to disability the Equality Act also protects individuals from discrimination arising from disability; imposes a duty to make reasonable adjustments for disabled people.

So for, example, if introducing new on-line tools to enable savers to access pension information, a provider must have regard to the requirements of the Act.

Information for about the Act for businesses can be found on the Equality and Human Rights Commission website.

Government in addition will have regard to the Equality Duty set out in Section 149 of the Equality Act 2010 which places a duty on public bodies (and others carrying out public functions for them) to consider the needs of people with ‘protected characteristics’ in their day to day work.

Simple words, simple language

At the heart of effective engagement lies the need for individuals to be able to easily understand the messages and information about pension saving they receive.

The responses to the Review have shown a widespread recognition that pension language and the layers of technical jargon that are used are often unnecessarily complicated and confusing. The complex language and lengthy communications that are used do not sufficiently reflect individual’s standards of literacy and numeracy or the limited time that people have to think about pensions in their busy lives. Overall there is widespread recognition that user insight is essential to communicate in everyday language that individuals understand and which acknowledges generational and social differences, and take into account the requirements of the Equality Act.

USDAW *“We find that the key problem with written communications is the prevalent and persistent use of unnatural, complicated and nonsensical words that are used across the industry is a critical barrier to encouraging engagement”.*

Words that get in the way

During a workshop of pension professionals hosted by ABI on the engagement theme in August 2017, we used one session as an informal experiment to look at words that get in the way – the top 10 words that individuals in the room thought were too complicated and words that could replace them.

Jargon	**“Translation”**
Accumulation	Saving
Decumulation	Taking
Annuity	Guaranteed income
Accrual	Amount you’ve built up
FAD (flexi-access draw down)	Having a flexible retirement income
Fund	Your account
UFPLS (Uncrystallised Fund Pension Lump Sum)	Taking your pension pot as one or a number of lump sums
Drawn down	Take a little bit at a time
Scheme	Plan
Pension	Retirement income

The exercise highlighted the complexity of words used by the pensions industry; agreement that words should be simple and accessible; and recognition that despite the pockets of positive work that has been done, there is insufficient consistency in approach, creating what has been described as ‘developing regional dialects requiring savers to be multi-lingual’.

It was recognised that the starting point in communication should be to listen to how people talk and the words they use, recognising that there is no one size fits all solution. Translation of jargon should not be necessary if communications include the everyday use the words that people use, whilst maintaining accuracy, consistency and meaning. The key is to ‘know your customer’.

Scottish Widows *“Messaging has to be thoroughly researched to ensure that they are articulated in the way that people articulate the topics they would like to know about”.*

Much valuable work has been done by providers, Government and others to cut through jargon and complexity and help make pension conversations simpler. This has included language guides published by DWP in 2011 and 2014 [114] , the FCA’s Smarter Communications initiative, NEST’s 2016 phrasebook [115] and several major pieces of work around language led by the ABI : ‘Making Retirement Choices Clear’[116] and ‘Reframing Pensions Savings’ [117] which set out three key recommendations:

- Simplify the messages and language commonly used in the pension sector
- Review the rules to enable provider communication to be digital, simple, visual and personalised.
- Use consistent language and communication styles that motivate people to save and improve understanding.

The ABI intend to use the findings from this research to guide future communications strategies across the industry. A key challenge is to work with industry to drive the adoption of a consistent approach.

[114] https://www.gov.uk/government/publications/automatic-enrolment-and-pensions-language-guide
[115] Insert link to NEST
[116] https://www.abi.org.uk/products-and-issues/products/pensions/making-retirement-choices-clear/
[117] https://www.abi.org.uk/globalassets/files/subject/public/lts/abi-reframing-pension-savings-report-040717b.pdf

Rules of Thumb

A number of review responses highlighted the potential of rules of thumb to communicate to people the benefits of workplace pension saving in a quickly recognisable way.

The value of rules of thumb was recognised in the Financial Advice Market Review (FAMR) report and was the subject of work by a subgroup of the Financial Advice Working Group (FAWG). The group's approach was to develop rules of thumb that are very simple, avoid numbers and calculations, and address people's needs. Taking the 'five a day' approach as an already instantly recognisable benchmark, the group's report proposed 'Financial Five' rules of thumb including: "Pile into your pension – it's your future income". The group also recommended the use of nudges to prompt people to act on the rules of thumb.

The work of the report is now being taken forward by the Money Advice Service (MAS).

There is recognition that the language around pension saving presents a key barrier to engagement – it talks to industry but not to pension savers. Use of jargon and long communications fail to inform or engage.

Despite the pockets of good work that have been done, and recognition of the issue, there remains no fully consistent approach to simplifying language across the industry and beyond. And there is no single language. Individuals face what have been be described as a series of pension 'dialects' as providers and others try to simplify their communications and make them more compelling and accessible. Automatic enrolment has created a huge new audience who need to be provided with information and guidance. The need for accessible and engaging language is greater than ever.

We welcome the work of the ABI and others on pension language. We call upon providers and other stakeholders to continue to collaborate to achieve greater consistency and much greater simplicity in the language used to communicate to workplace pension savers at all stages of their saving journey.

The importance of timing

Individuals have busy lives so there is a need to catch their attention at the right time which is personally relevant to them. We asked "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?"

Whilst there is a consensus that engagement action at key moments will have an impact, the extent to which this will be effective is not established. PLSA noted that "It is intuitively plausible that there are points when individuals are more open to considering their pension savings and planning for their future…suitable touch points here might include significant birthdays and life events such as marriages, birth of children. At the moment though there is limited research as the effectiveness of such an approach".

PPI in their consumer engagement series[118] have suggested that "For a moment to be teachable, it must be at a time when the intervention is relevant to a person's current circumstances, relates specifically to their goals and allows for people to follow on with simple, practical actions.

Teachable moments will vary by age and circumstances but generally occur during key transitions e.g. moving house, getting a job, starting a family or during times when people are making financial decisions

[118] PPI 2017 Consumer Engagement : the role of policy through the life course

e.g. buying other financial products". The complexity of engagement during life journeys is further illustrated in Chapter 7: Engagement Analysis in the Automatic Enrolment Review Analytical report.

Teachable Moments

PPI suggest that for teachable moments to land they should be aligned with the Behavioural Insight Team's EAST approach:

- follow-up action must be straightforward (easy)
- people are more likely to take action if they feel others would approve and/or are doing the same thing (social)
- messages must be personalised and relate to the achievement of current goals (attractive and timely).

Several responses to the Review questions suggested that engagement occurs when savings have grown to be tangible and significant. 'People tend to be more interested in their pension savings when they overtake their salary' (Aegon). Australian experience suggests that people start to get engaged with their savings once the sum invested grows into 'five figure' territory. The Pensions Dashboard will help make an individual's 'total' pension savings become visible.

A number of responses highlighted the potential disconnect between the understanding of pensions that individuals are expected to have in later life, when they may need to make retirement decisions, and the lack of information that would have enabled them to understand their pension saving when they were younger. Interventions at key points on the savings journey may help to develop understanding that can support decision making in later life.

Recognising that the pension freedoms have made decisions much more complex than before, as part of their Retirement Outcomes Review, the Financial Conduct Authority (FCA) are considering how to help savers understand their options and engage with decisions. This includes looking at whether the information currently provided to consumers, before and when they access their pension pots, could be made more impactful and effective.

A mid-life MOT?

DWP is currently considering the policy implications of the mid-life MOT recommendation set out in John Cridland's review of State Pension age. He described how a mid-life MOT could act as a useful trigger to encourage people to take stock and described its value in helping older people return to employment, find appropriate training, make realistic decisions about extending their working lives and improve their health and wellbeing.

John Cridland's recommendation goes much wider than current provision and would require a joining up of advice in a single unitary package. DWP is leading cross-government discussions on this, and is working with employers and other providers to research the level of user demand, and the scope of the MOT. The findings will be used to inform decisions on further work in relation to this recommendation.

Given that reaction to any action or communication is highly personal, the purpose of engagement activity at any particular point needs to be carefully considered so that it is relevant to the individual and their preferences, and takes into account equality issues. There should be clarity about the behaviour that the intervention is intended to prompt. That could include setting targets so that people know what they are saving towards.

How much to save?

We believe that a key intervention that may support engagement is providing simple and relevant savings targets to achieve different levels of income and lifestyle that could help people think about how much they need to save.

The Institute and Faculty of Actuaries (IFoA) 2016 Report [119] suggested outcomes-based approaches to engagement could help reinforce personal ownership and encourage saving through the introduction of a Bronze, Silver and Gold rating system. PLSA's consultation 'Hitting the Target' which will report in 2018 looks at the question of how much individuals should save, and suggests that retirement income targets can be developed which will provide people with simple targets. We look forward to the conclusions of the PLSA consultation as a contribution to this on-going work.

Royal London *"Providers will likely have to invest in systems improvement and fund ongoing contact to ensure they are kept up to date with changes in the workers life and to provide ongoing education and guidance".*

To achieve the degree of personalisation needed, providers may have to be more proactive in terms of understanding who their members are and what is happening in their lives so that, for example, a pensions-related prompt is sent when a member has a notable anniversary coming up. PPI's report highlighted the potential limitations and risks around interventions, and it is important to recognise that engaging people in a way that leads to an unsuitable decision could lead to a poor savings outcome.

Individuals have busy lives with competing demands on the little time they have to themselves, and the desire to use it to think about pension saving and retirement planning is likely to be limited.

There is increasing consensus that to have impact, interventions and communications intended to motivate individuals to save should be timed at 'teachable' moments in individual's lives when they may be more receptive to well-targeted messages about the benefits of pension saving to reinforce existing or increased saving.

To have the greatest impact, the pension industry and others will need to develop a greater understanding of people's needs and preferences, particularly communication channels, so that approaches are personalised, accessible and lead to easy actions with clearly defined outcomes.

Annual benefit statements that engage savers

The role of the annual benefit statement has been highlighted as a missed opportunity to communicate to people about their pension saving in a simple, regular way.

Whilst it is an annual process, there is a concern amongst providers that the proportion of people who open their annual benefit statements is low; the proportion who read and understand their statement is even lower, and that the proportion who may feel motivated to act upon the information is lower still.

Annual benefit statements typify the sort of barriers around language, length and complexity that may prevent people from understanding and engaging with their workplace pension savings.

CBI *: "People don't read statements as they are too complicated. Many providers of pension schemes are afraid to use layman's terms as this might lead to non-compliance with the Regulator or FCA".*

People with more than one pension pot will receive a number of statements which may not be consistent in style, language or length, and the point at which statements are received will vary depending on a provider's process and year end. For a saver with little time and even less understanding, this provides a disincentive to read, understand and act on the information provided.

[119] IFoA(2016) Assessing adequacy of retirement income: a bottom-up approach

Whilst providers have expressed a desire to move to simpler statements, with more information being placed on-line, there are reported concerns about failing to be compliant with regulations, the penalties that may be incurred as a result, and an associated fear of reputational risk. This reluctance may be based on a misunderstanding of the regulatory requirements.

The information that providers are required to present in the annual benefit statement is set out in the Disclosure Regulations[120]. These do not prescribe how that information is presented, in terms of the design and length of statements.

As part of the Review we looked at examples of annual benefit statements which included substantially more information than minimum legal requirements. Some examples included dense explanations of lower level assumptions. Such information may be provided for the benefit of third parties offering advice and guidance. However, the majority of members will not seek advice or guidance from year to year and including very extensive information can be off-putting. At least some of this information could, however, be located online where it is not required for the statement.

We also heard from some pension providers that the legislation permitting trustees and providers to give members annual benefit statement information via a website or by email is burdensome, or requires the member to ‘opt-in’. However, this is not correct. In simple terms, members can be said to have the right to “opt out” and have the right to say if they do not want to receive their annual statement electronically or via the internet.

Providers are reminded that they must consider the accessibility needs of recipients, including the format of statements, under Part 9 of the Disclosure Regulations and the Equality Act 2010.

Achieving a new and simple approach

Some respondents to the review questions explored the challenge of achieving a more engaging annual statement. The aim was to deliver an example statement for money purchase benefits, focusing on the key information that savers need, and using simple language that they easily recognise, whilst continuing to allow providers to use their own branding. The intention was to deliver an example statement within existing regulations, in such a way that it could be delivered by all pension schemes regardless of their size or technical capabilities.

To inform the product, a number of prototypes were discussed with a wide range of stakeholders from across the pension industry and informally tested with a range of users, in a series of workshops co-ordinated and delivered by the PLSA and ABI. The statement was very well received and gained positive feedback from many in the industry and from most users. A copy of the example statement which DWP consider to be legally compliant with all the current legislation is shown at Annex 5.

The statement template shown also breaks with long-standing practice of schemes to assume that members will buy an inflation-protected annuity on retirement. Only a small proportion of members purchase this kind of annuity, because by paying out at only around half the rate of a level annuity, they are popularly seen to offer poor value for money. They also do not generally reflect people’s spending patterns in retirement, which tend to decline with age. Neither the FCA nor the Financial Reporting Council require this type of annuity to be included in the annual benefit statement. Whilst the effects of changing the assumption in this way are likely to be marginal we encourage providers to consider whether using assumptions which significantly understate the retirement income members are likely to choose are undermining other clear positive messages in the statement.

The government does not endorse any particular standardised annual benefit statement or any provider of a template. Further, mandating adoption of any annual benefit statement template would not be appropriate - the pension scheme memberships are inherently diverse, both between and within schemes. Mandating any particular approach would also constrain schemes in the way that they

[120] Specifically, for defined contribution schemes, Schedule 6 to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734).

communicate as they may have tried and tested approaches which they know to work for all or part of their membership.

Nevertheless, the government recognises that a very significant proportion of people who are automatically enrolled will join a number of pension schemes in their savings lifetime, and people who switch jobs and pension schemes most frequently may well find it most difficult to engage with their pension savings. The annual benefit statement template is intended to be used freely by trustees or providers however they see fit, with no legal liability to be attributed to the authors of the template or the government.

A simplified statement may provide a useful input to the pension dashboard, on which DWP is currently carrying out a feasibility study. At this stage, we do not expect that core disclosure requirements around the production of the annual benefit statement or the statutory money purchase illustration would change as a result of the dashboard, so the benefits from investing in this work are not time-limited. The Government is pleased at the early indications from the PLSA, ABI and individual providers that they plan to take forward simpler annual statements, working with Ruston Smith, Co-Chair leading on the engagement theme in this Review, including user testing, and it will be helpful to see early results from this work.

