SPP events

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

# Auto-enrolment: What should the next steps be?

Joint discussion: Rob O’Carroll (Automatic enrolment and Nest Policy, DWP) Mark Bondi (Capita Employee Benefits) and Dale Critchley (Aviva)

20 October 2020

# SPP – Automatic Enrolment: context; what has been achieved, and future ambitions

Department for Work & Pensions

20 October 2020

# Automatic enrolment: what has been achieved?

**10.3 million**

employees have been automatically enrolled into a workplace pension and over…

**1.7 million employers**

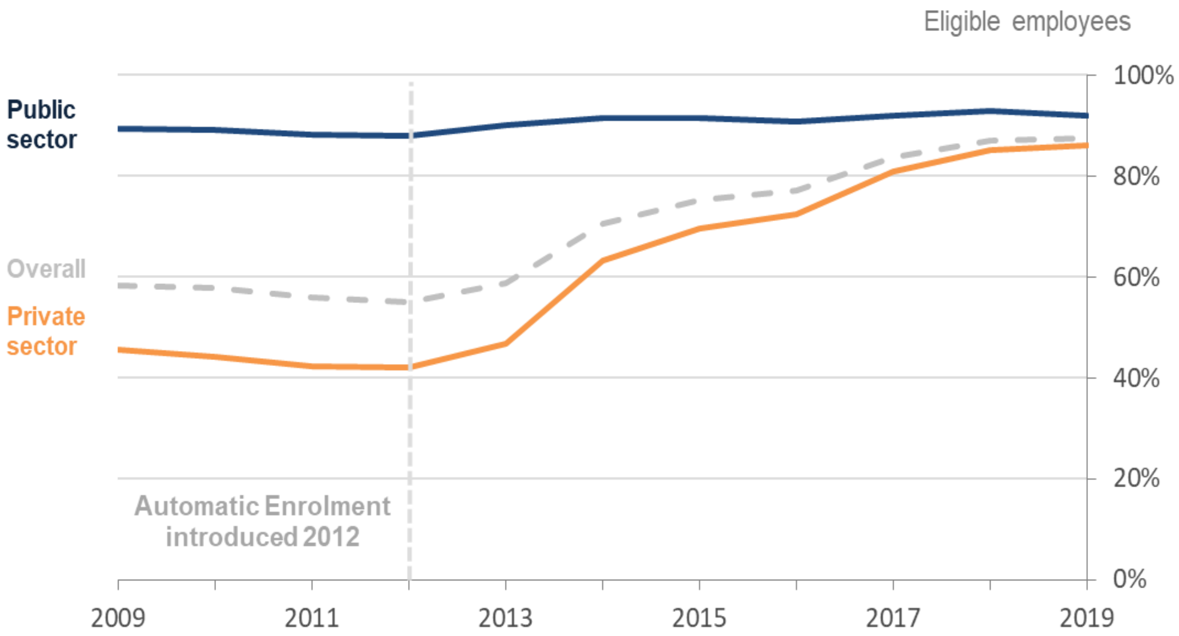
have met their duties.

**Savings behaviours have remained consistent** before and after the April 2018 and April 2019 contribution increases. On average,

**less than 1%**

of eligible savers are actively choosing to stop saving per month, as at end of June 2019.

## Workplace Pension Participation (2009 – 2019)




Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2019

Overall **88 per cent** of eligible employees were participating in a workplace pension in 2018, up from 87 per cent in 2018.

**£18.8bn**

Estimated extra pension saving per year as a result of automatic enrolment after the completion of phasing (2019/20).

# Automatic enrolment review: ambition for the future

## Mid-2020s expansion of the target audience and increase to savings by:

- **Lowering the minimum age for automatic enrolment to 18** – helping to make workplace pension saving the norm for young workers;
- **Removing the lower earnings limit** – increase contributions and financial resilience in retirement;
- Research trials aimed at **increasing retirement saving** among the self-employed;
- Keeping the **target audience** for automatic enrolment under review;
- Working with the pensions industry to encourage more effective engagement – including work on the **Pensions Dashboards, and a simplified annual benefit statement**.

# Where are we now?

- Covid 19 a grave shock to society and the economy: government focus is on helping businesses and **giving them confidence to retain and hire workers**, which in turn supports pension saving through the automatic enrolment duties.

