The next steps in automatic enrolment

The government has published a review on automatic enrolment in workplace pensions which makes important proposals for employers.

Automatic enrolment of employees in workplace pensions has been a greater success than many predicted when it was introduced in October 2012. To date over nine million employees have been automatically enrolled into a workplace pension and more than 900,000 employers have complied with their auto enrolment responsibilities. Total annual contributions into workplace pensions reached a ten-year high of £87 billion in 2016.

With the framework now firmly in place, the government has turned its attention to the next developments for workplace pensions. Its main ideas are:

- The minimum age at which automatic enrolment begins should be reduced from 22 to 18. This would bring another 900,000 young people into auto enrolment.
- The contribution structure would change so that once the earnings trigger (£10,000 for 2017/18 and 2018/19) is reached, the contribution percentage paid by employers and employees would be based upon *all* earnings, not earnings exceeding the lower earnings limit (£5,876 in 2017/18 and £6,032 in 2018/19). The upper earnings limit (£45,000 in 2017/18 and £46,350 in 2018/19) would still apply to cap contributions. In current terms, the effect would be to increase contributions for an individual earning £26,000 by nearly one third.
- The government will test “targeted interventions … to identify the most effective options to increase pension saving among self-employed people”. Only 16% of the self-employed were contributing to a pension in 2015/16, a large gap in pension coverage given they now number 4.8 million (15% of the workforce).

The age and contribution reforms are pencilled in for the mid-2020s. This delay, which has attracted some adverse comment, may reflect the fact that the current contribution rate of 2% (of which the employer must pay at least 1%) will rise to 5% (2% from the employer) in April 2018 and to 8% (3% from the employer) a year later. However, in a foreword to the paper, the government acknowledges that “contributions of 8% are unlikely to give all individuals the retirement to which they aspire”. In other words, for all the government’s efforts to push automatic enrolment, you still need to assess the effectiveness of your own retirement plans.

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