Encouraging people to open the annual benefit statement envelope

No matter how engaging a statement is, if people do not open it, it is a lost opportunity. It is important that the annual statement is considered in the context of other pension-related communications so that recipients are primed to know when statements are coming and why they are important. We therefore call upon providers to test communications approaches that enable people to understand when they will receive their statements, and why they are important, and whether they should be physically highlighted, for example, in the orange envelope style used in Sweden.

Some providers have expressed interest in the idea of all annual benefit statements being sent to people during a specific period each year – for example, a three month period between May and July each year - to help raise awareness about pension saving and facilitate a national conversation about pensions. It was, however, recognised that such an approach could present significant operational challenges for providers, including handling of the number of queries that the volume of statements being delivered over a short period could generate. We call upon the pension industry to explore further whether, and how, a move towards a ‘statement season’ could be achieved which would deliver the suggested benefits, including collaboration around national level awareness-raising events. The value of such events is explored in the PPI’s report on “Consumer engagement lessons from overseas”.[121]

Engagement and the role of employers

The support of employers has been a crucial factor in the success of automatic enrolment and their ongoing support is key to the continued successful roll-out of the programme and its future evolution.

The attitude that employers have towards workplace pensions can have a positive, supportive, influence on their workers’ savings journeys. In considering interventions that may have an impact on savings behaviours the relationship that workers have with employers can play an important role, but employers may need assistance to understand how they can support their workers on workplace pension saving, and other financial issues.

Legal and General *“Our research has shown that employees are likely to engage with communications from their employer so we feel they have an important role to play. People tend to place a greater degree of trust with their employer than they would with government or pension providers”*

[121] http://www.pensionspolicyinstitute.org.uk/publications/reports/consumer-engagement-lessons-from-overseas

The attitude of employers towards workplace pensions will vary, reflecting their own attitudes towards pension saving personal experience; paternalism towards their workers; their assessment of business needs; and the level of turnover of staff and stability of the workforce. However, research shows that employers typically feel that automatic enrolment is a necessary and sensible policy and that it is something that they just have to 'get on with'[122].

Engaging with workers can be done in a variety of ways. DWP's qualitative research with small and micro employers found that most employers communicated automatic enrolment to their workers verbally and in informal contexts within the workplace, before distributing statutory letters. Employers at many small and micro employers described this as feeling 'natural' at companies where all or most of the workforce are based at a single site, sit together and often eat lunch together[123].

Some larger employers work actively with providers to deliver bespoke communications to their workforces through, for example, workplace seminars or presentations, supported by information on an employer's intranet or equivalent digital platform. Face to face interaction can be expensive and effectively targeted digital tools offer an alternative and cost-effective way to support worker engagement. The relationship between employers and pension providers is a key one and we welcome ongoing collaboration between providers and employers to help deliver information to workers.

Hargreaves Lansdown *"Overall, engagement is best delivered as a collaboration between the employer and external pension provider or advisor. The enthusiasm and encouragement shown by employers always has knock-on effect onto their employer"*

Aegon *"Employers need to be clear about how they can promote their scheme and the value of pension savings to their employees. They are often afraid of overstepping the regulatory line and providing 'advice' in error. We are hopeful that the FCA's Financial Advice Market Review will address this by publishing a factsheet setting out what help employers can provide without being subject to regulation and publishing a guide to the top ten tips to support employees' financial health".*

Complex language and jargon make pensions as difficult an area to navigate for some employers as it is for individuals. A particular barrier to those who want to support their workers to engage with pensions may be uncertainty about what they can say, and a fear that they fall foul of regulations about what constitutes financial advice and guidance. Two of the recommendations from FAMR [124] aim to support employers to feel more confident in this space.

The first is an online guide for employers to support workers' financial health, including their workplace pension provision. FAMR recommended that the Financial Advice Working Group should work with employers to develop and promote a guide to the top ten ways to support employees and workers' financial health. The report recognised research which shows that many employers and workers are receptive to employer support: fifty-seven per cent of employers are interested in receiving advice and guidance from their employers about financial issues. As a result, a practical, user-friendly web-based portal offering employers a one-stop shop of useful information to help employees and workers manage their money is now on the MAS website[125].

The second FAMR recommendation was a new Guide for Employers and Trustees on providing support with financial matters without "without crossing the regulated advice boundary and giving advice they are not authorised to provide".

[122] Employer Pensions Survey 2017
[123] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643583/summary-automatic-enrolment-qualitative-research-with-small-and-micro-employers.pdf
[124] https://www.fca.org.uk/publication/corporate/famr-final-report.pdf
[125] https://www.moneyadviceservice.org.uk/en/employer-best-practices

The factsheet includes information about the situations in which employers and trustees would require FCA authorisation, what advice employers and trustees should or should not provide, and how they might communicate or promote financial products, pensions, and workplace savings. It is published on FCA's website[126] and FCA are in discussion with the Pension Regulator and Money Advice Service about how to publicise the factsheet further.

Employers are playing a crucial role in the successful delivery of automatic enrolment and generally recognise and support the importance of workplace pension saving for the future retirement security of their workers.

We recognise that employers may be uncertain about how they can provide information to their employees about financial issues, including the need to plan for retirement, and the work of FAMR on an online guide to workers' financial health, and factsheet on financial guidance, will support them in this area.

The majority of employers are already providing some information about automatic enrolment to their workers. We recognise that some employers may lack resources with which to actively promote pensions saving and welcome the collaboration between pension scheme providers and employers that can support employers to provide information to their workers. As the pensions industry develops new approaches to engagement, and new digital tools, we call upon providers to work closely with employers to promote the benefits of continued saving, and of saving at higher contribution rates, building on the relationship between employers and workers.

Single Financial Guidance Body

Simplifying the information individuals receive so that is personalised, relevant and accessible, can help them understand their pension savings. But when it leads to questions, individuals need to know where to go to help so that they remain engaged. That is why the new Single Financial Guidance Body will have a key role to play.

Over the past few years, the pension landscape has been transformed thanks to the introduction of the new State Pension, pension freedoms and automatic enrolment. We need to help individuals develop the financial capability they need to make informed decisions on pensions, as part of their finances as a whole.

Recent research[127] from the International Longevity Centre (ILC-UK) shows that 'the very act of going through the guidance process is likely to boost the financial capability of consumers and may help to raise awareness of financial advice' (p34). The government is committed to ensuring that individuals have access to the information and guidance they need to help them make effective financial decisions throughout their lives.

Free financial guidance is provided by sectors such as the financial services, utilities and charity sectors. However there are gaps in this provision and, without government funding to fill these gaps, many people would be unable to access the impartial financial guidance they need.

For those individuals in particular, the creation of a single statutory body will reduce confusion by removing artificial boundaries between different categories of guidance and create a more coherent offer for the general public.

Our ambition is that a simplified and more cost-effective approach, designed in the interests of individuals, will mean:

[126] https://www.fca.org.uk/publications/finalised-guidance/fg17-8-streamlined-advice-consolidated-guidance
[127] International Longevity Centre (ILC-UK), The value of financial advice, July 2017

- a more coordinated strategic approach to improving financial education, financial capability and the ability of individuals to manage debt;
- more coordinated use of research and evaluation to ensure a better understanding of what people need, where it is most needed and who is most in need;
- for the first time an explicit statutory requirement to target those most in need, particularly those in vulnerable circumstances;
- the removal of duplication, identifying gaps in provision and targeting those gaps – which could be a lack of quality or impartiality as well as not existing at all
- using the savings it generates to improve services and maximise accessibility for our diverse user base;
- ensuring greater consistency in delivering a quality standard of service;
- raising those service standards through its own channels and those of its delivery partners; and
- an opportunity to become an exemplar for industry and other sectors.

Technology and engagement

Digital tools are developing rapidly and pension providers and others are increasingly using them to supplement or replace traditional channels of communicating with pension savers. They open up fast, creative and cost-effective channels for providers to communicate with savers. They can offer quick and easy access to personalised information with the potential to be targeted at teachable moments. There is evidence of individuals' willingness to engage with their pensions via technology. There is evidence of individuals' willingness to engage with their pensions via technology, as demonstrated through the increasing numbers of those who have viewed their State Pension forecasts online, and the rising number of visits to the Pension Wise website.

However, the pensions industry still has more to do to fully embrace the range of possibilities that new technology offers.

PPI *"Pension providers have not previously been at the forefront of smartphone innovation…This is now beginning to change and the pension industry is now investing a great deal of money on getting up to date so that the technology used is in line with the latest available".*

TISA *"Fintech will play an important part in the development and success of engagement. We see other sectors such as retail and banking offering multiple ways for individuals to access their services – the industry will need to improve digital capabilities to cater for this growing consumer demand".*

Digital technology is being used in a variety of ways to help inform and motivate. Smart phone apps, such as those used by Aegon and Aviva, can help enable users to think imaginatively about what they want to do in retirement, understand the costs and how to plan for them. Using videos or interactive animations, such as those in the LV= Pensions Village, appeal to those who identify as visual learners. Personalised animated pension statements, such as those used by Vodafone, are being used to enhance existing paper based pension statements. On-line calculators – such as the Small Change, Big Savings calculator - can be a way of helping individuals to understand the impact of small spending changes, and the cumulative impact that their decisions will have.

From research and responses to the review, it is clear that compared to traditional communication channels, digital tools may have a number of advantages. They can:

- put the use at the centre of the flow of information;
- provide self-service access so that the user is not constrained by distance, opening hours or location;

- give access to more information than traditional paper based routes;
- be more cost effective than traditional routes;
- provide the ability for the user to compare and contrast different alternatives;
- allow users to 'play' with subject matter – pensions and retirement – which are traditionally perceived as dull; and
- increase the scope for personalisation.

> ***Hargreaves Lansdown*** *"Workplace pensions are awash with engagement tools. The challenge is getting them used and getting people to improve their retirement prospects after using them…. IGCs and Trustees should monitor levels of engagement rather than just focus on bells and whistles"*

New technology does not come without challenges. The existence of a new digital tool does not automatically mean that individuals will use it, so a prompt towards it may be needed. If individuals lack initial curiosity and do not value pension saving they may be unlikely to use a digital platform to seek out information. Those investing in new digital tools should therefore evaluate their effectiveness.

Technology has to be accessible to the intended user: it is important that in any move to digitise engagement tools providers consider the needs of groups that may have less access to the internet or technology, including older people; low-income groups, disabled people and those from BAME groups, and ensure that alternative accessible engagement tools are available.

Different demographics use technology in different ways and have varied expectations and capabilities. PPI have highlighted that younger individuals are most likely to use digital methods for advice and guidance; whilst older adults may prefer face-to-face interventions. A lack of physical access can also present further barriers to engagement.

Online information may be used to supplement or replace standard paper based communications, and may be more cost-effective. However, simply putting information on line without regard to volume or the accessibility needs of users may create new barriers.

> ***USDAW*** *"You may find it hard to believe that some people do not have online access but many of our members work in retail – on the shop floor, in a warehouse or maybe in distribution/transport so will be unable to access a computer on a day to day basis".*

PPI research suggests that the complexity of pension information and problems in comprehension can also create barriers to digital engagement, and raises the possibility of bad choices and decisions being made. Whilst communications regarding pension provision can be regarded as positive by savers, balance is critical – it is important to provide enough information without overloading people.[128]

> ***Smart Pensions*** *"A product led approach or simply putting more information on the internet, often referred to as digitisation, will not increase engagement…it is however, possible to engage with members on a routine data driven basis and a platform is an enabler for this to happen".*

Robo-advice (digital platforms that provide automated, algorithm-driven financial planning services with little to no human supervision) may help individuals make sense of online information provided but can have limitations. PPI suggest that that robo-advice may be effective in providing standardised information but is unlikely to be able to recognise and meet the complex emotions that can be associated with retirement decisions.[129]

[128] Collard and Moore 2010 Review of International Pension Reform https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194262/663summ.pdf
[129] PPI 2017 Consumer Engagement: Barriers and biases

Digital tools can offer instant access to information but there are associated risks. If individuals see a fall in the value of their pension pots due to market volatility that may undermine the motivation to save amongst those who may be risk-averse. For savers who take a short term view, the slow growth of pension savings may act as a disincentive to continue to save, or to use a tool that shows a pace of change which, unlike the saver's bank account or mortgage, may appear to be less dynamic.

Pensions Dashboard: the next steps

The pensions dashboard provides a significant opportunity to offer enable individuals a consolidated view of their entire retirement provision. This digital tool should enable providers to supply data for the benefit of the consumer, providing individual users with a unified view of their pension savings, including the State Pension they may get. It could give individuals easier access to their pension information and encourage more people to engage with and take control of their retirement planning. The fact that many individuals will save into different workplace pensions through their careers makes this increasingly important.

The recent HM Treasury sponsored Pensions Dashboard Prototype Project was an industry-led group managed by the ABI which demonstrated the infrastructure behind a dashboard was possible.

The government is committed to taking this work forward with the DWP now leading a feasibility study that will report in March 2018. Working with industry, consumer-facing organisations and regulators, DWP will build on the findings of the initial industry-led work and seek to establish a path towards delivery. DWP will harness expertise from across different sectors and learn from international examples in taking this work forward.

The needs of the individual must be at the heart of design and content of any Pension Dashboard. Involving users will also help build trust in the information the service provides. The approach must ensure that the interests of individuals are properly safeguarded and their personal information kept secure.

The feasibility study will explore what can be delivered by when, and how this might be funded in a way that minimises costs for the taxpayer.

The consensus is that whilst new technology present opportunities for creative and potentially powerful digital engagement tools, it is not a silver bullet solution to the engagement challenge.

We welcome the increasing investment in new technology by pension providers, and urge the pensions industry to embrace the potential of technology in the way that other financial services have done.

It is important that the move towards technological solutions is considered in the light of the needs of individual users, and that no groups are left behind. Without stimulating the interest or curiosity for individuals to use them and to continue to use them, the impact may be limited to those who are already digitally literate or engaged.

Effective outcomes will be achieved if digital tools are guided by behavioural techniques and are provided in conjunction with other interventions.

Communicating the benefits at national level

Large scale communication campaigns do not in themselves solve the engagement challenge. Simply telling or encouraging individuals to save does not lead to changed behaviour. However, behavioural theory suggests that good communications [130] can help get individuals to engage with workplace pension saving through the role they play in shaping positive attitudes and in helping to develop greater personal ownership of workplace pension savings.