- The Coronavirus Job Retention Scheme gave unprecedented support to employers and workers during national lock-down; including business grants for statutory minimum pension contributions. The Job Support Scheme will see government cost sharing to allow businesses to retain viable jobs, keeping people in work and **contributing to their pensions**.

- We are building a sufficiently robust **evidence-based picture** of the impact of the pandemic on pension saving, but this takes time. We are:

  - working closely with the pension industry; TPR and across government to develop our understanding of the impacts of the pandemic on pensions;
  - gathering, monitoring and evaluating workplace pension participation and savings data in order to develop as complete and robust a picture as possible.

- TPR has seen **no spike in non-compliance by employers** but continues to actively monitor.

# Moving forward – the challenges and considerations

- Automatic enrolment was built on a broad political and stakeholder consensus that its benefits outweighed the costs – a decade later that case has been made.
- However, we now face very challenging economic and labour market conditions – important to understand individual and employer behaviours in relation to workplace pensions.
- Some issues to consider:
  - Protecting social norming wins around retirement saving in a system without compulsion;
  - How to frame a call to action for increased long-term saving in the current climate;
  - Finding the most effective balance between prompted employer and employee contribution levels and voluntary saving, particularly for the lowest paid;
  - Refining the operation of the AE framework (i.e. simplification measures) when even beneficial changes will come with new business costs;
  - Leveraging the improvements to the wider pensions regulatory landscape to engage and empower the target audience for these reforms: harnessing new technology and financial innovation to improve financial literacy.

# Time for change?

1. **Remove the age criterion altogether?**
   A. No change
   B. Just lower to age 18
   C. Remove any minimum age qualification
   D. Extend to all employees up to age 75
   E. Remove the age criterion altogether

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

The SPP member research series:

# Simplifying Automatic Enrolment

The new decade offers an important opportunity for savers but also presents a useful juncture to revisit the critical challenge of how to further our collective ambition of securing adequate living standards in retirement. Automatic enrolment has been a success and we believe that the latest data when published will support existing anecdotal evidence that increases in contributions both in April 2018 and April 2019 have not undermined progress.

As part of its research series, the Society of Pension Professionals (SPP) has taken this opportunity to share some ideas for simplifying and improving automatic enrolment. These ideas have come out of internal discussions within the SPP, and a short survey of our membership on the subject. These have been free discussions within the SPP with no attribution to any specific person or corporate members.

## Our key suggestions to simplify and improve auto-enrolment are:

1. **Removing the age criterion**
   Our membership survey showed that four-fifths (80%) favoured removing the minimum age criterion while two-thirds believed automatic enrolment should be extended to all employees up to age 75. Everyone can of course still opt out.
2. **Use the pay in the previous pay period to determine eligibility for enrolment**
   More than four-fifths (85%) in our membership survey support this proposal, under which eligible jobholders could be enrolled and start active membership based on prior period earnings if that works for an employer. This is a known quantity and is therefore easier to manage.
3. **Opt-out window should be extendable by up to three months after enrolment**
   Three fifths (63%) of those who responded to our membership survey believe that employers should be allowed to accept opt-out elections up to three months after enrolment.
4. **Greater freedom to select cyclical re-enrolment date**
   Over four-fifths (83%) of our membership responding to our survey support allowing employers the freedom to choose any cyclical re-enrolment date they wish so long as it is no more than three years and three months since the previous one. In our view the low rates of opt-out weakens the case for rigidity in this area. Allowing certificates given under DC certification to run for up to the next cyclical re-enrolment date would also allow currently separate processes aligned.
5. **Discretion for employers to statutorily enrol any employee they wish**
   Over seven-tenths of respondents (74%) to our survey believe that this should be allowed. Currently many employers overlay a contractual enrolment process on top of the auto-enrolment process, so they don't have to separate out those on low earnings or under a certain age, but this introduces unnecessary complexity.
6. **No enrolment notice or opt-out at the point of a TUPE transfer**
   There was overwhelming support for this suggestion from our survey with fewer than one in ten (6%) opposed to the idea. Any employees being TUPE'd would maintain any qualifying pension scheme membership, with non-members included within the receiving employer's re-enrolment process.

