Automatic enrolment – proposed technical changes

Technical

01 March 2015

LITRG responded on 9 January 2015 to a DWP consultation which proposed changes to the process for automatic enrolment into workplace pensions entitled 'Simplifying the process and reducing burdens on employers' (www.tinyurl.com/oza27bu).

Once we had sifted through the consultation's 56 questions and appreciate the fact that just six weeks was given for responses (which itself spanned Christmas and the new year), we felt a response was worthwhile to raise concerns that the proposals would reduce information to employees about automatic enrolment. Specifically, those on very low incomes – below the automatic enrolment threshold of £10,000 – would receive much less tailored information about their position.

It is true that automatic enrolment creates employer burdens. One of those is to separate those working in the UK into the following categories:

- 'eligible jobholders' (aged 22 to state pension age, earning £10,000 a year or more), who are entitled to be automatically enrolled with an employer contribution;
- 'non-eligible jobholders' (aged 16–21 or state pension age to 74, earning £10,000 a year or more; or those aged 22 to state pension age, earning from £5,772 up to £10,000 a year), who are entitled to opt in with an employer contribution; and
- 'entitled workers' (aged 16–74 and earning under £5,772), who are entitled to join a scheme but not entitled to an employer contribution if they do so.

The employer then must notify each specifically of their position under automatic enrolment.

This burden will be felt by smaller employers in the months preceding April 2017 as they start to hit their 'staging dates'. One group of employers for which LITRG is

especially concerned is those who employ personal assistants for care and support, and we will consider what support we can offer them on our dedicated website: www.disabilitytaxguide.org.uk

Nevertheless, for workers, auto enrolment is equally – if not more – unfamiliar. Employers may well have received some communications from government about its introduction, but we are not aware of information having been targeted at workers. Previous DWP research showed that the worker information to be provided by employers would be key to the success of the policy – particularly for those who know little or nothing about the subject and have low confidence.

The needs of employers and workers in the information process must therefore be carefully balanced, but arguably the greater need falls on the side of workers.

Our response to the consultation queried the wisdom of providing less information to workers about what is happening to them under auto enrolment and, in particular, the changes that further limit communications to non-eligible jobholders and entitled workers. The proposals suggest that employers should in future send a single, generic communication to both of these groups and that the employer would not have to distinguish into which category the individual falls.

We were baffled by the notion that a low-paid worker, probably with fluctuating earnings, is supposed to be able to decide into which category they fit by reference to their ‘qualifying earnings’. If employers are finding the process of assessing, categorising and calculating qualifying earnings so complex, how would the workers themselves be able to self-assess their status?

A mistake as to their correct ‘category’ might result in a worker overlooking the incentive of an employer contribution and staying out of pension saving – even if they might otherwise have engaged. Yet the government’s aim with auto enrolment should be to encourage people to save where they can afford to.

These measures may even be counterproductive in terms of lifting the burden on employers if the result of being provided with less tailored information at the outset is that it will lead to more questions from workers. If anything, we would propose that there should be more supporting information, not less, so that people can properly understand how auto enrolment will affect them.

We also wholeheartedly disagreed with the consultation's suggestion that individuals should be expected to research their own pension position further without any signpost from employers to trusted sources of information. This leaves people open to the risk of fraud and misinformation – and quite unnecessarily, if the only alleviation of employer burden would be the exclusion of a simple signposting message in an otherwise 'standard' letter which in itself is provided by The Pensions Regulator. There is also a major risk that people will be lured into inappropriate pension products if they are not directed to a trusted source. It would be a great shame if auto enrolment's reputation is damaged by a further spate of pensions misselling scandals in a few years.

In conclusion, we recommended that, if employers are struggling to comply with the existing requirements for providing information to employees, the guidance and tools available to employers should be reviewed and improved rather than the information limited.

The full response can be accessed on the LITRG website: www.tinyurl.com/ncn89vs