> ***CBI*** *"A major engagement win for the government has been the Workie campaign which has resonated with many employees".*

Individuals often see pensions as complicated, dull and a distant prospect. To engage individuals, messages need to be personal and positive to cut through that perception.

ABI's 2017 report 'Reframing pension savings' [131] looked at the impact of different communication messages on attitudes to pension saving. The report suggests that negative framing is demotivating, and the focus should be on positives – tangible outcomes and future gains. Other more emotional kinds of messages (e.g. emphasising social and personal norms) are also likely to be needed to capture people's interests. The approach to DWP's campaign since the introduction of automatic enrolment in 2012 recognises this with the messaging evolving over time to reflect the different target audiences at each stage of programme roll-out.

DWP's campaign has supported the inertia approach behind automatic enrolment by promoting workplace pension saving as being both a normal duty for the employer and a normal behaviour for an individual. This is part of a social norming approach that over time can help change the way that individuals think about saving by showing that their peers are saving and prompting the thought that 'it is normal for people like me to' to be doing this.

DWP has run large scale multi-channel campaigns delivered through, for example, television, radio, on-line adverts and out of home posters. The campaign approach is informed by rigorous user testing with the intended audiences of workers and employers at both creative design and delivery stages.

The approach recognises that the complexity of pensions can present a barrier to engagement. The campaigns have focussed on clear, simple, messages that cut through the perceived complexity to highlight two key points: that automatic enrolment is a legal duty for employers and that workplace pension saving has clear benefits for individuals, with the latter emphasising that contributions are paid by the employer and worker.

[130] Triandis Theory of Interpersonal Behaviour.
[131] https://www.abi.org.uk/globalassets/files/subject/public/lts/abi-reframing-pension-savings-report-040717b.pdf

				
I'm in	**We're all in**	**Don't ignore**	**Get to know it**	**Get to know**
2012-13	2013-15	2015-2016/17	2017	2017/18 →

DWP's new campaign approach also looks beyond automatic enrolment to the wider pension saving environment. It aims to help engender a lifelong savings culture for retirement to make checking your pension as natural as checking your bank statement. There is an emphasis on the personal ownership by individuals of their workplace pension saving in a way that directly links it to the workplace with a dynamic and immediate underlying message: you are saving as you work.

From 2016/17 DWP pensions campaigns have been aligned around a single consumer-facing proposition: 'Get to know' which invites engagement with saving as a whole. This joins up saving for retirement messages for the State Pension (get to know yours), Pension Wise (get to know your options) and Workplace Pension saving (get to know the benefits – employees and get to know your responsibilities (employers)).

The new automatic enrolment campaign was launched in October 2017 and is planned to run for two years. It will be promoted on TV, radio, digital and social media, as well as in out of home settings.

Chapter 6: Statutory Reviews

Summary

The Secretary of State for Work and Pensions has a duty to carry out a statutory review of certain automatic enrolment regulations by the end of 2017.

Section 1 of this chapter focuses on the statutory review of the alternative quality requirements for defined benefit schemes and the defined benefit elements of hybrid pension scheme. It sets out:

- The background to this part of the review;
- The original policy objectives and considers the extent to which these have been met;
- The review methodology; and
- conclusions and next steps.

Section 2 focuses on the statutory review of the alternative quality requirement for money purchase, personal pension and hybrid schemes, as well as defined benefit schemes of a description prescribed under section 23A(1)(a). This chapter sets out:

- The background to the review;
- The original policy objectives;
- The scope of the statutory review commitment; and
- review outcomes and methodology applied in the evaluation.

Section 1: Statutory Review of Alternative Quality Requirements for Defined Benefit Schemes

Summary

The evidence gathered for the statutory review suggests the objectives of the alternative quality requirement: to provide a simplified quality test which caters for the bulk of defined benefit (DB) schemes is broadly being met. Respondents largely agreed the alternative test delivers the intended simplifications for the majority of schemes, but the structure of the test is not suitable for certain schemes in select circumstances.

Following the review the Secretary of State's decision is to maintain the vast majority of the regulations without changes. DWP will explore options in relation to active members of DB schemes who voluntarily choose to make contributions at a level below qualifying levels. We propose to explore making legislative changes which would allow schemes to disregard any such members' benefits from the cost of accruals test. Any proposed changes will be subject to a consultation.

Introduction

DWP is required to carry out a statutory review of regulations made under section 23A of the Pensions Act 2008 (the 2008 Act) during 2017, and thereafter at no more than three yearly intervals. Regulations made under section 23A set out the legislative basis for alternative quality requirement for defined benefit (DB) pension schemes and defined benefit sections of hybrid schemes (section 24(1)(b)). The legislation provides for a simpler alternative test that schemes and employers sponsoring DB schemes can use to demonstrate that a DB scheme used for automatic enrolment meets the relevant minimum quality requirements.

This report and the associated Post Implementation Review[132] (PIR) outlines views on the effectiveness of the relevant regulations and the Government's next steps.

Scope of the review:

The overarching aim of this periodic review is to test to what extent the regulations made under S23A[133] (the Regulations) are operating as intended.

We have considered:

- whether broadly the original policy objectives are being achieved (i.e. whether or not simplifications and flexibilities introduced are being used); and
- if there are any unintended consequences.

A PIR has been completed and is attached at Annex 9.

Policy background and original objectives:

Employers who choose to use a DB scheme to meet their automatic enrolment duties must ensure their scheme meets the minimum quality requirements set out in law.

A DB scheme with its main administration in the UK could meet the quality requirements for automatic enrolment by satisfying the test scheme standard (TSS)[134]. In simple terms, a scheme satisfies the TSS if it provides broadly equivalent benefits to pensions provided under the test scheme (a hypothetical DB scheme).

Up until the abolishing of contracting out from 6 April 2016, contracted out DB schemes could also meet the quality requirements by virtue of being contracted out of the state second pension, thus relying on their contracting-out certificate. The existence of a valid contracted out certificate was accepted as evidence that the scheme had complied with minimum quality requirements because the scheme would have already had to meet a reference scheme test (a test scheme with higher rates of accrual[135]) in order to be used for contracting out.

In a public consultation held in 2013[136] DWP invited views on whether there is a less onerous way for DB schemes to demonstrate scheme quality for the purposes of automatic enrolment. The majority of respondents expressed the view that the existing TSS was unnecessarily complex and schemes would

[132] As this review is looking at the broad operation of the regulations, a PIR has been completed in-line with government principles on better regulation, and the better regulation framework

[133] The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010' (SI 2010/772) Regulations 32L and 32M.

[134] In sections 21-23 of the Pensions Act 2008.

[135] Technical Changes to automatic enrolment: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221419/ae-technical-changes-consultation.pdf ;Technical Changes to automatic enrolment: consultation on draft regulations: https://www.gov.uk/government/consultations/workplace-pensions-automatic-enrolment-simplifying-the-process-and-reducing-burdens-on-employers

[136] Technical Changes to automatic enrolment: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221419/ae-technical-changes-consultation.pdf ;Technical Changes to automatic enrolment: consultation on draft regulations: https://www.gov.uk/government/consultations/workplace-pensions-automatic-enrolment-simplifying-the-process-and-reducing-burdens-on-employers

benefit from the flexibility to use an alternative, simpler test. Consequently, the framework for an alternative quality requirement for DB schemes was introduced through the Pensions Act 2014 (which inserted section 23A into the 2008 Act)[137]. Details of the operation of the alternative quality requirements are set out in regulations[138].

The legislation as amended introduced two alternative tests of scheme quality available to employers offering DB schemes or certain hybrid schemes:

(a) **A cost of accruals test** – based on the cost to the scheme of the future accrual of active members' benefits; and

(b) **A test enabling hybrid schemes which meet prescribed requirements to use the money purchase quality requirements.**[139]

The policy objective behind both of the alternative tests is to provide a substitute, simpler test for employers and their advisers when determining if a DB or hybrid scheme meets the minimum quality requirements for automatic enrolment. The cost of accruals test is of particular help to formerly contracted out schemes (which from 6 April 2016 onwards would otherwise have needed to ensure that their schemes met the TSS to remain a qualifying scheme for automatic enrolment).

a) 'Cost of accruals' test:

A DB scheme (or DB elements of a hybrid scheme) satisfied the cost of accruals test if the cost of providing benefits accruing for, or in respect of, the relevant members over a relevant period would require minimum contributions prescribed in legislation[140]. Prescribed percentages are set at a level that broadly represents the cost of providing benefits under the TSS.

To minimise burdens on employers, in prescribed circumstances the test is designed to allow DB schemes to rely on existing information in recent actuarial activities when determining whether the scheme satisfies the alternative quality requirement.

The cost of accruals test generally applies at a scheme level. However, where there is material difference in the cost of providing benefits for different groups, the test is applied at a benefit scale level. The only exception to this is formerly contracted-out DB schemes that meet certain conditions for a transitional period.

In response to calls from stakeholders, further technical changes were made to the cost of accruals test introducing transitional arrangements which allow sponsoring employers of formerly-contracted out schemes to apply the 'cost of accruals' test at scheme level even if there is a material difference in the cost of providing benefits to different groups[141].The provision is intended to streamline the test for formerly contracted out schemes that are typically delivering benefits that were at least equivalent to, or in excess of, the requirements for contracting out of the second State Pension. Without this provision schemes would have had to undertake or commission additional actuarial work to demonstrate that their scheme was of sufficient quality to be used for automatic enrolment. Given that quality requirements for contracting out exceed minimum requirements under the TSS, it was thought requiring all formerly contracted-out schemes to apply TSS could be unduly burdensome.

The transitional period ends either the date of the first report signed by the actuary after 5 April 2016 that breaks down the cost of accruals to benefit scale level; or 5 April 2019, whichever comes first.

[137] S23A gives the Secretary of State the powers to impose alternative quality requirements for a DB scheme on 1 of the 3 bases. Two of these have been utilised via regulations made under S23 (1)(a) and 23(1)(b) and inserted into: 'The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010' (SI 2010/772). The relevant regulations are 32L and 32M.
[138] See foot note above
[139] Set out in Section 24(1)(a) of the Pensions Act 2008
[140] S23A(1)(b) of the 2008 Act
[141] Regulation 32M of the Occupational and Personal Pensions Automatic Enrolment Regulations 2010 (SI 2010/772) as amended

In the case of multi-employer DB schemes, the cost of accruals test can be applied at scheme level for all the relevant members the scheme subject to there not being a material difference in the cost of providing benefits accruing for groups of relevant members. The intention is that individual employers do not have to apply the test or commission the actuary to test the benefit scale(s) of the relevant members (or groups of relevant members) whom they employ, unless schemes already break the assessment down to employer level, or where participating employers wish to do so.

b) A Test enabling schemes which meet prescribed requirements to use the money purchase quality requirements:

In response to feedback from a public consultation in 2014[142], a further test was introduced whereby a DB scheme of a prescribed description will be able to use the money purchase quality requirement for defined contribution (DC) schemes (set out in section 20 of the 2008 Act). Certain conditions must be satisfied to determine whether the scheme could apply this test. The objective was to offer additional flexibility which would enable certain schemes to be used for automatic enrolment[143].

Review Methodology

Guidance on PIRs provides three overarching questions to be addressed:

- To what extent are the regulations' objectives being met?
- Is government intervention still required?
- Are the regulations and the way they are implemented the most appropriate approach?

DWP carried out a public call for evidence in 2017[144] to determine the extent to which the policy intention in this area is being achieved. In particular, this considers how the simplifications and flexibilities introduced under the tests are working in practice, whether there are any unintended consequences and the government's next steps. .

We received detailed feedback from eight organisations, whose members have a direct interest in this legislation. Respondents represent a cross section of interested parties, including actuarial organisations, trade associations and representative body of providers of advice and services to work-based pension schemes.

Rationale for the level of evidence sought

The Better Regulation Framework provides the principles on undertaking PIRs. We carried out this review in line with these guiding principles, including on proportionality of evidence.[145]

The Regulations on alternative quality requirements are permissive. The original Impact Assessment completed in 2015[146] to support the regulations predicted zero net cost to business. The assumption being that schemes will only apply the alternative tests if it is more cost effective for them than the applying the test scheme standard. Given the direction of impact on business and that this is a repeat review, we considered a review for which the main evidence base is a public call for evidence is proportionate.

A PIR supporting this report along with the list of organisations that responded to the call for evidence is set out in Annex 7 and 9 respectively.

[142] Technical Changes to automatic enrolment: consultation on draft regulations: https://www.gov.uk/government/consultations/workplace-pensions-automatic-enrolment-simplifying-the-process-and-reducing-burdens-on-employers

[143] 'Regulation 32L of 'The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010' (SI 2010/772).

[144] https://www.gov.uk/government/consultations/automatic-enrolment-defined-benefit-alternative-quality-requirements-and-provisions-for-seafarers-and-offshore-workers

[145] Under the principles, *'one of the primary consideration should be whether the level of evidence collected is proportionate to the scale of the regulation and its expected impact. Where substantial impacts are expected to arise from regulations there may be a stronger case for substantial expenditure so long as such expenditure will make an appreciable difference to the quality of the evidence collected'.*

[146] http://www.legislation.gov.uk/ukia/2015/133/pdfs/ukia_20150133_en.pdf

To what extent have policy objectives been achieved?

The call for evidence asked whether or not broadly, *the alternative tests deliver the intended simplifications and flexibility in contrast to the test scheme standard*. Responses to our call for evidence indicate that the overall policy objective is being achieved. Respondents largely agreed the alternative tests deliver the intended simplifications for the majority of schemes, but the structure of the cost of accruals test is not suitable for certain schemes in select circumstances.

Transitional arrangements (allowing certain formerly contracted out schemes to apply the test at a scheme level for a limited period), and provisions for multi-employer schemes were intended to minimise burden. We posed a question in the call for evidence to seek feedback on whether or not these provisions are being utilised. There was a consensus amongst the majority who responded that simplifications are being used.

One response stated it is not always feasible for a non-associated employer to make judgments across the whole scheme, making it difficult to make use of the simplifications for multi-employer schemes.

Suggestions in regards to the transitional arrangement are discussed in sections below.