*(continued overleaf)*

# Time for simplification?

2. **Easier enrolment?**
   A. No change
   B. Allow pay in previous earnings period to determine eligibility for enrolment
   C. Full discretion for employers to statutorily enrol any employee they wish

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

The SPP member research series:

# Simplifying Automatic Enrolment

The new decade offers an important opportunity for savers but also presents a useful juncture to revisit the critical challenge of how to further our collective ambition of securing adequate living standards in retirement. Automatic enrolment has been a success and we believe that the latest data when published will support existing anecdotal evidence that increases in contributions both in April 2018 and April 2019 have not undermined progress.

As part of its research series, the Society of Pension Professionals (SPP) has taken this opportunity to share some ideas for simplifying and improving automatic enrolment. These ideas have come out of internal discussions within the SPP, and a short survey of our membership on the subject. These have been free discussions within the SPP with no attribution to any specific person or corporate members.

## Our key suggestions to simplify and improve auto-enrolment are:

1. **Removing the age criterion**
   Our membership survey showed that four-fifths (80%) favoured removing the minimum age criterion while two-thirds believed automatic enrolment should be extended to all employees up to age 75. Everyone can of course still opt out.
2. **Use the pay in the previous pay period to determine eligibility for enrolment**
   More than four-fifths (85%) in our membership survey support this proposal, under which eligible jobholders could be enrolled and start active membership based on prior period earnings if that works for an employer. This is a known quantity and is therefore easier to manage.
3. **Opt-out window should be extendable by up to three months after enrolment**
   Three fifths (63%) of those who responded to our membership survey believe that employers should be allowed to accept opt-out elections up to three months after enrolment.
4. **Greater freedom to select cyclical re-enrolment date**
   Over four-fifths (83%) of our membership responding to our survey support allowing employers the freedom to choose any cyclical re-enrolment date they wish so long as it is no more than three years and three months since the previous one. In our view the low rates of opt-out weakens the case for rigidity in this area. Allowing certificates given under DC certification to run for up to the next cyclical re-enrolment date would also allow currently separate processes aligned.
5. **Discretion for employers to statutorily enrol any employee they wish**
   Over seven-tenths of respondents (74%) to our survey believe that this should be allowed. Currently many employers overlay a contractual enrolment process on top of the auto-enrolment process, so they don't have to separate out those on low earnings or under a certain age, but this introduces unnecessary complexity.
6. **No enrolment notice or opt-out at the point of a TUPE transfer**
   There was overwhelming support for this suggestion from our survey with fewer than one in ten (6%) opposed to the idea. Any employees being TUPE'd would maintain any qualifying pension scheme membership, with non-members included within the receiving employer's re-enrolment process.
   *(continued overleaf)*

# Time for flexibility?

3. Opt-out window flexibility?
4. Freedom to set cyclical re-enrolment date?
5. No new process for TUPE transfers and intra-group employee switches?
6. Greater use of online checks in pensions administration


THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

The SPP member research series:

## Simplifying Automatic Enrolment

The new decade offers an important opportunity for savers but also presents a useful juncture to revisit the critical challenge of how to further our collective ambition of securing adequate living standards in retirement. Automatic enrolment has been a success and we believe that the latest data when published will support existing anecdotal evidence that increases in contributions both in April 2018 and April 2019 have not undermined progress.

As part of its research series, the Society of Pension Professionals (SPP) has taken this opportunity to share some ideas for simplifying and improving automatic enrolment. These ideas have come out of internal discussions within the SPP, and a short survey of our membership on the subject. These have been free discussions within the SPP with no attribution to any specific person or corporate members.

