

Automatic enrolment

Building on Success



Automatic enrolment

Automatic enrolment (AE) has revitalised workplace savings. The UK government policy has brought nearly 10 million people into workplace pension saving, many saving for the first time. The end of AE's beginning took place in April 2019 with the final scheduled contributions increase. The Government's 2017 AE review proposed further improvements to increase people's savings for retirement:

- increase minimum contributions by removing lower qualifying earnings threshold meaning that minimum contributions should be made from the first pound;
- change the lower age threshold from 22 to 18 so that younger adults are automatically enrolled; and
- find a way to bring self-employed people into automatic enrolment.

Automatic enrolment: roots of success

After WW2 the UK developed a generous system of final salary pensions alongside a state pension set below the level of subsistence. This gave a proportion of the population security in retirement but led to very uneven retirement outcomes: many lived in retirement reliant only on the state pension as they did not have access to a workplace pension. In the 1990s a combination of increasing longevity, global competition, and tougher regulation began to make provision of final salary pensions uneconomic outside of the public sector. Employers began to close final salary schemes to new joiners and eventually close them to all future accrual.

In the early 2000s, workplace pension saving began to decline sharply as employers stepped back, and initiatives intended to encourage people to sign up to defined contribution pensions did not succeed. In 2005, the Pensions Commission, set up by Tony Blair's Government, outlined a plan for workers automatic enrolment into workplace pensions. They would have the right to opt out of this arrangement but, otherwise, saving into a workplace pension would become automatic.

The programme went live in 2012 for the largest employers and gradually became compulsory across the economy over the following six years. This means offering a workplace pension is now compulsory for around 1.5 million employers.

Not all workers are eligible for automatic enrolment. Only those aged between 22 and state pension age, earning over £10,000 are automatically enrolled. Initial legal minimum contributions were set low to ensure that workplace pension saving did not come as a financial shock. Under automatic enrolment, contributions are 8% on a band of earnings (currently between £6,136 and £50,000). Initially those enrolled made a total contribution of 2 per cent of this earnings band, split evenly between employer and employee. From April 2018, contributions increased to a total of 5 per cent of band earnings, split 3 per cent and 2 per cent between worker and employer. And, in April 2019 minimum contributions rose to 8 per cent of band earnings, split 5 per cent and 3 per cent between worker and employer.

The recommendations of the 2017 review of automatic enrolment are a major step forward for UK pension provision. The Coronavirus crisis may prevent their swift imposition but they should be brought forward once the crisis has passed:

- in future contributions will begin from the first £ of earnings. This is popular with employers for whom it will reduce payroll complexity. It is important that this change is phased in smoothly so that the increase for low earners does not encourage people to opt out;
- self-employed people should be brought into automatic enrolment. It is likely that a tax-based solution will be the end-point as voluntary; and
- people should be automatically enrolled from age 18 (reduced from 22).

We think Government should go further and investigate the potential to lower the earnings trigger from £10,000 to bring more people into the scope of automatic enrolment. A move to bring in all workers who earn more than £6,240 would help bring in more women and people from Black, Asian and other minority ethnic groups, who are less likely to have access to a workplace pension through automatic enrolment.