Extracts from some of the stakeholder responses:

Yes and we were pleased to work with you in 2015 and 2016 to that end on the regulations and guidance. ACA

‘The alternative “cost of accruals” quality requirements are in most cases significantly easier to satisfy than the test scheme standard. In most cases, the involvement of the actuary has been to explain how the system works rather than to complete any actuarial calculations.’ IFoA

‘The alternative quality requirements are used, but in our commentators’ experience it is quite unusual for employers to carry out the test themselves using existing information...Employers generally seem to wish to have the reassurance of having involved an actuary.’ SPP

‘Yes, in broad terms. We note that there was some uncertainty when the requirements were first introduced regarding the simplifications that could be made and the flexibility available. This was not helped by the guidance being published very close to 6 April 2016, so that employers (and their advisers) had very little time to consider what actions (if any) were needed. Over time, actuaries have become more familiar with the requirements and more comfortable with the areas in which they can apply judgement and make use of the intended flexibility. AON Hewitt

It would be helpful if there was an option, as there is for the defined contribution test, for a scheme to pass if the pound amount due (i.e. the assessed amount due not the actual amount paid) in respect of each individual exceeded 10 per cent of qualifying earnings. Willis Tower Watson

In respect of DB schemes meeting money purchase quality requirements, the DWP is only aware of one scheme which applies the test to demonstrate quality requirement for automatic enrolment. The call for evidence asked: i) if there are more schemes which use this test; and ii) the characteristics of those schemes. We posed these questions in order to assess the degree to which provisions are sufficiently covering the needs of schemes using the test. Nearly all responses received stated they are not aware of any schemes applying this test. The Association of Consulting Actuaries (ACA), responded they are aware of one scheme only.

We believe limited schemes are making use of this provision. Further, on the basis we worked in consultation with the scheme in question to develop these regulations, and the scheme nor its members have responded to raise concerns, our assumption is that the policy is meeting the intended objectives.

Is Government intervention still required?

Government intervention in the form of regulation is still required. The quality requirements for schemes used for automatic enrolment is set out in legislation. Any variations to those requirements will therefore, necessitate legislation.

Repealing these regulations in their entirety would mean those employers using a DB scheme to discharge their automatic enrolment duties would have to default to the TSS.

Are there any unintended consequences, and how could the Regulations be improved?

Overall, responses to the call for evidence suggest that stakeholders continue to be very supportive of the alternative tests and the simplifications provided by the Regulations. However, the consultation also highlighted select circumstances where further changes may be helpful. These were mainly in respect of:

1. Earnings measure (relevant earnings) schemes use to determine pensionable earnings;
2. Assessment of contributions; and
3. Treatment of active scheme members that have voluntarily chosen a lower rate of accrual than the ‘qualifying rate’.
4. Transitional arrangements

Below is a summary of what our stakeholders have told us about these matters and the government’s response.

1) Earnings measure:

- *Adding an earning measure with a specific ‘new’ State Pension offset for pensionable pay*

The definition of earnings in the cost of accruals test allows schemes to compare pensionable pay against basic pay above the single person’s Basic State Pension or the LEL. The introduction of a single-tier pension system raises a further option for schemes. However, as currently drafted, the alternative test does not facilitate a comparison of pensionable earnings against the ‘new’ State Pension (nSP). Responses to the call for evidence suggested adding a further definition of relevant earnings which allows for this could enable more schemes to take advantage of the alternative test.

We recognise inserting a further definition may be helpful for those schemes that have made adjustments to their definition of pensionable pay to align with the introduction of nSP. However, those schemes remain able to continue relying on the TSS to demonstrate quality requirements are being met. As such, our assessment of the risks of maintaining the legislation without implementing the suggested change is limited. Therefore, we do not believe there is a strong basis to justify regulatory amendments in the short-term.

We are not proposing to make the suggested changes in legislation at this time. We will continue to work with stakeholders to monitor this issue and to identify whether this type of offsetting is increasingly a common approach.

- *Expanding the definition of relevant earnings to include other variations of pay*

Overall, there was a recognition that the different variations of earnings provided in the cost of accruals test work for the majority of pension schemes. Some suggestions were made to expand measures of pay in the test for example, to allow for situations where salary increases are capped for the purposes of determining pensionable pay, or indeed where there is a maximum of two or more types of earnings allowances.

We acknowledge the definitions of relevant earnings prescribed in current legislation may not be meeting the needs of all schemes or employers. Our view is making provisions for complex cases will obscure what is meant to be a simplified test. It would be difficult to somehow introduce flexibility into the definition without compromising the integrity of the test, or introducing more doubt for employers. DWP's view is that in these cases, and other cases that are more complicated, the (simplified) TSS might be the more appropriate test.

In regards to capped pay, increasingly employers do this to control pension costs. In such circumstances, it may be appropriate that calculations required under the TSS are applied in order to ensure the minimum requirements for automatic enrolment scheme continues to be satisfied.

We are therefore proposing to maintain provisions on the definition of relevant earnings without amendments. As with the Review principles supporting proposals in earlier chapters, in reaching this decision we have given due considerations to striking a balance between a framework which retains the intended simplicity, whilst also allowing sufficient flexibility for the vast majority of users.

2) Assessment of contributions

A number of responses proposed changes to allow the ability to check in pound terms if cost of accrual is more than the minimum amount required. There was also a suggestion made to allow a scheme to satisfy the cost of accruals test on the basis of satisfying it for 90 per cent of its relevant members, including where up to 10 per cent of members did not satisfy any of the earnings bases set out in regulations.

Extracts from stakeholder responses:

'One source of frustration with the cost of accruals test is that it is not permissible to check in £ terms that the cost of accrual is equal to or more than a prescribed percentage of a relevant earnings figure [….] it would be useful for the legislation to allow for the contribution rate that would apply, if the contributions were calculated using one of the legislative definitions, to be tested against the prescribed percentage. That would obviate the need to fall back on the more complex test scheme standard.' ACA

'..*We would suggest an easement whereby a scheme would not fail to be a qualifying scheme because during a "relevant period" less than a certain percentage of the membership had ceased to have their pensionable earnings based on any of the bases set out in Regulation 32M(9)' BTPS*

'…' it would be helpful if the test could be satisfied by comparing the pound amount of contributions due. Alternatively, as often there are only a handful of members with the non-pensioned elements of pay, an easement whereby up to 10 per cent of members could have pensionable pay which did not match the statutory definition would also be helpful perhaps with some requirement on the total pay similar to the TSS. This could be combined with a requirement that the average pensionable pay was at least the average under the statutory definition.' Willis Tower Watson

The cost of accruals test offers a range of earnings measure and corresponding contribution rates for schemes to select and apply as appropriate. The objective is to keep the test simple. We believe introducing suggested changes, for example, using pound terms to check if cost of accrual is satisfied would add layers of complication. Particularly, as the test seems to be working for the majority of schemes. The simplified TSS was intended to cope with those circumstances where calculations of contribution rates are complicated for example, because they are formed of multiple definitions.

We have noted the limitations of the alternative test in certain complex cases. We are also conscious that the proposed flexibilities would not meet the needs of all employers. Given that employers have the option of using TSS in the more complex cases, we are not proposing to make legislative changes in this space.

In respect of introducing a 90 percent ‘threshold’ to the alternative tests, Primary powers to legislate for this already exist in section 23(1)(c) of the 2008 Act. However, following a public consultation[147], a decision was taken not to exercise these powers.

3) Active members who have voluntarily chosen to lower their contribution rates

We received several responses in relation to cases where a scheme member has voluntarily opted for a lower benefit scale. The current legislative definition of ‘relevant members’ does not allow employers to exclude members who have opted-down to below the qualifying rate from their cost of accruals assessment and this creates a possible risk that a scheme fails to meet the cost of accruals test.

> *‘….ideally it should be possible to disregard members who opt for accrual terms that are not intended to be qualifying and would not be used for any (re)enrolment’ Mercer*
>
> *‘…We suggest that DWP consider […] allowing the exclusion of members who have opted out of auto-enrolment or opted in to a lower benefit scale, or have opted out to protect their tax position, to be excluded under the definition of “relevant member”. SPP*

At present DWP does not hold any data on levels of opt-down. We anticipate opting down will be less likely in DB schemes as future increases in phased contributions that may trigger individuals to reduce their contributions in DC schemes, do not apply. We expect also, that relative to DC schemes this will be a diminishing issue over the years if the increasing trend for DC provision continues. Nevertheless, we acknowledge this may be a residual concern for some schemes/employers. We have considered this issue and believe there is merit in exploring options to realign the legislation to allow schemes, in prescribed circumstances, to disregard members who have voluntarily opted down to below qualifying levels for the cost of accruals test. Any proposed changes will be subject to a consultation.

In the interim, TSS allows the exclusion of benefits in respect of any jobholder whose annual rate of benefit accrual under the scheme has been reduced to below the minimum rate (provided reduction is made as a result of a request made by the jobholder in accordance with scheme rules). Once those active scheme members once again become automatically enrolled jobholders, whether through re-enrolment or otherwise, into qualifying scheme membership they should be included in the TSS calculation again until/unless they opt out or ask to accrue benefits at a lower rate.

4) Transitional arrangements

Further suggestions were made to extend the ‘transitional arrangements’ indefinitely, thereby allowing the cost of accruals test to be applied at scheme level in all cases. The rationale being that relatively generous benefits normally associated with DB schemes will mean that *‘even where there are material differences in the cost of providing benefits for different groups of members, the cost of accruals test is still likely to be met.’*

Our position is that allowing this in legislation could open up potential undue risks for members. We want to ensure we avoid situations where few scheme members with high accrual rates, distort the actual figures leading the scheme to ‘artificially’ qualify, when in reality it may not qualify in respect of all its members. We are not therefore, proposing to make any changes here. We introduced this flexibility on the basis employers sponsoring DB schemes should be able to obtain the necessary advice on benefit scales contribution at minimum extra cost by linking this to when updated actuarial advice is received.

[147] ‘’Technical Changes to Automatic Enrolment" March 2013

Non- legislative issues

Although not a legislative issue, a small number of respondents suggested it would help to have some additional examples/clarity in certain areas of guidance. For example, around what is included in basic pay, what constitutes material difference, how employers could document certifications, and how to apply the Test Scheme Standard for some members and alternative requirement for others.

We acknowledge these requests for further clarity and will work with external stakeholders on any revisions to existing guidance.

If the guidance is to be updated, care should be taken to ensure that the amendments do not impose new requirements that do not already exist and there should be a sufficiently long consultation period to enable a full consideration.

Our understanding is that employers are taking advantage of the variations, but it would be very helpful if the DWP or the Pensions Regulator could provide more guidance on what elements are and are not included in the legislative definition

Public Sector Equality Duty

The Secretary of State has paid due regard to the Public Sector Equality Duty (PSED) as set out in section 149[148] of the Equality Act 2010 in carrying out the review and making the policy decisions above.

Overall, the alternative quality requirements are designed to offer schemes/employers sponsoring DB schemes simplified tests to demonstrate scheme quality. The policy is intended to encourage employers to continue using their DB schemes to discharge their automatic enrolment duties. As such, we consider the policy decision to maintain the bulk of the regulations unchanged could have a positive impact in relation to the relevant protected characteristics.

The PSED is on an ongoing duty and DWP is committed to continually monitor the impacts of its policies. We will use the next review in 2020, to continue to assess whether there are any unintended consequences or adverse impacts on protected groups arising from the policy. In addition, we will continue to monitor feedback from stakeholders and individuals through our normal feedback channels to assess the broader impact of the policy.

Conclusion and next steps

The evidence gathered for the review suggests that the overall objectives of the alternative quality requirement: to provide a simplified quality tests which caters for the bulk of DB schemes, is being met. Views from respondents to the call for evidence suggest transitional provisions and simplifications for multi-employer schemes are also being utilised.

Suggestions for further improvements to the earnings definition have been acknowledged. The Department notes prescribed definitions may not be meeting the needs of certain employers in select circumstances. However, we are keen to avoid adding layers of complication particularly, as the test seems to be working for the majority of schemes. TSS was intended to cope with those circumstances where definitions of earnings, and calculations of contribution rates are complicated for example, because they are formed of multiple definitions.

In the case of allowing the exclusion of members who have opted down to below the qualifying rate for the cost of accruals test, we have noted concerns raised. We will look to explore options to realign the legislation to allow schemes to disregard such members' benefits from the cost of accruals test in prescribed circumstances. This will be subject to a consultation.

[148] Details of the duty are contained in the Equality Act 2010 (s149(1)) and (s149(7))

We will continue to work with stakeholders to ensure issues raised do not escalate to undermine the broad objectives of the test. For more complex cases not covered by the alternative tests, we are keen to point out the original test –TSS - is available and employers/actuaries have the option of utilising it.

Government has committed to reviewing the operation of alternative quality requirements every three years. The next review will be in 2020 by which time the transitional provisions will have expired allowing an assessment of the operation of the Regulations in full.

Section 2: Statutory Review of Alternative Quality Requirement of Section 28 Schemes

Summary

Based on the primary data source for employee level analysis of pay and employer/employee contributions, our review concludes the 90 per cent test continues to be satisfied. For 0.9 per cent for whom the test is not being met, around three quarters of job holders are close (within 75 per cent ratio) to achieving the same outcomes under certification as they would under qualifying earnings.

Proposals in the wider review of automatic enrolment to remove the lower earnings band could have consequential impacts on minimum contributions prescribed under the alternative quality requirements. We will consider this in more detail as the policy is worked up.

Introduction

Section 28(2C) of the Pensions Act 2008 (the 2008 Act) places a statutory duty on the Secretary of State for Work and Pensions to carry out a review of whether the test in subsection (2A) continues to be satisfied. The schemes to which s28 applies are set out in sub-section (3), (3A) and (3B) of section 28 and cover money purchase schemes; personal pension schemes; hybrid schemes; and defined benefit schemes of a description prescribed under section 23A(1)(a). For ease of reference, these schemes will collectively be referred to as “DC schemes” in the rest of this section.

Since its inception, the automatic enrolment legal framework has included certain simplifications for employers who calculate their pension contributions on a definition of pay that is different to the qualifying earnings band. Employers who calculate pension contributions on a different measure of earnings can elect to use the alternative quality requirements as a means of checking their scheme satisfies the minimum requirements for automatic enrolment. These simplifications offer flexibility for employers with good existing pension provision, encouraging them to continue using those schemes.

The statutory duty requires a review to be carried out in 2017 (and thereafter at least every 3 years). It was introduced as a safeguard to minimise the risk of jobholders receiving less than the 90% threshold set out in relation to the alternative quality requirement for DC schemes. The aim is to ensure the policy is working as intended for jobholders who have been enrolled into schemes which use a different measure of pay to calculate their pension contributions.