### Our key suggestions to simplify and improve auto-enrolment are:

1. **Removing the age criterion**
   Our membership survey showed that four-fifths (80%) favoured removing the minimum age criterion while two-thirds believed automatic enrolment should be extended to all employees up to age 75. Everyone can of course still opt out.
2. **Use the pay in the previous pay period to determine eligibility for enrolment**
   More than four-fifths (85%) in our membership survey support this proposal, under which eligible jobholders could be enrolled and start active membership based on prior period earnings if that works for an employer. This is a known quantity and is therefore easier to manage.
3. **Opt-out window should be extendable by up to three months after enrolment**
   Three fifths (63%) of those who responded to our membership survey believe that employers should be allowed to accept opt-out elections up to three months after enrolment.
4. **Greater freedom to select cyclical re-enrolment date**
   Over four-fifths (83%) of our membership responding to our survey support allowing employers the freedom to choose any cyclical re-enrolment date they wish so long as it is no more than three years and three months since the previous one. In our view the low rates of opt-out weakens the case for rigidity in this area. Allowing certificates given under DC certification to run for up to the next cyclical re-enrolment date would also allow currently separate processes aligned.
5. **Discretion for employers to statutorily enrol any employee they wish**
   Over seven-tenths of respondents (74%) to our survey believe that this should be allowed. Currently many employers overlay a contractual enrolment process on top of the auto-enrolment process, so they don't have to separate out those on low earnings or under a certain age, but this introduces unnecessary complexity.
6. **No enrolment notice or opt-out at the point of a TUPE transfer**
   There was overwhelming support for this suggestion from our survey with fewer than one in ten (6%) opposed to the idea. Any employees being TUPE'd would maintain any qualifying pension scheme membership, with non-members included within the receiving employer's re-enrolment process.

*(continued overleaf)*

SPP events

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

# Time for enrolment?

7. **Earnings trigger for enrolment – at what level should it be set at going forward?**
   A. £12,500 – follow personal allowance
   B. £10,000 – stay unchanged
   C. £ 9,500 – follow NI primary threshold
   D. £ 7,800 - £150 per week
   E. Everyone is enrolled

THE SOCIETY OF PENSION PROFESSIONALS
*leading pension thinking*

The SPP member research series:

## Simplifying Automatic Enrolment

The new decade offers an important opportunity for savers but also presents a useful juncture to revisit the critical challenge of how to further our collective ambition of securing adequate living standards in retirement. Automatic enrolment has been a success and we believe that the latest data when published will support existing anecdotal evidence that increases in contributions both in April 2018 and April 2019 have not undermined progress.

As part of its research series, the Society of Pension Professionals (SPP) has taken this opportunity to share some ideas for simplifying and improving automatic enrolment. These ideas have come out of internal discussions within the SPP, and a short survey of our membership on the subject. These have been free discussions within the SPP with no attribution to any specific person or corporate members.

### Our key suggestions to simplify and improve auto-enrolment are:

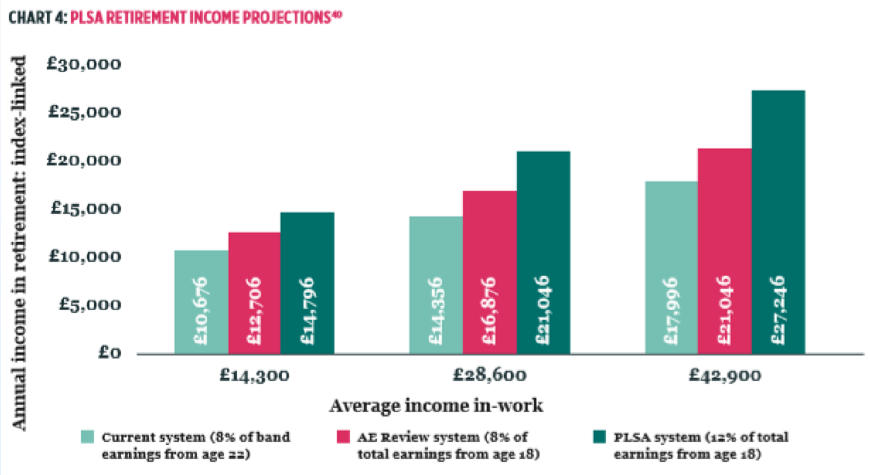
1. **Removing the age criterion**
   Our membership survey showed that four-fifths (80%) favoured removing the minimum age criterion while two-thirds believed automatic enrolment should be extended to all employees up to age 75. Everyone can of course still opt out.
2. **Use the pay in the previous pay period to determine eligibility for enrolment**
   More than four-fifths (85%) in our membership survey support this proposal, under which eligible jobholders could be enrolled and start active membership based on prior period earnings if that works for an employer. This is a known quantity and is therefore easier to manage.
3. **Opt-out window should be extendable by up to three months after enrolment**
   Three fifths (63%) of those who responded to our membership survey believe that employers should be allowed to accept opt-out elections up to three months after enrolment.
4. **Greater freedom to select cyclical re-enrolment date**
   Over four-fifths (83%) of our membership responding to our survey support allowing employers the freedom to choose any cyclical re-enrolment date they wish so long as it is no more than three years and three months since the previous one. In our view the low rates of opt-out weakens the case for rigidity in this area. Allowing certificates given under DC certification to run for up to the next cyclical re-enrolment date would also allow currently separate processes aligned.
5. **Discretion for employers to statutorily enrol any employee they wish**
   Over seven-tenths of respondents (74%) to our survey believe that this should be allowed. Currently many employers overlay a contractual enrolment process on top of the auto-enrolment process, so they don't have to separate out those on low earnings or under a certain age, but this introduces unnecessary complexity.
6. **No enrolment notice or opt-out at the point of a TUPE transfer**
   There was overwhelming support for this suggestion from our survey with fewer than one in ten (6%) opposed to the idea. Any employees being TUPE'd would maintain any qualifying pension scheme membership, with non-members included within the receiving employer's re-enrolment process.

