Automatic enrolment to pensions: LITRG considers the government announcements on worker information

Technical Employment Tax

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Background

The government consulted last autumn on automatic enrolment to pensions and reducing the administrative overhead on employers. The proposed changes include reducing the assessment burden and simplifying the information sent to entitled workers (aged 16-21 and earning £112 or less a week – entitled to join a scheme but not entitled to an employer contribution if they do so) and non-eligible jobholders (including those earning from £112 per week up to £192 – entitled to opt in with an employer contribution).

Specific letters about how automatic enrolment applies to them are no longer required – the employer may now combine the information for both subsets of their workforce. The main practical effect of this is that the employer no longer needs to monitor workers to identify when they change category from entitled worker to jobholder (or vice versa), as the relevant information on both opt-in and joining is given up front.

LITRG's submission

We had concerns that those on very low incomes would receive much less tailored information about their position and thought that the proposed one-size-fits all communication to both of these groups of workers could result in confusing them.

In particular we thought it highly unlikely that a worker would be able to make much sense of a letter containing an ‘explanation’ along the lines of that initially proposed:

(A worker):

(a) who earns more than the amount specified in s 13(1)(a) of the Act and is not an active member of a qualifying scheme may opt in to an automatic enrolment scheme and will be entitled to employer’s contributions; or

(b) who earns no more than the amount specified in s 13(1)(a) of the Act and is not a member of a pension scheme that satisfies the requirements of s 9 of the Act may require the employer to arrange for the worker to become an active member of such a pension scheme.

We were baffled that no actual earnings figure would be given. Even with a figure present, we were unsure how a low-paid worker, probably with fluctuating earnings, is supposed to decide which category they fit into – particularly when one reason behind the move to the generic style of letter in the first place was that employers find the whole process of assessing, categorising and calculating workers’ qualifying earnings so complex.

The government’s response

The government has now responded, saying: ‘Given only one respondent objected to the overall aim of these measures, we are therefore minded to make the proposed changes to the information requirements as outlined in the consultation, subject to the changes referred to below.’

The two changes referred to are that the actual figure for qualifying earnings will be given, rather than just a reference to s 13(1) (a) (to ‘aid an individual’s understanding of the information so that they can understand how it applies to them more easily’). Further, there will be an additional comment that an employee earning less than the qualifying amount is not entitled to employer’s contributions in paragraph (b) (‘a simple change that adds useful clarity for the individual’).

LITRG’s comments

There is merit in the government's attempt to limit the burden of auto-enrolment, particularly for small and micro employers, which we know have concerns over its complexity. Nevertheless, for workers who may lack financial confidence or know little or nothing about pensions auto-enrolment is equally, if not more, alien.

The following points may partly account for the fact that LITRG was the only body that objected:

1. The consultation contained 56 questions and just six weeks was given for responses (which itself spanned Christmas and the new year).
2. The worker information measures appeared buried in draft regulations – mostly about other things. We only happened upon them by chance ourselves. There was no prior consultation on the fundamental principle.

Perhaps if there had been a proper consultation on the matter, the government may have received other representations and been encouraged by stakeholders concerned as much with the position of the workers as of the employers to go further than the two welcome – yet limited – concessions in the government's response.

We think that poor information will ultimately dampen the likelihood of workers choosing to opt in – even if they might otherwise have engaged. This would be particularly unfortunate if it resulted in a worker overlooking the incentive of an employer contribution, and ultimately could undermine the government's own desire to see more people contributing to pensions.