This second part of this chapter details outcomes from the first review.

Scope of the review

The 2008 Act[149] requires the Secretary of State to carry out a review to ensure that at least 90 per cent of all jobholders would have the same, or better, outcomes under the alternative quality requirement as they would under contributions based on relevant quality requirement.

This review is carried out at the aggregate level for all jobholders.

Policy Background

Employers with a duty to automatically enroll workers into a pension scheme must ensure that the scheme they have chosen to use for automatic enrolment purposes meets minimum quality requirements set out in law.

The quality requirement for money-purchase schemes, personal pension schemes, the DC element of hybrid schemes and defined benefit schemes of a prescribed description is set out in the 2008 Act, supported by secondary legislation.[150] Section 20 of the 2008 Act prescribes the minimum levels of employer and total contributions payable in respect of an eligible jobholder[151] assessed on a band of **qualifying earnings**[152].

- ***Qualifying earnings*** for a 12 month pay period in 2017/18 are earnings between £5,876 and £45,000
- These include: salary or wages; commission, bonuses; overtime payments; statutory sick pay; statutory maternity pay; ordinary or additional statutory paternity pay; and statutory adoption pay.

From 5 April 2019, the total contribution level will be 8 per cent of a band of earnings. At this point the quality requirement for UK money purchase schemes (section 20 Pensions Act 2008), is satisfied if the employer contribution is at least 3 per cent of the jobholder's qualifying earnings, and total contributions from the employer and jobholder is least 8 per cent of qualifying earnings.

Where a scheme explicitly meets these quality requirements scheme certification is not required.

However, not all DC schemes calculate pension contributions based on this definition of 'qualifying earnings'. The majority of schemes which predate the introduction of automatic enrolment base contributions on pensionable earnings[153] that is different to qualifying earnings, as explained above (with upper and lower bands). Some schemes assess contributions, for example using basic pay from first pound but excluding the variable elements of pay, thus, potentially making it difficult for employers to determine whether their schemes meet the quality standard required for automatic enrolment. This difference in assessments led to concerns that employers with existing good DC schemes could find their new automatic enrolment duties problematic and expensive. Compliance could involve costly system changes as schemes and employers switch to contributions based on qualifying earnings, or additional administrative burden on employers to ensure contributions paid using basic pay match 8 per cent of the jobholder's qualifying earnings.

Recognising this, a simple certification process was recommended by the independent Making Automatic Enrolment Work review[154] which the government accepted. DWP worked closely with

[149] S28(2C) of Pensions Act 2008

[150] Section 28 of the Pensions Act 2008 (the Act); The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations; The Employers' Duties (Implementation) Regulations 2010

[151] Section 1(1) of the Act defines 'jobholder' as a worker who ordinarily works in Great Britain, is aged 16 -75, and who receives earnings which fall within the 'qualifying earnings' thresholds at s13(1)

[152] Qualifying earnings and its component is defined in s13 of the Act. The earnings band is reviewed annually.

[153] Pensionable earnings: gross earnings on which contributions to the scheme are payable (Defined in Regulation 32K of the 'Occupational and personal pension Schemes (Automatic Enrolment) Regulations 2010)

[154] Making Automatic Enrolment Work Review: https://www.gov.uk/government/publications/making-automatic-enrolment-work-a-review-for-the-department-for-work-and-pensions

employers and the pensions industry to design a certification model which offered employers some flexibility without diluting the qualifying criteria in the 2008 Act[155].

Employers who calculate their pension contributions from the first pound, rather than using the qualifying earnings band, are able to use certification to ensure that their scheme is to be treated as meeting the quality requirements. The regulations set out three certification tests at least one of which a scheme must satisfy to meet the alternative quality requirement.

The simplified certification process allows an employer to self-certify that overall their scheme meets the alternative quality requirement for DC schemes, without the need for a detailed calculation to demonstrate that contributions in respect of every individual in that scheme meet the minimum contribution requirements using qualifying earnings.

Employers using DC schemes must ensure the scheme they are certifying satisfy the relevant quality requirement or alternative quality requirement for a period covered by the certificate. The Pensions Regulator can treat the employer's certificate as void if it establishes that any of the quality tests was not in fact met in a particular case.

Policy objectives

The overarching policy aim is to balance the need for a straightforward process and deliver flexibility for employers without diluting the core intent of the statutory framework.

The policy is aimed at employers who have existing good quality DC schemes in place which does not explicitly meet the relevant quality requirements. The changes introduced through the alternative quality requirement mean such employers can avoid expensive system changes or unnecessary overhaul of their pension arrangements in order to meet their automatic enrolment duties. The expectation is that this easement will encourage employers with good DC pension schemes to retain those schemes.

The policy aim is to also to strike a balance between reducing the burden on employers and providing appropriate protection for individual members. To achieve this the law prescribes minimum levels of contributions set at a level which aims to ensure parity with levels of contributions for schemes meeting the relevant quality requirement. The statutory duty to carry out periodic reviews of whether the alternative quality requirement test (in section 28(2A)) is still met provides a further safeguard.

What is the alternative quality test?

Certification under the alternative quality requirement is based on a three tier test. A scheme may apply different quality requirements for different categories of job holders. Employers need to test that their chosen scheme meets at least one or more of three sets for the relevant job holders by requiring the corresponding level of contributions - see table 6.1.

Note: minimum total contribution of 8 per cent of qualifying earnings are being phased in to help employers manage costs. Similarly, the contribution rates under the alternative quality requirements are also being phased in.

[155] Amendments were made to the 2008 Act[155] via the Pensions Act 2011 introducing '*alternative quality requirements*'. Details of the alternative quality test are set out in secondary legislation (The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010)[155], and DWP guidance[155].

Table 6.1: Phased contributions under certification

Alternative quality requirement	Levels of contribution during and after phasing					
	until 5 April 2018		6 April 2018 – 5 April 2019		Post 2019	
	Employer	Total	Employer	Total	Employer	Total
SET 1	2%	3%	3%	6%	4%	9%
SET 2	1%	2%	2%	5%	3%	8%
SET 3	1%	2%	2%	5%	3%	7%

For SETs 1 and 2 of the alternative requirements pensionable earnings must be at least equal to basic pay.[156] This requirement allows employers to use existing definitions of pensionable earnings, unless that definition dips below basic pay. This is designed to achieve a balance between a test which is simple for employers to use and ensuring that individuals' interests are protected relative to contributions calculated on qualifying earnings.

In addition, under SET 2 employers must ensure total pensionable earnings of all relevant jobholders (taken in aggregate) to whom this set applies must constitute at least 85 per cent of their total earnings.

SET 3 is calculated on the worker's full earnings (including variable elements of pay).

The employer is responsible for certifying a scheme, and needs to do so every 12 months. Employers can look forward for up to 18 months (the maximum certification period) to certify that their scheme will be qualifying for that period. A copy of the certificate has to be kept for six years after it has expired. It doesn't have to be submitted to anyone, but the Pensions Regulator can ask for a copy at any time.

An employer can also determine whether their scheme meets the minimum requirements by carrying out an entitlement check. Broadly, this entails carrying out an individual check for each worker to establish whether the worker's entitlement under the scheme rules is at least equivalent to the minimum requirements for a qualifying DC scheme.

Review methodology

The 2008 Act requires the Secretary of State to carry out a review of whether the alternative quality requirements are such that for at least 90 per cent of jobholders employer and total contributions would be no less than under the relevant quality requirement.

Extract from the relevant legislation:

S28 (2A) states: Alternative requirements must be such that, assuming all jobholders to be active members of schemes to which this section applies, for at least 90 per cent of jobholders—

(a) Employer contributions, and, (b) total contributions,

Would be likely to be no less if every scheme satisfied an alternative requirement applicable to it than if every scheme satisfied the relevant quality requirement.

S28A (2c)

[156] Defined in Regulation 32K of the 'Occupational and personal pension Schemes (Automatic Enrolment) Regulations 2010 as: the gross earnings disregarding commission, bonus, shift premium, car allowances etc.

Our analysis takes **all job holders** to mean anyone aged **16 or over and under 75** with qualifying earnings and assumes all were active members. This is in line with the legislative definition of a 'jobholder'.

We carried out analysis using Annual Survey of Hours and Earnings (ASHE) data **across all jobholders with qualifying earnings** to test whether at least 90 per cent of all jobholders would have the same, or better, outcomes under the 3 sets of certification as they would under contributions based on the relevant quality requirement.

The Annual Survey of Hours and Earnings (ASHE) was deemed the most suitable dataset for this assessment as it is the primary data source for employee level analysis of pay and employer/employee contributions to the employee's main pension scheme.

Assumptions applied

The review aims to assess whether or not the framework established for certification, if used correctly, will provide at least as good an outcome for at least 90 per cent of jobholders. Therefore, for SET 1 and SET 2 our analysis assumes pensionable earnings *is* at least equal to basic pay.

Below is a simplified example of what the review is aiming to assess under SET 1. Examples of calculations applied for SET2 and can be found in Chapter 8 of the analytical report[157].

<u>SET 1 – Example calculation*</u>

Person A, earns £15,000, of which £10,000 is basic pay.

Employer certifies under SET 1 and therefore pays 2 per cent contributions, total contributions are 3 per cent.

(As required in SET 1 conditions we assume pensionable earnings are greater than, or equal to basic pay).

Total contribution for **Person A is £300** (i.e. 3 per cent of £10,000), of which the **employer contribution is £200** (i.e. 2 per cent of £10,000).

The statutory requirement is **to check whether contribution outcomes are at least as good as contributions using qualifying earnings**.

Annual contributions using qualifying earnings- so contributions on earnings between lower bands and higher bands would have been **£182.48** (i.e. 2 per cent of £15,000 - £5,876), of which **employer contribution** would have been **£91.24**

Therefore as contributions under certification paid at least as much as those that would have been paid using qualifying earnings then the review requirements (in respect of) Person A have been met.

***** For illustrative purposes we have shown how the test for SET 1 is applied at an individual level; the statutory review requires that test is applied in aggregate to all jobholders.

[157] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

Review Findings

SET 1:

Minimum contribution under SET 1 are: 2 per cent employer contribution and 3 per cent total contribution.

The ASHE data, in Table 6.2, shows that since automatic enrolment was introduced (in 2012) certification under SET 1 would have delivered at least as good an outcome for over 90 per cent of jobholders at current contribution levels. Test using 2016 ASHE data (latest available data) shows 99.1 per cent of jobholders would get at least as much under SET 1 conditions as they would under qualifying earnings

Table 6.2: Proportion of jobholders meeting the alternative quality requirement, at phased current level of contribution level, 2012-2016

Great Britain					*Percentages*
Alternative quality requirements	**2012**	**2013**	**2014**	**2015**	**2016**
Jobholders with 3% of basic pay from pound one at least as much as 2% of qualifying earnings	98.8%	98.9%	98.9%	99.1%	99.1%

Source: DWP estimates derived from ONS ASHE, GB 2012-2016.

Based on findings above, our review concludes at least **90 per cent of all jobholders would have the same or better, outcomes under SET 1 certification as they would under contributions based on automatic enrolment qualifying earnings bands**.

SET 2:

ASHE analysis estimates over 90 per cent of jobholders (for all years 2012 to 2016) have pensionable earnings based on basic pay (from pound) which is at least as much as qualifying earnings -see Table 6.3.

Table 6.3: Proportion of jobholders with basic pay from pound one at least as much as qualifying earnings, 2012-2016

Great Britain					*Percentages*
Alternative quality requirements	**2012**	**2013**	**2014**	**2015**	**2016**
Proportion of jobholders with basic pay from pound one at least as much as qualifying earnings	92%	92%	92%	92%	93%

Source: DWP estimates derived from the ONS ASHE, GB, 2012 to 2016

SET 2 requires 2 per cent contribution of which minimum employer contribution is 1 per cent (see Table1), i.e. minimum contributions requirements under this set are exactly the same as minimum contributions under qualifying earnings. Given over 93 per cent of jobholders (2016 figures), have basic pay from pound one at least as much as qualifying earnings, it therefore follows that for over 90 per cent of job holders' contributions are likely to be at least as much as qualifying earnings.

Therefore, our review concludes at least **90 per cent of all jobholders would likely have, the same or better, outcomes under SET 2 certification as they would under contributions based on automatic enrolment qualifying earnings bands.**[158]

[158] It is not a requirement of the review to test whether total pensionable earnings of all relevant jobholders (taken in aggregate) to whom this set applies constitutes at least 85% of their total earnings. This would require earnings data at an employer level which our data source does not provide.

SET 3:

Minimum contributions under SET 3 are: 1 per cent employer contributions and 2 per cent total contributions.

As long as conditions under SET 2 have been met it is always true that certification, under SET 3 delivers at least as good an outcome. If all earnings are pensionable from pound one, then the total contribution need only be 1.73 per cent (with a 0.87 per cent employer contribution) in order for the contribution to be equivalent to 2 per cent (with a 1 per cent employer contribution) of qualifying earnings.

Based on the above, we can ascertain that the **90 per cent test under continues to be satisfied for SET 3.**

What is the degree of detriment for the group falling short of the 90 per cent test[159]?

At current contribution levels under SET 1, 0.9 per cent of job holders would not have at least the same outcomes under certification as they would under qualifying earnings at current contribution levels. This could be a consequence of greater proportion variable pay which is not included in pensionable income- for example, over-time pay.

0.9 per cent of jobholders represents approximately 170,000 out of over 18.6 million. The majority of these are close to achieving the same outcomes under certification as they would under qualifying earnings. Around three quarters, 125,000, have a ratio of 75 per cent or more - of 3 per cent basic pay to 2 per cent qualifying earnings.

Given these results, and that the 90 per cent test is overwhelmingly met in respect of nearly all job holders in our sample test, we do not believe government action is needed to address this issue. We will assess any changes to outcomes for this group at the next review in 2020.

Further analysis on this group can be found in Chapter 8 of the analytical report[160].

Equality Assessment

As discussed above, 99.1 per cent of jobholders are likely to have at least the same outcomes under certification (at current contribution levels) as they would under qualifying earnings. For the purposes of the equality assessment our analysis focused on the remaining 0.9 per cent of jobholders shown as not having at least the same outcomes under certification. We compared the group who wouldn't get at least as good an outcome with the group that would.

