Automatic enrolment

Employment Tax | Tax voice



13 March 2018

Richard Wyatt provides an update on this increasingly important issue

Now that the staging of automatic enrolment is complete the automatic enrolment duties apply to all employers and workplace pension saving has become the norm for a new generation of workers. The consequence is that over nine million individuals have been automatically enrolled into a workplace scheme by their employer. While employers were being staged into automatic enrolment the minimum contribution rates were kept at a very low level, but from 6 April 2018 this will change with phased increases in the minimum contribution rates to 5% in April 2018 and 8% in April 2019. Although this is a significant rise in the minimum

contributions it is still unlikely to provide individuals with the retirement that they aspire to.

During 2017, the Government carried out a review of automatic enrolment to consider how to build on the success of automatic enrolment and to maintain its momentum to 'build a stronger, more inclusive savings culture for future generations'. As with all aspirations there is the inevitable balancing act that needs careful management between the needs of the employer and the individual. Added to this is the cost to the Government in the additional tax relief from higher minimum contributions which they are likely to be assessing. Before considering the outcome of the review this article first considers the proposed earnings thresholds for 2018/19 and what this means to individuals and employers bearing in mind ***the first scheduled increase in minimum contributions***.

Earnings thresholds 2018-19

Earnings trigger

The Government is continuing to freeze the earnings trigger – which determines whether or not an individual is eligible for automatic enrolment - at £10,000, as it considers this level strikes the right balance between affordability for employers and individuals and giving those who are most able to save the opportunity to do so. This decision also reflects the need for stability as the first phased increase in contributions takes place in 2018/19 (rising from a minimum of 2% to 5%).

The Government has however stated that careful consideration will be given to future annual reviews in relation to evolving economic conditions, the continued evolution of automatic enrolment and the impact of the National Living Wage. The real-terms decrease in the trigger for 2018/19 brings more individuals into the target population.

Qualifying earnings: lower and upper limits

The Government has decided to continue to align the qualifying earnings lower limit with the National Insurance Contributions Lower Earnings Limit (LEL), which in 2018/19 will be £6,032, and to align the qualifying earnings upper limit with the National Insurance Contributions Upper Earnings Limit (UEL), which in 2018/19 will be £46,350.

The changes to the lower and upper limits will result in a higher figure for the earnings band on which minimum contributions are calculated. The key consideration behind this decision was to provide stability for employers during the first increase in contributions in April 2018, while still enabling a meaningful level of contributions for savers.

Maintaining the momentum

The 2017 review 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.

Strategic problems for automatic enrolment

Overall the review confirmed that the existing framework 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.

However, the Government identified three significant and complex strategic problems:

- The current saving levels risk a significant proportion of the working-age population not meeting their retirement expectations. Whilst the existing phased contributions rises will bring the minimum levels up to 8% this won’t be enough for individuals to enjoy a comfortable retirement. 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 and National Living Wage costs. In addressing these challenges the review determined that there must be a realistic and fair balance between the costs to employers, individuals, and the public finances.

- A large proportion of the self-employed workforce does not have (significant) retirement savings. It also recognised that most self-employed people cannot be covered by the current design of automatic enrolment.
- 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.

So what are the Government proposing?

Initially, not much but the Government has identified the following changes which it believes will help to build a more robust and inclusive savings culture:

- A lowering of the eligibility age from 22 to 18. The rationale is for automatic enrolment to be the norm and also to simplify the workforce assessment for employers.
- Calculate pension contributions from the first pound earned, rather than from a lower earnings limit of £6,032 (in 2018/19).The idea is that this should improve individuals understanding of how pension saving works and it incentivises 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. However, there is also the possibility that more people will opt out when those being auto-enrolled for the first time experience a significant fall in their take home pay.

The Government hopes to implement these changes to the automatic enrolment framework in the mid-2020s following a formal consultation. Initially the Government will hold discussions with stakeholders, investigate ways to make these changes affordable whilst analysing the impact of the increases in statutory minimum contribution rates. These discussions will then feed into detailed plans and an implementation timetable that will form the formal consultation.

Aside from planning for the initial changes the intention is to begin testing targeted self-employment interventions in 2018, including through Making Tax Digital, with a view to evaluating them in 2019 to inform implementation options and costs. The Government will also 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

Finally, it is hoped that the development of the Pensions Dashboard and the advent of the single Financial Guidance Body will be effective engagement tools that can reinforce an individual’s saving behaviour and encourage a sense of greater personal ownership of their pension savings.

Clearly there is a lot for all parties to consider across the next 18 months that will need to be fed back into the review. What is key is that in order for automatic enrolment to continue to be a success it must build on the platform that it has created to ensure that as many individuals as possible are saving in a pension scheme. How the Government balances that against the needs of the employer and the costs to the Exchequer will be key themes across the next few years.