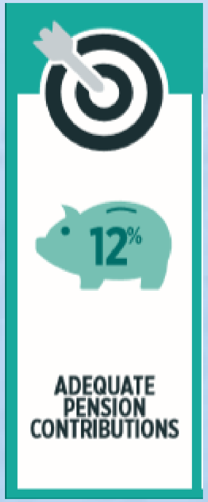
*(continued overleaf)*

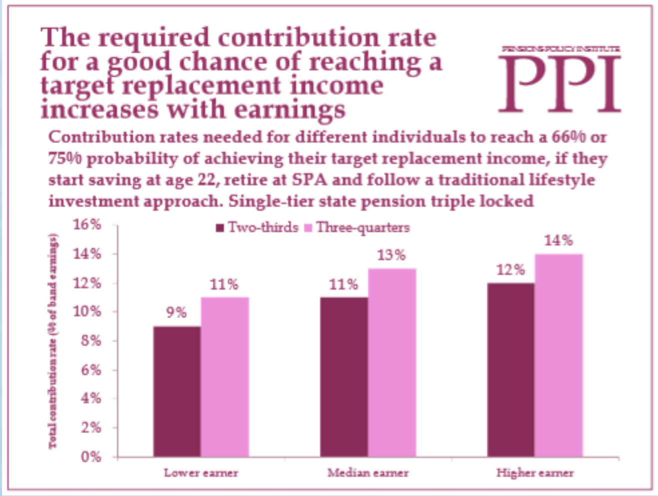
# Contribution Rates - Where should we go:

- **UK - 8% of QE**
- **Denmark, Ave. 15% (employer pays 10%)**
- **Australia - 9.5% rising to 12.5%**
- **Chile - 10%**
- **Lithuania – 4.5% by 2023**

- **PPI (2013) - 11% to 14% of total earnings**
- **Aviva (2017) - 12.5% of QE**
- **PLSA (2018) - 12% of total earnings (employer 6%)**
- **ACA – (2019) - 12% to 14% of total earnings**
- **Average DB / CARE contributions (2018) - 25.6%**



# Contribution Rates – How do we get there:

Options

A. Engagement & Nudges – Cost effective targeted communication
B. Mandatory matching contributions? – e.g. employers match every 1% from 5% to 8% - 14% total for engaged employees?
C. Mandatory phased increases – Australian model e.g. 0.5% per year to get to 12%
D. Higher mandatory employer contributions of 7% for new employees only?
E. Big bang – 6% employer & 6% employee

Considerations :

- Time for employers to plan – original plan for mid 2020's
- Employee affordability - AE increases coincided with even bigger increases in NLW
- Does one size fit all?

SPP events

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

# Scheme Quality – What next

| | | |
|---|---|---|
| Lower charge cap / widening of scope? | Consolidation? | Small pots solution? |
| Improved member communication? | Decumulation standards? | Introduction of performance thresholds? |
| More active regulator iro. COP? | Availability of regulated advice? | Investments in line with the Paris Agreement? |