We found the greatest disparity was in distribution by sex. 79.2 per cent of job holders in this group (i.e. 0.9 per cent shown as not having at least the same outcomes under certification) are likely to be men in full-time employment. When looking at distribution by age, we found the impacts on 16-21 and 30-39 age groups[161] were slightly higher. However, we do not believe policy design on alternative quality requirement has had an effect on this distribution.

Distribution by occupation/industry shows the two occupations most affected were process, plant and machine operative occupations, and sales and customer service occupations. It is likely the outcomes above could be affected by a typically greater labour market participation amongst men, and young workers respectively in these occupations. More data on this group can be found in Chapter 8 of the analytical report[162].

[159] DWP estimates derived from ONS Annual Survey of Hours and Earnings, GB, 2016.
[160] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends
[161] Approximately 9 % and 21% for 16-21 and 30-39 age group respectively
[162] DWP Automatic Enrolment 2017 Review: Analytical Report https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

Data breakdowns on disability and ethnicity are not available from ASHE. However, we will monitor any other available data, as well as stakeholder feedback in order to identify any actual or potential adverse impacts resulting directly from the policy on alternative test and aim to resolve these.

As stated above, contributions under certification is delivering the same or better outcomes in respect of the overwhelming majority of job holders. In addition, for the 0.9 per cent of job holders who would not have at least the same outcomes under certification around three quarters in this group have a ratio of 75 per cent or more - of 3 per cent basic pay to 2 per cent qualifying earnings. The Government is therefore not proposing to make any changes.

The PSED is on an ongoing duty and DWP is committed to continually monitoring the impacts of its policies. We will use the next review in 2020, to continue to assess whether there are any unintended consequences or adverse impacts on protected groups arising from this policy. In addition, we will continue to monitor feedback from stakeholders and individuals through our normal feedback channels to assess the broader impact of the policy.

Conclusion

The Secretary of State is under a duty to carry out a triennial review testing whether at least 90% of all jobholders would have the same, or better, outcomes under certification using alternative quality requirement as they would under contributions based on qualifying earnings. Findings from our analysis shows certification would likely result in at least the same outcomes for 99.1% of jobholders. Our review concludes the 90% test has been met.

For the remaining 0.9 per cent for whom the test is not being met, around three quarters of job holders are within 75% ratio to achieving the same outcomes under certification as they would under qualifying earnings. We do not believe government action is needed to address this issue.

In relation to the wider package of proposals, removing the lower earnings band could have consequential impacts on the alternative quality requirements. This is because minimum contribution levels under alternative quality requirements are intended to broadly reflect contributions under qualifying earnings. As indicated in earlier chapters, those proposals are subject to a consultation. We will consider impacts in more detail as the policy is worked up.

The next review will be carried out in 2020.

Statutory review of regulations in respect of Seafarers and Offshore workers

In addition to the two statutory reviews detailed in this chapter the Secretary of State for Work and Pensions is also required to review the regulations introduced in 2012 to extend the coverage of the workplace pension reforms to seafarers and offshore workers. The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012,[163] which amend the Automatic Enrolment Regulations 2010 and The Automatic Enrolment (Offshore Employment) Order 2012,[164] extended the scope of automatic enrolment to include seafarers and offshore workers if they are ordinarily working within the United Kingdom.

The Secretary of State is required to review the operation of these regulations and publish a report by July 2018. In addition Article 1(2) of the Automatic Enrolment (Offshore Employment) Order 2012 is a 'sunset clause' which provides (with some exceptions) that the Order ceases to have effect on 1st July 2020. Following the review it will fall to the Secretary of State to consider whether the Order should be allowed to expire, be revoked early, or continue to be in force with or without amendment by July 2020.

Although the Department is not required to report on these regulations until July 2018, for expediency, a series of questions in relation to the operation of the regulations for seafarers and offshore workers were included with the public call for evidence[165] published in July 2017 for the statutory review of alternative quality requirement for defined benefit schemes, as detailed earlier in this chapter. Early indications from the responses received, see Annex 8, suggest support for seafarers and offshore workers to continue to be subject to automatic enrolment. More targeted stakeholder engagement will take place in early 2018 to support the ongoing review and ensure that the report is published, in line with statute, by July 2018.

[163] The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2012
[164] The Automatic Enrolment (Offshore Employment) Order 2012
[165] https://www.gov.uk/government/consultations/automatic-enrolment-defined-benefit-alternative-quality-requirements-and-provisions-for-seafarers-and-offshore-workers

Annexes

Annex 1 - Technical operation of automatic enrolment

From their introduction it was recognised that the workplace pension reforms marked a new departure and would place costs on those employers with automatic enrolment duties. Nevertheless, the intention was that contributing to their employees' workplace pensions should come to be regarded as a normal legal duty of an employer, just like paying the NMW and NLW, tax and NI contributions.

Successive governments have worked to ensure that the regulatory burden associated with the reforms is at the minimum level proportionate to the achievement of automatic enrolment's policy aims. Government has set a high bar for considering changes to the legislative requirement for automatic enrolment, prioritising measures that would improve the ability of employers and the pension industry to operate automatic enrolment in a straightforward way.

We continue to take a pragmatic approach to improving the technical operation of the reforms, and to addressing issues with the automatic enrolment regulatory framework that may arise in the future. We will always aim to give stakeholders sufficient time to consider future proposals to change the technical framework for automatic enrolment.

In the last seven years, automatic enrolment has evolved in response to lessons learnt from operating the framework at scale. Since the Pensions Act 2008 and following the Making Automatic Enrolment Work Review in 2010 there have been a series of changes to the legislation to make automatic enrolment simpler and less administratively burdensome for employers. The table below provides more detail on these changes:

Chronology of administrative changes to automatic enrolment	
Making Automatic Enrolment Work Review Report 2010[166]	Recommendation that automatic enrolment earnings threshold be aligned with income tax personal allowance and NICs primary threshold; Optional 3 month waiting period for employers prior to enrolment of a new worker. More flexibility for employers to choose their enrolment dates during staging Staging timetable changed to give smaller employers until at least 2015 to prepare for automatic enrolment.
Pensions Act 2011[167]	Annual threshold (for being automatically enrolled), initially aligned with the threshold

[166] Making Automatic Enrolment Work Review (2010): https://www.gov.uk/government/publications/making-automatic-enrolment-work-a-review-for-the-department-for-work-and-pensions
[167] Pensions Act 2011

	for paying income tax. Lower limit for the band of automatic enrolment contributions aligned with National Insurance Contribution threshold[168]; Introduced simplified scheme quality test for defined benefit schemes; Introduced optional 'waiting period' of up to 3 months before a qualifying worker must be automatically enrolled (postponement).
DWP public consultation and government response (Workplace Pension Reform consultation: completing the legislative framework for automatic enrolment – January 2012[169])	Removed employers with fewer than 10 workers from the automatic enrolment staging profile until May 2015. Introduced the new, simplified certification test for defined benefit schemes, and associated regulations and guidance; Provisions on the applicability of automatic enrolment to seafarers, police not under a contract of employment, and offshore workers.
Pensions Act 2014[170]	Introduced an alternative quality requirement for DB schemes Simplified the information requirements on employers Created exceptions to the employer duty in certain circumstances
The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2015[171]	Introduction of an alternative quality requirement for defined benefits (DB) schemes; Simplifying the information requirements placed on employers; Creating exemptions from being automatically enrolled for individuals with tax protected status for their existing pension savings; who have given or been given notice of termination of employment; who cancel membership of a qualifying scheme.
The Occupational and Personal Pension Schemes (Automatic Enrolment)	A simplified process for the re-declaration of compliance;

[168] Pensions Act 2011: http://www.legislation.gov.uk/ukpga/2011/19/section/5
[169] Workplace Pension Reform consultation: completing the legislative framework for automatic enrolment – January 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/184761/workplace-pension-reform-consult-response.pdf
[170] Pensions Act 2014, http://www.legislation.gov.uk/ukpga/2014/19/contents
[171] The Occupational and Personal Pension Schemes (Automatic Enrolment) Regulation 2014 (SI 2015/501)http://www.legislation.gov.uk/uksi/2015/501/contents/made

(Miscellaneous Amendments) Regulations 2016[172]	A simpler process to make it easier for employers to bring their staging date forward; Further exceptions to the employer duties in certain circumstances. (Company directors and genuine partners in LLPs).
The Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2017[173]	A change to the automatic enrolment duties trigger set out in legislation for these new employers (known as post-staging employers); Extending to these employers the option to postpone automatic enrolment for their workers (currently this compliance easement is available only to employers within the automatic enrolment staging profile.

The government has taken account of the experiences of employers implementing the reforms and DWP has worked closely with the Pensions Regulator (as the compliance authority) to make the process of complying with the automatic enrolment duties more straightforward for all employers. This engagement with stakeholders continued during the 2017 Review, with views sought about where regulatory burdens may still need to be addressed, and requests for any proposals to improve the operation of automatic enrolment. The rest of this chapter summarises the proposals put forward and the government's response.

Pay reference periods being aligned with tax periods

We examined whether or not there was potential complexity in offering a choice to individual employers around which definition of pay reference periods they could use. During ongoing engagement with stakeholders, we received feedback that the process might be simplified by just having one definition, and that of the two, the definition aligned with tax periods was administratively the easier.

Stakeholders who attended our technical operations workshop, however, thought it unnecessary to remove this choice as in their view the permissive approach allows choice, is not causing employers difficulties and they were already successfully managing the existing process.

We have therefore decided not to make any changes at this time.

Change automatic enrolment to avoid the potential for part period calculations for newly enrolled workers

At the moment it is up to employers and their chosen providers to manage the implications of enrolling of a qualifying worker part way through an assessment period. DWP and the Pension Regulator suggested allowing employers a full calendar month to process the enrolment of a qualifying worker; which it was believed would help organisations where their payroll cycle did not align with the start date of automatic enrolment duties for a new member of staff.

172 The Occupational and Personal Pension Schemes (Automatic Enrolment) (Miscellaneous Amendments) Regulations 2016: http://www.legislation.gov.uk/uksi/2016/311/contents/made
173 http://www.legislation.gov.uk/uksi/2017/79/contents/made

Stakeholders generally thought that dealing with a new worker's enrolment part-way through a payroll period, although not ideal, was now understood by the payroll industry and could be managed within the existing flexibilities (e.g. by use of postponement). It was thought that individual employers/providers should retain the choice and freedom to handle this issue for themselves, rather than introduce a further change to the process for managing the enrolment of a new worker.

We have therefore decided not to make any changes at this time.

Eliminating opting in during postponement

Where an employer exercises their right to postpone the initial automatic enrolment of a qualifying worker, the affected worker has the option to ask their employer to put them into a workplace pension immediately. Consideration was given to removing the ability of a worker to request this override of postponement. However, the current low take up of this option by workers means the removal of the 'opt in' provision was not viewed as a worthwhile trade-off for making a change to the current well understood administrative processes for an employer making use of postponement.

We have therefore decided not to make any changes at this time.

Annex 2 - Review of automatic enrolment – initial questions

Automatic enrolment is a policy that works. So far over 7.1 million people have been enrolled and more than 370,000 employers have met their duties. By 2018 we estimate that around 10 million people out of the current target eligible population of 11 million will be newly saving or saving more as a result of automatic enrolment. The purpose of this review is to build on that success. The review is focused on how to ensure that automatic enrolment continues to meet the needs of individuals saving for their retirement in the future, and that the technical operation of the policy is working as intended.

The review will have regard to s149 of the Equality Act and three principles: fairness, affordability and sustainability through:

1. Ensuring that automatic enrolment continues to meet the needs of individual savers while,
2. Balancing the needs of individuals with the costs to employers and, where possible, minimising the administrative burden on employers through simplifying and streamlining employer duties; and
3. Ensuring value for money for the taxpayer.

The review will be conducted by DWP with advice, insight and challenge provided by an external Advisory Group.

To inform the work of the DWP Review team and Advisory Group, we are inviting views and evidence on the following matters.

Theme 1 – Coverage

The review will explore the existing coverage of automatic enrolment, and how to achieve the right balance between enabling as many people as possible to save in a workplace pension whilst ensuring that it should make economic sense for them to be included. In doing so, we will consider the continuing evolution of the labour market since automatic enrolment was introduced, particularly the rise of the gig-economy, and the growing population of the self-employed. We would be grateful for your views, including on the following:

Questions

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

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?

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?

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

1 Details of automatic enrolment eligibility criteria can be found here: http://www.thepensionsregulator.gov.uk/docs/resource-diff-types-of-worker.pdf

Theme 2 – Engagement

Automatic enrolment was designed to ‘nudge’ people into saving in a workplace pension and create a default position so that the individual will save unless they take an active decision to opt out.

The review will not only explore this approach but also how individuals are engaging with saving through automatic enrolment or their existing workplace pension saving. We will look at communications around the processes of automatically enrolling employees and where more effective engagement could drive greater personal ownership and enable people to understand and maximise their savings.

This will include looking at behaviours that have been shown to sustain engagement in savings other than pensions. We would be grateful for your views, including on the following:

Questions

1. What examples are there of effective communications and engagement tools that have delivered: o sustained workplace pension saving over the long term, and increased levels of savings resulting from changing contribution rates?

2. 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?

3. What are the challenges and barriers to sustained or timely engagement for different cohorts and individuals, and how can they be overcome?

4. What are individual attitudes to workplace pension saving and what influences those attitudes?

Theme 3 – Contributions

Automatic enrolment has delivered a huge increase in participation in workplace pension saving. Under existing legislation contribution rates will increase in April 2018 and April 2019. Our ambition in the review is to strengthen the evidence around appropriate future contributions into workplace pensions after April 2019, recognising the need to understand how individuals and employers will respond to the planned increases. We do not expect to make policy recommendations in this area during 2017. The intent is to develop and deepen understanding of the issues around contribution rates to inform longer term policy thinking. We would be grateful for your views, including on the following:

Questions

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

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

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?

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?

The wider review activity

In addition to the three themes identified above, the department will be engaging with stakeholders separately on wider issues. The review will be an opportunity to consider whether the technical operation of the policy is working as intended. The review will also include the requirements set out in legislation relating to the statutory review of the alternative quality requirements for defined benefits schemes (section 23A) of the Pensions Act 2008) and for certification requirements for money purchase schemes (section 8 of the Pensions Act 208).

An examination of the level of the charge cap will also be incorporated within this review. This will include considering what effect the charge cap (as well as any other factors) may have had on charge levels in the market, whether the cap has influenced investment approaches and to what extent it has led to changes in service providers e.g. pension providers or asset managers.

Questions

1. What are the advantages and disadvantages of lowering the level of the default fund charge cap?

2. What are the advantages and disadvantages of extending the cover of the charge cap to include some or all transaction costs?

Who are these questions aimed at?

We would like to hear from workers, employers, employee representatives, pension industry professionals, including occupational workplace pension scheme administrators, payroll administrators, accountants, payroll bureaux, independent financial advisors, employee benefit consultants, and comments from the general public are also welcome.

When to provide your views

We would like to hear from you before **22 March 2017.**

How to respond

Please send your responses to the Automatic Enrolment 2017 Review Team at 2017AUTOMATIC.ENROLMENTREVIEW@DWP.GSI.GOV.UK

Or by post to: AE 2017 Review Team, Private Pensions Directorate Department for Work and Pensions

First Floor, Caxton House

Tothill Street, London SW1H 9NA

When responding, please tell us whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who your organisation represents, and where applicable, how the views of members were assembled. We will acknowledge your response.

Freedom of Information

The information you send us may need to be passed to colleagues within the Department for Work and Pensions and to members of the external Advisory Group for the Review, published in a summary of responses received and referred to in the published report.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

To find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact:

Central Freedom of Information Team 4th Floor, Caxton House, Tothill Street, London, SW1H 9NA.

Freedom-of-information-request@dwp.gsi.gov.uk

The Central FoI team cannot advise on specific consultation exercises, only on Freedom of Information issues. More information about the Freedom of Information Act can be found at https://www.gov.uk/make-a-freedom-of-information-request

Government response

Towards the end of the year the government will publish a report to Parliament, which will be placed on www.gov.uk

The department will consult on any proposals that require legislative change

Annex 3 - Review of Automatic Enrolment - Advisory Group Terms of Reference

1. Purpose

1.1. The purpose of the Advisory Group (‘the group’) is to support the work of the DWP review team conducting the Review of Automatic Enrolment (‘the review’) by providing advice, insight and a challenge function. The group will comprise three chairs each leading on a key theme within the review (3.1 below) with supporting membership from a range of experts. Advice will be provided by the group to the DWP review team to inform DWP’s development of a report to the Secretary of State for Work and Pensions.

1.2 Together the advice from the group should reflect the views of key interest groups, such as representatives of employers and individuals, pension providers and professional advisers.

1.3 The work of the group will have regard to s149 of the Equality Act and the principles of fairness, affordability and sustainability in providing advice on future policy development through:

- Ensuring that automatic enrolment continues to meet the needs of individual savers while,
- Balancing the needs of individuals with the costs to employers, where possible minimising the administrative burden on employers; and
- Ensuring value for money for the taxpayer.
- Recognising consistency with other recent developments in the wider pensions and savings landscape.

2. Context

2.1 The purpose of the review is to build on the success of the automatic enrolment programme, and to focus on how to ensure that the programme continues to meet the needs of individual savers for the future, and that the technical operation of the policy is working as intended.

2.2 Since the 2010 review - Making Automatic Enrolment Work - and the beginning of the roll-out of the programme in 2012, there have been major changes in the pensions and savings landscape, and the labour market, and the group will reflect on the wider context within which automatic enrolment sits and issues including:

- Automatic enrolment policy; the timetable for phased increases in contributions, current thresholds and the forecast for staging through to 2018.
- Policy changes; including the introduction of the new State Pension, changes to the State Pension age and the introduction of the Fuller Working Lives agenda; pension freedoms and the Lifetime ISA.
- The Advisory Group should also be aware of and take into consideration the examination of the level of the charge cap that is being undertaken in 2017. This work will also consider whether some or all transaction costs should be covered by the charge cap, which applies to the default arrangement of schemes used for automatic enrolment.

- The Department's examination of the technical operation of automatic enrolment and potential simplification measures.
- The evolving labour market, including having regard to the Taylor Review and the introduction of the National Living Wage.

3. Scope

3.1. The group will provide evidence-based advice (the evidence and data gathering process where relevant will be in accordance with accepted standards and best practice) on three themes:

a) Strengthening the **engagement of individuals with workplace pensions** so that they have a stronger sense of long-term personal ownership and are better enabled to understand and maximise savings.

b) The existing **coverage of automatic enrolment** and the balance between enabling as many people as possible to save in a workplace pension whilst ensuring that it should make economic sense for them to be included.

c) Strengthening the evidence base around **appropriate contributions into workplace pensions.**

4. Resources

4.1. The group will work closely with DWP, and will be supported by the DWP review team. DWP will lead on any options analysis and economic modelling and provide all secretariat support for the group.

5. Deliverables

5.1. The group must submit their advice to DWP, which will be reflected in a report produced by the DWP review team for the Secretary of State. The report will be laid before Parliament during 2017.

6. Membership

6.1. The three chairs of the group and lead areas are:

Ruston Smith (Trustee Director at Peoples' Pension) – strengthening personal engagement.

Jamie Jenkins (Head of Pensions Strategy, Standard Life) – coverage of automatic enrolment

Chris Curry (Director, Pensions Policy Institute) – evidence base on future contributions.

The other members of the Advisory Group are:

Member		**Organisation**
1	Carl Emmerson	Deputy Director, Institute of Fiscal Studies
2	Jane Vass	Director of Policy & Research, Age UK
3	Neil Carberry	Director for people and skills, Confederation of British Industry
4	Linda Ellett	KPMG, partner – Tax and Pensions Practice
5	Nigel Stanley	NEST Members' Panel, Chair
6	Jocelyn Blackwell	Trustee Director NOW: Pensions
7	Judith Hogarth	Pensions policy for the EEF

All members have agreed to the terms of reference and appropriate confidentiality agreements.

Annex 4 - Automatic Enrolment Review Scope

House of Commons: Written Statement

Department for Work and Pensions

Written Statement made by: The Parliamentary Under-Secretary of State for Work and Pensions (Mr Richard Harrington) on 12 Dec 2016

Automatic Enrolment Review Scope and Annual Thresholds Review

I am pleased to confirm both the scope of the automatic enrolment review and the proposed automatic enrolment thresholds for the next financial year.

Automatic enrolment has been a great success to date with almost 7 million people enrolled by more than 293,000 employers. It will give around 11 million people the opportunity to save into a workplace pension and we expect this to lead to around 10 million people newly saving or saving more by 2018, generating around £17 billion a year more in workplace pension saving by 2019/20.

Analysis cited in DWP's annual automatic enrolment evaluation report today shows that nearly £82bn was saved into workplace pensions last year by employees who were eligible for automatic enrolment.

Automatic Enrolment Review

It is important to continue to build on this success, and I am keen to ensure that there is joint consensus from across industry as we move to the next stage of this policy.

The main focus of the review will be to ensure that automatic enrolment continues to meet the needs of individual savers. In doing this we will look at the existing coverage of the policy and consider the needs of those not currently benefiting from automatic enrolment, for example employees with multiple jobs who do not meet the criteria for automatic enrolment in any of their jobs. We will also examine the automatic enrolment thresholds namely, the trigger and the qualifying earning bands required by legislation (Section 14 of the Pensions Act 2008) and the age criteria for automatic enrolment. I would also like to use the review to consider how the growing group of self-employed people can be helped to save for their retirement.

The review will be an opportunity to consider whether the technical operation of the policy is working as intended. In doing this we will consider whether there may be any policies which disproportionately affect different categories of employers or could be further simplified.

The review will also include the requirements set in legislation relating to the statutory review of the alternative quality requirements for defined benefits schemes (section 23A of the Pensions Act 2008) and for the certification requirements for money purchase schemes (section 28 of Pensions Act 2008).

An examination of the level of the charge cap, which was intended to take place in 2017, will also be incorporated within this review. This will assess whether the level of the cap should be changed and whether some or all transactions costs should be covered by the cap.

In the early part of 2017 we will be engaging with stakeholders from across industry on these issues. Towards the end of 2017 we will publish a report setting out policy recommendations.

The review will be an opportunity to strengthen the evidence around appropriate future contributions into workplace pensions. It will also consider how engagement with individuals can be improved so that savers have a stronger sense of personal ownership and are better enabled to maximise savings. We do not expect to make policy decisions on these areas during 2017.

The automatic enrolment review work will be led by a DWP team and supported by an external advisory group. This group, which will be chaired by and made up of experts from within the pensions industry, and those representing member interests and employers, will provide insight and a challenge function to help shape proposals. In early 2017 we will announce membership and the Terms of Reference for this group.

Annual Thresholds Review

The annual review of the automatic enrolment earnings thresholds has also now been completed.

It is intended to lay an Order before Parliament in the New Year which will include the following, for 2017/18: £45,000 for the upper limit of the qualifying earnings band; £5,876 for the lower limit of the qualifying earnings band.

The automatic enrolment earnings trigger will be frozen at £10,000.

I will place a copy of the analysis (review of the automatic enrolment earnings trigger and qualifying earnings band for 2017/18: supporting analysis) supporting the proposed revised thresholds in the House library and a copy is attached. These papers will be available later today on www.gov.uk website.

Annex 5 - Annual benefit statement

Your F&G Retirement Account Statement

Your Name:	Jo Bloggs
Your Member No.:	012345678901
Your Address:	1 Smith Street, Smithtown, Smithshire, SM1 1SM
Statement Date:	24 August 2017

Your statement shows you three things:

1. **How much money you've got in your Account now**
2. **How much money you could have on your 65th birthday**
3. **What you could do to give yourself more**

If you'd like to know more about the F&G pension scheme or any of the information in your Account Statement, please visit [website of trustees or administrators] or phone [name of 'team' and telephone number for trustees or administrators].

1. How much money you've got in your Account now

So far, you have put **£14,100** into your Account

In total, you have got **£46,300** in your Account

Last Year	
Money in your Account on 24 August 2016	£40,320
This Year	
You've put in	£ 1,600
Your employer has put in	£ 3,200
You've had as 'tax relief'	£ 400
Investment returns	£ 2,140
The cost of managing and investing your money	- £ 1,360
Total amount in your Account on 24 August 2017	£46,300
If you had asked us to transfer your money to another pension scheme on 24th August 2017, we would have transferred	£46,285

See how money goes into your Account, how it's invested and how we charge you for managing it at **F&Gpension.co.uk/myaccount**

2. How much money you could have on your 65th birthday

The money in your Account could be worth what **£138,771** is worth today

It might buy a regular income worth what an income of **£6,994** is worth today

Why do we talk about what your Account and income are 'worth'? The answer is – because of inflation. Inflation makes money worth less in the future. We've worked out that, when you're 65, the money in your Account might buy what £138,771 would buy today. The income you could buy with this money would be like having an income of £6,994 today.

Buying a regular income is just one of the things you could do with the money in your Account. Find out about the different ways you can use the money at **F&Gpension.co.uk/usingmoney**

3. What you could do to give yourself more

1. **Put more money into your Account**
   If you do this, your employer will put more in too. And you'll get more as 'tax relief'. For example:

Every month you put in an extra		Your employer puts in an extra		Tax Relief		Total
£40	+	**£80**	+	**£10**	=	**£130**

If an extra
£130
goes in every month

Instead of being worth **£138,771**, your Account could be worth
£169,011
on your 65th birthday

2. **Don't use the money on your 65th birthday – maybe even keep adding to it**
   You don't have to use the money in your Account when you're 65. You don't have to stop putting money into your Account either. Even if you stop putting money in, leaving it to grow a bit longer could mean you have more money when you come to use it.

Increase the amount of money you put into your Account, or change your planned retirement date at **F&Gpension.co.uk/myaccount**

When you're thinking about the money you could have on your 65th birthday and the income it might give you, here are some things to bear in mind

We worked these figures out on the 24th August 2017. Lots can happen between then and when you're 65. So, these figures don't come with a guarantee. We can't promise that this is exactly the amount of money you or anyone else benefiting from this Account will get. You may end up with more or less than this amount. We give you these figures as a guide. They show what you might get, to help you plan for your future. When you're thinking about your future, remember that you might have income from other sources – for example, most people get a State Pension.

When we worked out the amount of money you might have in your Account, we assumed that:

- you keep putting £1600 into your Account every year and your employer keeps putting in £3200
- you keep investing in the same funds, and those funds perform as we expect them to

Like every pension scheme, we also used some assumptions about the funds you invest in and the returns you get from those funds. In reality, you may not be invested in exactly those funds and they may not give you the returns we expect. This is another reason why the amount you end up with in your Account and the income that might give you, may be different from what we've shown here.

When we worked out the income you might get, we assumed that:

- you use all of the money in your Account to give yourself an income – so you don't take some of it as a tax-free lump sum
- you want the same amount of income every year. You don't want that income to go up or down
- you want the income to be guaranteed for five years. This means that, if you die within the first five years of receiving an income, it is paid to your spouse or civil partner until that five-year period is up. If you don't want this guarantee, your income could be higher.
- you don't want your spouse to get an income – other than any income they might get because of the five-year guarantee

The amount of income the money in your Account could give you depends on annuity rates. These rates are used to work out the amount of income you get for every pound in your Account. If annuity rates are not what we expect them to be when you're 65, your income could be higher or lower than we have shown here.

General assumptions we use to work out these figures
To work out these figures, we use some general assumptions about how your money is invested and how it will grow. Find out about these assumptions at **F&Gpension.co.uk/estimatingyourincome**

Annex 6 - Respondents list

List of respondents

Association of British Insurers (ABI)

Association of Consulting Actuaries (ACA)

Aegon

Age UK

AHC

Aon

Aviva

BlackRock

Capita Employee Benefits

Cardano

Carers UK

Confederation of British Industry (CBI)

Creative Benefits Group

DC Investment Forum

Fidelity International

First Actuarial LLP

Federation of Small Businesses (FSB)

GMB Union

Hargreaves Lansdown

Hayley James

Institute of Chartered Accountants in England and Wales (ICAEW)

Institute and Faculty of Actuaries (IFoA)

IRIS Software Group

JP Morgan Banks

JTL Benefit Solutions

KPMG

Langwith Junction

Legal & General

London School of Economics

Lyncombe Consultancy Ltd

Mattioloi Woods PLC

Mercer

NEST

Prudential

Royal London Group

Salvus Master Trust

Scottish Widows

Share Action

Smart Pension

Society of Pension Professionals

Standard Life

Supertrust UK

The Investment Association

The People's Pension

Tax Incentivised Savings Association (TISA)

The Trades Union Congress (TUC)

USDAW

Unite

Vanguard Asset Management

Which

YBC Ltd

Zurich Insurance

NOW Pensions

Pensions Policy Institute

Pensions and Lifetime Savings Association (PLSA)

Prospect Union

Annex 7 - List of respondents to the call for evidence on: 'Alternative Quality Requirements for Defined Benefit Schemes'

- Aon Hewitt Limited
- British Telecom
- Mercer
- Institute and Faculty of Actuaries- IFoA
- The Pensions Advisory Service- TPAS
- Society of Pension Professionals – SPP
- Willis Towers Watson
- Association of Consulting Actuaries - ACA

Annex 8 - List of respondents to the call for evidence on: Seafarers and Offshore Workers

- The Pensions Advisory Service- TPAS (combined response to Alternative Quality Requirements for Defined Benefit Scheme – see above)

- Mercer - (combined response to Alternative Quality Requirements for Defined Benefit Scheme – see above

- Nautilus International

- Ensign Retirement Plan

Annex 9 - Post Implementation Review of Alternative Quality Requirements for Defined Benefit schemes

Title: Post Implementation Review of Alternative Quality Requirements for Defined Benefit schemes	Post Implementation Review
PIR No: DWP2017_PIR_001	**Date: 06/11/2017**
Original IA/RPC No: RPC14-FT-DWP-2215(2)	**Type of regulation: Domestic**
Lead department or agency: DWP	**Type of review: Statutory**
Other departments or agencies: **N/A**	**Date measure came into force:** **01/04/2015**
	Recommendation: Amend
Contact for enquiries: Elellta Beyene- 02073404286	**RPC Opinion: not applicable** Choose an item.

1. What were the policy objectives of the measure?

Automatic enrolment into workplace pensions was introduced in 2012 to enable more people to save for their retirement and to normalise saving for most people in work. The law requires employers to enrol all eligible[174] 'jobholders[175]' into a scheme of sufficient quality. Employers who choose to use a Defined Benefit (DB), or hybrid scheme to meet their automatic enrolment duties must ensure their scheme meets the minimum quality requirements set out in law.

The legislative basis for alternative quality requirement for DB pension schemes and defined benefit sections of hybrid schemes is set out in the section 23A and S24(a)(b)) of the Pensions Act 2008 respectively. Details of the alternative tests were introduced in 2015 through 'The occupational and personal pensions (automatic enrolment) (amendment) regulations 2015' which amended the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010' (the Regulations).

The legislation as amended introduced two alternative tests of scheme quality available to employers offering DB schemes or certain hybrid schemes:

A cost of accruals test – based on the cost to the scheme of the future accrual of active members' benefits; and

A test enabling hybrid schemes which meet prescribed requirements to use the money purchase quality requirements

[174] Eligibility is defined as jobholders who are aged between 22 and State Pension age, earning over £10,000 in 2016/17 section 3 2008 Act
[175] Job holder is defined as is a worker—(a)who is working or ordinarily works in Great Britain under the worker's contract, (b)who is aged at least 16 and under 75, and (c) to whom qualifying earnings are payable by the employer section 1 of Pensions Act 2008

The objective of the alternative tests is to minimise the burden on schemes by providing the option of a substitute, simpler test when determining if a DB or hybrid scheme meets the quality requirements for automatic enrolment.

This was followed by technical change which for a transitional period[176] allows formerly contracted out schemes to apply the cost of accrual test at a scheme level rather than benefit scale level even where there is material difference in the cost of providing benefits to its members. This measure was introduced ahead of the ending of contracting out from April 2016, and is intended to streamline the test for formerly contracted out schemes that are typically delivering benefits that were at least equivalent to, or in excess of, the requirements for contracting-out of the second State Pension.

The regulations on alternative quality requirements are permissive. The intended effect is that schemes/employers sponsoring DB schemes will have the option of using the less onerous test, but ultimately schemes have the choice of applying the original test- the test scheme standard (TSS) or the alternative quality requirement based on their circumstances. In simple terms, a scheme satisfies the TSS if it provides broadly equivalent benefits to pensions provided under the test scheme (a hypothetical DB scheme).

An impact assessment[177], validated[178] by the Regulatory Policy Committee (RPC) was published alongside the 2015 Regulations.

Statutory review requirement:

The Department is required to carry out a statutory review of the Regulations during 2017, and thereafter at no more than three yearly intervals. This Post Implementation Review outlines views on the effectiveness of the relevant regulations and the Government’s next steps.

2. What evidence has informed the PIR?

The regulation on alternative quality requirement is permissive. As such, employers and advisors have the option of adopting the simplified tests or, continuing to use the original test – TSS if that works better for them. The impact assessment for the 2015 regulations[179] assessed the measure as zero net cost and deregulatory (an ‘OUT’). The assumption applied was employers and their advisors would only adopt the alternative tests if the benefits outweigh the costs.

We estimate one per cent of employers use formerly contracted out DB schemes (therefore a maximum take-up of one per cent of employers assuming ALL employers make use of the simplifications). Given the direction of impact on business i.e. **permissive simplification; the level of potential impacts; and that this is a repeat review**, we considered a light-touch review concentrating mainly on a public consultation is proportionate. Further, the transitional arrangements discussed in sections above will be in place until 2019. In view of this and in recognition that the Department is required to carry out the next review in 2020, we believe that will be a more appropriate time to re-examine this policy in even more detail.

[176] The transitional period ends either the date of the first report signed by the actuary after 5 April 2016 that breaks down the cost of accruals to benefit scale level; or 5 April 2019, whichever comes first.
[177] http://www.legislation.gov.uk/ukia/2015/133/pdfs/ukia_20150133_en.pdf
[178] http://www.legislation.gov.uk/uksi/2015/501/pdfs/uksirpc_20150501_en_002.pdf
[179] http://www.legislation.gov.uk/ukia/2015/133/pdfs/ukia_20150133_en.pdf

The Department's approach is consistent with the guidance provided in the Better Regulation Framework which recommends that the level of evidence collected should be consistent with: the level of impacts; the degree to which policy is contentious, novel or risky; and the overall costs of obtaining of data. In the context of this PIR we considered a review for which the main evidence base is a public call for evidence is a proportionate approach.

The call for evidence[180] was targeted at employers, employee representatives and pension industry professionals, to provide a broad spectrum of opinion on which to base our assessment. The Department sought feedback on the implementation of specific elements of the regulations as well as the overall operation of the policy.

We considered:

- Whether the alternative quality requirements for DB schemes broadly deliver the intended simplifications and flexibility in contrast to the Test Scheme Standard (TSS)
- The degree to which the simplifications were being utilised
- Whether employers and advisers were making use of the further transitional arrangements intended to provide further simplifications for a limited period (introduced through the 2016 regulations) were being utilised
- Any unintended consequences
- How the regulations could be further simplified to reduce the burden on employers

We received detailed feedback from eight organisations, whose members have a direct interest in this legislation. Respondents represent a cross section of interested parties, including actuarial organisations, trade associations and representative body of providers of advice and services to work-based pension schemes.

3. To what extent have the policy objectives been achieved?

The evidence gathered for the review suggests the objectives of the alternative quality requirement: to provide a simplified quality test which caters for the bulk of DB schemes, is broadly being met. Respondents largely agreed the alternative tests deliver the intended simplifications for the majority of DB schemes, but the structure of the cost of accrual test is not suitable for certain schemes in select circumstances.

Following the review the Secretary of State's decision is to maintain the vast majority of the regulations without changes. The only change the Department will further explore will be in relation to active members of DB schemes who voluntarily choose to make contributions at a level below qualifying levels. We propose to explore making legislative changes which would allow schemes to disregard any such members' benefits from the cost of accruals test. Proposed changes will be subject to consultation.

[180] https://www.gov.uk/government/consultations/automatic-enrolment-defined-benefit-alternative-quality-requirements-and-provisions-for-seafarers-and-offshore-workers/automatic-enrolment-defined-benefit-alternative-quality-requirement-and-provisions-for-seafarers-and-offshore-workers

Sign-off for Post Implementation Review: Chief economist/Head of Analysis and Minister

I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: Date: 11/12/2017

Further information sheet

Please provide additional evidence in subsequent sheets, as required

4. What were the original assumptions?(Maximum 5 lines)

For the purposes of the 2015 impact assessment (IA)[181], costs and benefits of the regulatory change was assessed to be deregulatory with a net benefit of zero. As the change is permissive it was not possible to make any robust conclusions or assumptions on what proportion of employers will use the alternative DB quality tests. We could have tried to identify those who had applied the tests through a survey but it was felt that the level of burden this would place on businesses would be disproportionate.

Assumptions on employers affected :

The **original IA identified** the employers potentially affected by this change would be:

- Those who have existing open DB schemes and have yet to stage[182] (and who intend to use them for automatic enrolment); and
- Those whose DB scheme were contracted out at the time and will have to show that their scheme meets the quality requirements for AE from April 2016 (if they intend to use the scheme for automatic enrolment).

The IA assumed the regulations would in reality affect a very small proportion of all employers in the private sector due to the relatively small proportion of employers with open DB schemes –in 2013 approximately one per cent of all employers offered a DB scheme to workers[183].

The IA also identified these were likely to be predominantly large employers. Of the one per cent of private sector employers offering DB pension schemes 57 per cent have more than 1,000 employees and 44 per cent with 500-999 employees as opposed to 1 per cent of organisations with 1-49 employees[184].

At the time the impact assessment was drafted, there were approximately 1.3 million employers left to stage. Of these approximately 770,000 are small and micro employers with the rest consisting of new employers (who will overwhelmingly be small and micro employers). Of those yet to stage, the original assumptions were that a relatively small proportion would use a DB or hybrid scheme to meet the requirements of auto enrolment.

How does this compare with recent data?

There is a downward trend in the number of DB schemes being used for auto enrolment.

181 http://www.legislation.gov.uk/ukia/2015/133/pdfs/ukia_20150133_en.pdf

182 Automatic enrolment is being rolled out gradually through a process known as ‘staging’. Each employer has been allocated a staging date from which they must comply with the automatic enrolment duties. The staging of auto enrolment has an estimated completion date of February 2018.

183 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330512/rr881-employers-pension-provision-survey-2013.pdf Table 2.5

184 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330512/rr881-employers-pension-provision-survey-2013.pdf Table 2.5

Latest data from the Pensions Regulator (tPR) indicates only three per cent of schemes reported in declaration of compliance are DB schemes[185]; the remaining 97% use defined contribution schemes. As the figure on DB schemes include private and public sector schemes, and as a large proportion of DB schemes are likely to be in public sector employers, the number of (private sector) employers which this measure can impact is likely to be a lot less than three per cent.

Assumptions on number of schemes affected:

The original IA stated that in total there were approximately 4,000 DB schemes open to future accrual[186] and therefore, potentially in-scope for the 2015 regulations. Of those , around 2,500 were formerly contracted out **private sector** DB schemes and would have had to meet the TSS or the alternative DB quality tests from April 2016 (the ending of contracting out)) depending on whether employers chose to use their existing scheme for automatic enrolment[187].

By comparison, the number of DB schemes open to future accrual in 2016 is 3,600[188]-a slight reduction from the 2015 figure above. Assuming public sector DB schemes continue to form a significant proportion of the total number of DB schemes, potentially there are a reduced number of private sector DB schemes which continue to be in-scope for this measure.

As the proposed change was permissive the impact assessment made clear we did not know how many of the total number of employers using DB schemes under automatic enrolment might opt for the alternative test. However, as the introduction of an alternative test was designed to offer schemes a simplified approach to the overall scheme quality test, the impact assessment concluded schemes would only chose the alternative test if they did not incur costs greater than the costs of having to meet the TSS.

Costs and benefits:

This measure was intended to introduce simplifications to schemes/employers sponsoring DB schemes. Due to the regulations being permissive the impact assessment was unable to make any robust conclusions on the proportion of employers/schemes likely to use the alternative quality tests, and therefore an estimate as the precise number of businesses that will be positively affected. The consultation accompanying the document prior to the introduction of the measure did not provide sufficient information to inform the proportion of schemes/employers that are likely choose to use the simplified alternative tests.

In respect of familiarisation costs, any potential familiarisation costs due to the proposed change were assessed to be marginal because schemes/employers sponsoring DB schemes would have to familiarise themselves with the relevant TSS literature anyway.

The Department's position is to maintain the permissive nature of these regulations. As such, the expectation is that employers will carry on to use alternative tests in preference of the TSS, only where the benefits outweigh the costs. To obtain more evidence on the number of employers who would take advantage of the alternative DB quality test would require a large scale survey of employers. Given that these changes are permissive and deregulatory and that completing the survey would impose a burden on employers the cost would be disproportionate.

[185] The pensions regulator – data 2017 (table 7) http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2017.pdf
[186] http://www.pensionprotectionfund.org.uk/Documents/purple_book_2014_chapter3.pdf
[187]http://webarchive.nationalarchives.gov.uk/20160109101912/http://www.ons.gov.uk/ons/dcp171766_352604.pdf
[188] http://www.pensionprotectionfund.org.uk/Documents/Purple_Book_2016.pdf (see figure 3.1- scheme status)

5. Were there any unintended consequences?
We received several responses in relation to cases where a scheme member has voluntarily opted for a lower benefit scale. The legislative definition of 'relevant members' does not allow employers to exclude members who have opted-down to below the qualifying rate from their cost of accruals assessment. This creates a possible risk that the scheme fails to meet the cost of accruals test We anticipate opting down will be less prevalent in DB schemes as future increases in phased contributions do not apply. We expect also, that this will be a diminishing issue over the years if the increasing trend of more and more employers using DC schemes continues. Nevertheless, we acknowledge this may be a residual concern for some schemes/employers. We have considered this issue and believe there could be merit in realigning the legislation to allow schemes to disregard members who have voluntarily opted down to below qualifying levels from the cost of accruals test. We propose to explore making legislative changes which would allow schemes to disregard any such members' benefits from the cost of accruals test. Proposed changes will be subject to consultation.
6. Has the evidence identified any opportunities for reducing the burden on business
For schemes where the rules enable members to voluntarily opt-down, the legislative change above, if implemented could reduce their burden. This is because such schemes will no longer need to default to the more onerous test: test scheme standard (TSS) in order to demonstrate minimum scheme quality is met.
7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business?
Not applicable.

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